Alberta Pension Reform is Here

It’s time to gear up for change. Alberta’s Employment Pension Plans Act (EPPA) and Employment Pension Plans Regulation (Regulation) have been extensively revised. After what seems like a long wait, the new rules will be in effect on September 1, 2014.

Pension plan sponsors and administrators need to be prepared. Pension plans with Alberta members have one month to prepare for administrative changes and Alberta-registered plans will have a busy year ahead, implementing new policies and procedures to ensure compliance.

Stakeholders in the industry welcome these changes. The new EPPA and new Regulation are not only modernized and more user-friendly, they are also part of a larger project that will harmonize Alberta pension legislation with that of British Columbia. We expect that British Columbia will announce the effective date for its new pension legislation in the coming months.

Plenty of Good News

- The new regime gives plan sponsors increased flexibility in terms of plan design, with options such as target benefit (TB) plans and jointly-sponsored plans.

- New solvency reserve accounts (not yet seen anywhere else in the country) will allow administrators to withdraw solvency deficiency payments from the fund when surplus develops.

- Sponsors and administrators also appreciate the comprehensiveness of the new Regulation, including for example, more detailed guidance for pension divisions on marriage breakdown and for handling payments when members cannot be located. The new Regulation is also much more explicit with respect to the application of gains and losses, as well as when and to what extent a surplus withdrawal or contribution holiday may be used.

- Plan members will benefit by the introduction of immediate vesting and additional disclosure of information requirements.

- Although the legislation requires more documentation of governance practices (meaning, more work for plan sponsors), the good news is that Alberta and British Columbia are advancing plan governance standards and setting a precedent that could be followed by other jurisdictions.
Impact on Member Benefits and Plan Administration

The changes that require immediate attention generally involve member benefits. These are rules that apply to all Alberta members (whether the plan is registered in Alberta or elsewhere) and that have to be in place on September 1, 2014. Plan administrators with Alberta members should develop an action plan for handling:

Immediate Vesting – The new EPPA requires immediate vesting of members' pension rights in defined benefit (DB) and defined contribution (DC) plans. Previously, pensions vested for members at no later than two years of plan membership. This brings Alberta in line with plans in Manitoba, Ontario, Quebec, and the federal jurisdiction. Immediate vesting is also pending in British Columbia and Nova Scotia. For plans that do not currently provide for immediate vesting, this will create additional liabilities and expenses. In addition, locking-in requirements have changed from two years of plan membership to a threshold amount (20% of YMPE). Administrative systems will need to accommodate these changes and standard member statements and communications will likely need revisions.

Unisex Mortality Tables – Calculations of commuted values and optional forms of payment must now be completed using unisex tables. This should be cost neutral to most plans; however, it must be built into administration systems and may have a material impact on some members.

Pension Divisions on Marriage Breakdown – The new Regulation addresses calculations and payment options for the division of pensions already in pay, which had not previously been addressed. Changes to the calculation of benefits on marriage breakdown have also been made, and the Regulation outlines new requirements for statements provided on marriage breakdown.

Disclosure Requirements – Plan administrators must carefully review templates for termination, retirement and death benefit statements as well as marriage breakdown, because the lists of requirements have changed. In addition, administrators must ensure that pension partners completing waiver forms use the new prescribed forms on and after September 1st. Slightly less urgent, is the requirement to provide annual statements to pensioners in addition to active members.

There are other important changes that will impact plan administration, but that will not necessarily require preparation in advance of the effective date of the legislation. For example:

- The annual fees that accompany the Annual Information Return will now be based on total plan membership, as opposed to active membership. This may lead to higher fees for mature DB plans, and lower fees for DC plans. The minimum and maximum regulatory filing fees have also been amended.

- Regulatory penalties assessed for non-compliance have been increased to a maximum of $250,000.
• Audited financial statements are now only required for DB plans with assets in excess of $10 million (formerly $3 million) and for collectively bargained multi-employer plans. The audited financial statements for non-collectively bargained multi-employer DB plans must now be more comprehensive. Audited financial statements are no longer required for DC plans.

• Alberta will now provide sponsors with the ability to transfer the liabilities with respect to missing deferred members. The opportunity to transfer benefit amounts for missing persons will be open to both terminated and ongoing pension plans that meet prescribed conditions.

Alberta Leads the Way in Plan Governance

Plan administrators of all Alberta registered pension plans will be required to establish a formal written governance policy and funding policy by August 31, 2015.

Governance Policy (for all Alberta plans) - The governance policy must, among other things:

• outline the structures for administering the plan and what those structures are intended to achieve;

• identify those with authority to make decisions relating to the governance process and structures and set out performance measures to monitor and assess the performance of such individuals;

• set out a code of conduct for the administrator and a procedure for addressing conflicts of interest;

• identify material risks that apply to the plan and establish controls in order to manage those risks; and

• establish a dispute resolution process.

Funding Policy (for DB and TB plans) – The funding policy must, among other things:

• set out the funding objectives for the plan related to benefit security, benefit levels, the stability of contributions and contribution levels;

• identify the material risks that impact the plan’s funding and establish risk management controls;

• identify expectations for the going concern funded ratio, the solvency ratio, the amortization of unfunded liabilities and solvency deficiencies; and

• develop standards for any allowable reduction of benefits and the utilization of actuarial excess and surplus.
Administration Assessments - In addition to establishing formal governance and funding policies, plan administrators must also complete annual assessments of the administration of their plan to monitor compliance with the EPPA and regulations, the plan’s governance, the funding of the plan, the investment of the pension fund, and the performance of any trustees, administrative staff and agents. A copy of the assessment must be provided to the Superintendent upon request. The first assessment will be due in 2016 in respect of the 2015 calendar or fiscal year.

Innovations Provide New Funding Tools and Flexible Designs

Alberta is the first jurisdiction to provide for solvency reserve accounts, a new tool for plan sponsors to help mitigate the risk of surplus being trapped in the pension fund. These are separate accounts within the pension fund used for solvency special payments only. The accounts clarify the ownership of solvency special payments and allow the return of these payments to plan sponsors when certain funding levels are reached. While there are some limits on the amount and timing of withdrawals, this is a significant development that helps alleviate some of the risks associated with significant overfunding. These accounts can give comfort to plan sponsors having to make solvency special payments, that future withdrawals will be possible if and when the fund develops an actuarial excess.

The new Regulation provides further flexibility by introducing alternative plan designs and structures. Most notable is the introduction of details regarding the funding and administration of Target Benefit plans. A TB provision is one where the amount of pension intended to be paid is determined by a formula, but the actual benefit may be reduced without Superintendent approval if the valuation reveals that an adjustment to contributions or benefits is required to keep the plan in balance.

The funding requirements for TB plans are similar to those outlined in the position paper published by Alberta Finance in March 2013. Contributions must cover the normal actuarial cost, plus a PfAD (provision for adverse deviation) determined in accordance with the regulations and an amortization to fund any unfunded past service liabilities. The actuarial valuation report must include reasonable stress testing of factors that pose a material risk to the plan funding. Although the option of retroactive conversion from DB to TB is still being contemplated, the new Regulation only allows TB for future service at this time unless the plan is a negotiated cost plan and the union has approved the conversion.

More to Come

The new EPPA and Regulation represent the first and second phases of Alberta Treasury Board and Finance’s overhaul of the regulatory environment for pensions. The third and final phase of the pension reform process will be the release of new and revised policy bulletins to assist plan sponsors and administrators. Aon Hewitt will continue to provide updates as new information and guidance is released.
Bill 10 was also introduced in April 2014 which, if passed, will amend the new EPPA. Bill 10 has been referred to the Standing Committee on Alberta’s Economic Future for further consultation. These amendments include mainly technical corrections, similar to the ones recently made to the new British Columbia Pension Benefits Standards Act, however, two proposals in particular are worth noting:

- Bill 10 clarifies that a pension plan shall not be liable after transferring responsibility for pensions to a regulated insurance company, as long as specific conditions are met. This statutory discharge provides security to plan administrators looking to use annuity buy-outs as a de-risking strategy.

- Bill 10 also contains a new exception to the void amendment provisions which would allow a plan’s DB provisions to be converted to TB provisions, and which would allow the conversion to apply to accrued benefits.

Mark Your Calendars with these Important Deadlines

Plans are expected to administer benefits in accordance with the new EPPA and Regulation as at September 1, 2014.

Plan texts will need to be amended or restated (this applies to plans registered in Alberta and other plans with Alberta members). The regulator has indicated that Alberta plan amendments must be filed by December 31, 2014.

With respect to defined contribution pension plans, where members are authorized or required to make investment decisions, funding contracts may need to be amended to provide for one of the prescribed default options by December 31, 2014.

Funding and governance polices must be in place by August 31, 2015 and initial administrative assessment reports should be completed by the end of the following plan year.

Get started now! Contact your Aon Hewitt consultants for further details about the new EPPA and to discuss how your pension plan is affected. Major pension reforms can be overwhelming but we are ready to guide you through this process step-by-step to ensure that you are meeting all your obligations under the new regime. Sponsors of Alberta pension plans can be among the first in Canada to take advantage of new and innovative designs and funding strategies – we look forward to exploring these opportunities with you.

Information Links

New Legislation:

- Employment Pension Plans Act
- Employment Pension Plans Regulation
Alberta Finance has released three updates which provide further details about these changes.

- **EPPA Update 14-01 - New Legislation is Proclaimed**
- **EPPA Update 14-02 - New Legislation – Administrative Information and Checklists**
- **EPPA Update 14-03 - New Legislation – Summary of Changes (07/23/14)**

Should you wish additional information on this topic, please contact your local Aon Hewitt Consultant, or send an email to info@aonhewitt.com.

Aon Hewitt publishes *Information Bulletin* for the purposes of providing general information. The information in *Information Bulletin* does not constitute financial, legal, or any specific advice and should not be used as a basis for formulating business decisions. For information tailored to your organization’s specific needs, please contact your consultant at Aon Hewitt. This issue of *Information Bulletin* contains information that is proprietary to Aon Hewitt and may not be distributed, reproduced, copied or amended without Aon Hewitt’s prior written consent.