New BC Pension Legislation has its Eye on the Target

Bill 38, the 2012 Pension Benefits Standards Act ("Bill 38"), was introduced in the BC Legislature on April 30, 2012 and is currently at second reading stage. Bill 38 seeks to repeal and replace the existing Pension Benefits Standards Act and is intended to "modernize the law with respect to pensions in British Columbia and to harmonize British Columbia's pension legislation more closely with that of Alberta". While Bill 38 provides an outline of the changes, more details on their application won't be fully known until the release of updated regulations (to date there is no public draft or scheduled release). No immediate action is required by plan sponsors, since we anticipate that the new legislation will not become effective this year.

Bill 38 is the result of a comprehensive pension review that started in 2007, and it implements many of the recommendations from the 2008 report of the Alberta–British Columbia Joint Expert Panel on Pension Standards. The Panel's recommendations came out of an open consultative process and ultimately garnered broad public support.

The bill was drafted in collaboration with Alberta Finance, and with the expert input of a joint advisory group which included representation from Aon Hewitt.

We are encouraged by some of the changes that provide more flexibility in plan provisions and funding arrangements. These include the ability to establish new plan structures such as target benefit plans (wherein both contributions and benefits can absorb changes in the plan's financial health) and private sector jointly sponsored plans (whereby employers and employees share responsibility for plan governance and funding). In addition, solvency reserve accounts will accommodate the return of excess funds to employers as solvency positions improve.

We have assembled a task force to examine the legislation, and in the coming weeks we will be providing commentary on some of the key changes, and what they mean for plan sponsors. In the meantime, we have summarized the communicated changes below.

Benefit and Administrative Changes

- provides for immediate vesting of members’ pension rights;
- allows members to suspend membership in a plan;
- permits refunds of optional ancillary contributions;
- allows deferred members and, in prescribed circumstances, retired members to select portability options on plan termination;
- permits plans to force out small accounts; and
- enables former plan members to access locked-in funds in circumstances of financial hardship.
Plan Governance

- requires that plan administrators ensure that plans have governance policies and, for defined benefit plans or target benefit plans, funding policies;
- enhances disclosure requirements;
- clarifies the roles and responsibilities of administrators, participating employers and fundholders; and
- creates uniformity and certainty in relation to the content of plan documents.

Regulatory Framework

- provides for more flexible pension plan structures in addition to defined benefit plans and defined contribution plans;
- provides for administrative penalties for non-compliance;
- distinguishes between collectively bargained multi-employer plans and non-collectively bargained multi-employer plans and between actuarial excess and surplus;
- allows administrators to establish solvency reserve accounts;
- empowers the superintendent to appoint a plan administrator or designate an actuary;
- allows plans with no active members to continue with the superintendent's consent;
- establishes a framework for jointly sponsored pension plans; and
- establishes a new framework for the regulation of multi-jurisdictional pension plans.

When revised regulations are available, and the full impact of these changes is known, Aon Hewitt will work with plan sponsors to identify whether there are new design opportunities that would better align with their objectives. In addition, pension plan sponsors are encouraged to review and prepare amendments for current plan and governance documents to ensure compliance with the new legislation.

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