



Information Bulletin

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BC Early Holiday Gift of Contribution Stability

On December 12, 2019, Order in Council No. 649 amended the British Columbia (BC) *Pension Benefits Standards Regulation* (PBSR) effective December 31, 2019. These are welcome changes, enhancing the ability of plan sponsors to sustain pension plans and improve retirement outcomes for their members.

- For Defined Benefit (DB) pension plans, the new funding rules generally reduce the size and volatility of contribution requirements. They are consistent with those proposed in the August 2, 2019 report “*A Review of the Solvency Funding Framework*” published by the BC Ministry of Finance.
- The amendments also enable single employers to provide Target Benefit (TB) pension plans to their employees starting December 31, 2019. This came as a pleasant surprise, as it was not specifically addressed in the consultations earlier this year.

The British Columbia Financial Services Authority (BCFSA), formerly the BC Financial Institutions Commission (FICOM), has published a related [BCFSA Information Bulletin](#). More details on the rationale for the changes were provided in our August 2019 [Aon Information Bulletin](#) on the consultation report.

The amendments are generally effective on December 31, 2019. For DB plan funding, they will apply on a Plan’s first valuation filed with a review date on or after December 31, 2019. With the application of the new rules, any prior temporary funding relief will no longer apply.

Impact on DB Pension Plans

In the short-term most DB pension plans will experience lower contribution requirements, as they will be able to significantly reduce or eliminate payments towards funding solvency deficits. Furthermore, many plans already have sizable going concern excesses, so no increase to the costs of funding future benefit accruals will be required, despite the new Going Concern Plus measure. For plans that have letters of credit we expect these may be eliminated for plans with solvency ratios greater than 85% or reduced for those with solvency ratios less than 85%, pending confirmation from BCFSA.

Over the long-term contributions are not expected to be as volatile. If interest rates rise, the normal cost for some plans may increase relative to what they would have been under the current rules. However, in many cases this will coincide with improved funded positions, thus may not directly impact contribution requirements. In cases where plan contributors are insolvent and a plan winds up, there will be less plan assets available to cover benefits, and therefore a higher chance of benefit reductions.

Defined Benefit Plan Funding

As mentioned in our August bulletin, the key components changing from the current DB minimum funding rules to the proposed rules are as follows:

- Plans fund to a lower 85% solvency funded ratio (previously 100%) which will:
 - reduce or eliminate the large solvency contributions required for many plans over the past decade, improving contribution stability, and
 - still provide a level of benefit security for plan members.
- Plans fund to a minimum Going Concern “Plus” measure. The new measure includes an explicit Provision for Adverse Deviation (PfAD) which will:
 - be based primarily on the level of interest rates rather than plan specific factors,
 - improve contribution stability in changing interest rate environments, and
 - be applied to normal cost contributions only if the Going Concern Plus funded ratio is less than 105%.
- Monthly funding for past service is simplified, because past deficits are consolidated at each valuation and divided by 60 for solvency deficits (up to 85%) and divided by 120 for unfunded Going-Concern Plus liabilities.

New Single Employer Target Benefit Plans

For single employer plan sponsors of both DC and DB plans, the ability to provide TB pension plans for future pension accruals is a significant opportunity to re-examine plan design. TB pension plans can combine many positive attributes of DB plans: longevity and investment risk pooling for employees and of DC plans: more contribution and financial reporting certainty for the employer.

DB Going Concern Plus: Provision for Adverse Deviations (PfAD)

For going concern valuations, an explicit PfAD must be added to the actuary's best estimate of liabilities and current service costs.

The PfAD formula in most cases will be **5 x LTBR** (5 x monthly long-term benchmark Government of Canada bond rate, CANSIM Series V122544, on the DB Plan's review date). There will be a reduced PfAD for plans with low allocation to return-seeking assets to recognize de-risking, e.g. to annuitize or wind up. For all DB Plans, the minimum PfAD is 5%.

Currently the typical PfAD would be about 8%. Most plans that already have an implicit margin in their going concern valuation assumptions will see little or no increase in their going concern liabilities due to the change in funding rules.

Plans must fund at least the sum of the best estimate going concern liability plus the PfAD (Going Concern Plus). If a plan's Going Concern Plus funded ratio is less than 105%, then a PfAD must also be added to the best estimate normal cost to fund benefit accruals. However, for plans with a funded ratio of more than 105%, the PfAD on the normal cost is not required to be funded; therefore, most plans will not see an increase in normal cost contributions.

The August 2, 2019 report contemplated the possibility of depositing PfAD contributions into a reserve account, similar those already allowed for solvency payments. This type of change would require a change to the Act and is not yet available.

Contribution Holidays

Contribution holiday rules are similar to the current provisions but based on Going Concern Plus funding rules. Effectively, implicit margins employed currently by most plans will be replaced by the minimum prescribed PfAD for the test on funded position. The contribution holiday requirement to maintain the Plan's solvency position above 100% are still in place, despite the move to the 85% solvency funding requirement.

Benefit Improvements

The current BC PBSR provides that the Superintendent can refuse an amendment that decreases the solvency funded ratio below 90%. Under the new rules, the 90% threshold will be lowered to 85%.

What's Next?

We expect more details will be covered in a Q&A to be released in the new year.

Changes to the PBSA related to the calculation of lump sum values (commuted values) are still under consideration and are not expected to be in place for at least another year. In collaboration with the Alberta regulator, TB pension plan funding rules are also being revisited.

An increase in annual regulatory filing fees effective for fiscal year ends after January 15, 2020 has been approved by the BC Government. Effective November 1, 2019, FICOM (now BCFSA) became an independent Crown agency and the BC Government mandated that, after a short transition period, the BCFSA's operations be self-funded from fees assessed to the financial services entities it regulates. The new fees are those proposed during consultations in June of this year. Active member fees will increase from \$6.15 to \$8.35 per member per year and inactive member fees from \$4.50 to \$7.30 per member per year. Also, the minimum plan fee increases from \$200 to \$250 and the maximum from \$75,000 to \$85,000. The extra funds will provide the regulator more resources to apply risk-based oversight, which could help further address benefit security given the loosening of funding rules.

Your Aon consultant will be reaching out to you to discuss these changes in more detail. We can help you understand how the changes will impact your plans and funding requirements and to support any plan design review in light of the expanded application of the TB pension plan funding rules.

Contact Information

Should you wish additional information on this topic, please contact your local Aon consultant, or send an email to canada.retirement@aon.com.

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