

Information Bulletin

November 1, 2016

In this issue

Target Benefit Plans Proposed For Federally-Regulated Employers

- 1 What Is A Target Benefit Plan?
- 2 What Are The Rules Relating To Target Benefit Plan Governance and Funding?
- 2 Can Current Plans Be Converted?
- 2 What Should You Do?

Target Benefit Plans Proposed For Federally-Regulated Employers

On October 19, 2016, the federal government announced proposed changes to the federal *Pension Benefits Standards Act, 1985* (PBSA) to permit federally-regulated employers to offer target benefit plans. The proposed new target benefit regime is a welcome new addition to the federal jurisdiction that would apply in a broad range of circumstances. Specifically, the new legislation would apply to both single employer (irrespective of whether there is a collective bargaining agreement in place) and multi-employer pension plans.

What Is A Target Benefit Plan?

A target benefit plan is a type of retirement plan that contains elements of both a defined benefit and defined contribution pension plan. Similar to a defined contribution pension plan, target benefit plans have fixed contribution rates which provide certainty to plan sponsors. In addition, target benefit plans contain a targeted defined benefit-type pension benefit which provides a lifetime pension to members. If fixed contribution rates are not sufficient, benefit levels are adjusted based on pre-determined levers to ensure the long-term sustainability of the plan. Target benefit plans are intended to provide employees with a defined benefit lifetime pension while providing employers with contribution rate certainty. Careful design and testing in the design phase and at establishment help set the contribution levels for target benefit plans such that there is a very strong probability of base benefits not being reduced.

What Are The Rules Relating To Target Benefit Plan Governance and Funding?

The proposed changes to the PBSA contemplate that funding and governance policies will have to be established for target benefit plans. While the contents of the governance policies will be contained in the regulations (not yet filed), a target benefit plan funding policy must contain:

- A deficit recovery plan;
- A surplus utilization plan;
- Employer and member contributions; and
- Objectives relating to pension stability, which cannot be amended (to be addressed in the regulations).

The administrator of a target benefit plan must be a board of trustees (or other "similar body") consisting of at least one individual selected by plan members and by employees who are eligible to join the plan, and, if the number of the plan's former members (including retirees) and survivors is equal to or greater than the prescribed number, one individual selected jointly by former members (including retirees) and survivors. The regulations will contain further requirements relating to the appointment and selection of members of the board of trustees.

Actuarial reports will have to be filed on an annual basis. In addition, actuarial modelling with regard to the objectives relating to pension stability, must be conducted prior to the plan's establishment and at regular intervals to be prescribed by legislation. Employers will be required to fund the plan in accordance with the plan's funding policy.

Can Current Plans Be Converted?

The proposed changes to the PBSA permit federally-regulated employers to establish target benefit plans; however, they require the establishment of a "new" plan and do not permit the conversion of an existing defined benefit or defined contribution plan to a target benefit plan. An employer, however, may provide the option for a member to consent to surrender his or her current benefits under an existing plan in exchange for a target benefit. In order to obtain consent for the surrender and exchange of benefits, an employer is required to provide an explanation, in writing, of the provisions of the target benefit plan and any other

information that is to be prescribed, to every member, former member, or other person to whom the option is available. The timing related to obtaining consent will be prescribed by the regulations.

In the event that the target benefit plan is terminated within five years of a member's assets being transferred from a defined benefit plan, the member shall be entitled to the greater of the defined benefit and the benefit under the target benefit plan.

What Should You Do?

Given the complexity of the changes, it is anticipated that the regulations will take time to be drafted. However, plan stakeholders for federally-regulated plans should review their current plan design alternatives and commence discussions where appropriate. These

designs may not work for all, but they are a welcome addition to the limited menu that currently exists for members. Aon is one of the few firms in Canada with experience in the design and implementation of target benefit plans

and would welcome an opportunity to discuss this with your organization.

For further information about target benefit plans, please refer to Aon Hewitt's website targetbenefits.ca.

Contact Information

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.

About Aon Hewitt

Aon Hewitt empowers organizations and individuals to secure a better future through innovative human capital solutions. We advise, design and execute a wide range of solutions that enable our clients' success. Our teams of experts help clients achieve sustainable performance through an engaged and productive workforce; navigate the risks and opportunities to optimize financial security; redefine health solutions for greater choice, affordability and wellbeing; and help their people make smart decisions on managing work and life events. Aon Hewitt is the global leader in human resource solutions, with nearly 34,000 professionals in 90 countries serving more than 20,000 clients worldwide across 100+ solutions.

For more information on Aon Hewitt, please visit aonhewitt.com.

© 2016 Aon Hewitt Inc. All Rights Reserved.

This document contains confidential information and trade secrets protected by copyrights owned by Aon Hewitt. The document is intended to remain strictly confidential and to be used only for your internal needs and only for the purpose for which it was initially created by Aon Hewitt. No part of this document may be disclosed to any third party or reproduced by any means without the prior written consent of Aon Hewitt.