PBI ACTUARIES & CONSULTANTS

LEGISLATIVE UPDATE

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Bill 68: A new framework proposed by the Quebec government for the establishment of target benefit pension plans

On October 7, 2020, the Minister of Finance, Mr. Éric Girard, introduced Bill 68 (PL 68), an act primarily intended to allow for the establishment of target benefit pension plans. In addition to introducing a new type of plan into the Quebec retirement landscape, this bill proposes other changes to the legislation governing some of the existing pension plans.

Target benefit pension plans at a glance

PL 68 proposes a legislative framework for the establishment of target benefit plans (TBPs) with the following required features:

- The target level of benefits is determined in advance (e.g., a lifetime pension equal to 2% of salary);
- The employer's contribution is fixed (no risk for the employer);
- Members and pensioners/beneficiaries are responsible for the remainder of the cost;
- Contributions paid must be increased and/or benefits, including those already being paid, be decreased if insufficient funding is observed.

To increase the odds of being able to deliver the target level of benefits, TBPs will be required to establish a stabilization provision, as is the case for defined benefit (DB) pension plans, the level of which will be set according to a prescribed grid based on the investment policy target. However, the funding rules for TBPs will be more stringent than those applicable to DB plans.

Each TBP must clearly set out the required recovery measures for any contribution shortfalls and the terms and conditions for reinstating previously reduced benefits. The pension committee will therefore have to apply these provisions, which cannot be modified unless less than 30% of the members and beneficiaries oppose. The plan must also provide for rules governing the use of surpluses.

It should also be noted that, to limit risk, a TBP cannot include any of the following provisions:

- Pension based on a "final average salary" type formula;
- Automatic pension indexation post retirement;
- Early retirement benefits that depend on the number of years of service or membership;
- Benefits that are conditional to termination of the plan.

In addition, if a TBP provides for early retirement benefits or periodic pension increases prior to retirement, these benefits must also be extended to any member who terminates his or her membership prior to retirement.

A TBP must pay the value of a member's or beneficiary's benefits on a solvency basis without applying a cap (e.g., even if the solvency ratio is greater than 100%).

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Upon employer withdrawal or plan termination, members/beneficiaries who were already receiving a pension will be able to apply for a transfer of their pension value, adjusted on a solvency basis, to an authorized vehicle (such as a LIRA or LIF), as is the case for other members, rather than receive a pension guaranteed by an insurer. In addition, when an employer withdraws, if the plan allows maintaining the member/beneficiary's benefits in the plan, this will be done unless the member/beneficiary opts for an insured pension or a transfer value.

In addition, a pension plan cannot have both DB and TBP provisions at the same time. It will also not be possible to convert a DB plan to a TBP, except in the case of certain multi-employer pension plans for which the Bill sets out the applicable rules. A defined contribution plan may, of course, be converted to a TBP.

Establishment of TBPs for employees working in more than one province will only be possible under prescribed conditions.

In Quebec, the concept of a TBP was introduced in the 2000s, but solely in the pulp and paper sector. These plans will need to be amended to comply with the new rules applicable to any target benefit plan.

While DB plans are usually the most beneficial for workers, TBPs include many of the same features even though the risks are 100% assumed by members and retirees. In particular, they are superior to capital accumulation plans (such as DC, RRSP or VRSP) in the following areas:

- Pooling of risks (e.g., investments and longevity) over the long-term;
- Better return on investment over the long-term;
- A "certain" predictability of benefits.

Certain specific rules are also set out in the Bill for TBPs and for member funded pension plans (MFPPs) applicable to municipal and university employees, including a limit of 55% on the proportion of employer contributions.

Other measures set out in PL 68

Variable life annuities for DC plans and VRSPs

PL 68 provides that DC plans and Voluntary Retirement Savings Plans (VRSPs) may provide a lifetime annuity option that varies in amount, depending on returns and longevity. The amounts to which participants choose to apply this option will be transferred to a fund established for this purpose, which will allow for a certain pooling of risk.

Degree of solvency used for transfer values

PL 68 introduces the ability to update more frequently (e.g., monthly or quarterly) the solvency ratio applicable to pension transfer values for both TBPs and DB plans (including negotiated-cost multi-employer pension plans). For their part, MFPPs already have access to this more frequent valuation method.

Transfer option for retirees from an unfunded plan upon termination/employer bankruptcy

Lastly, PL 68 includes other provisions to allow retirees and beneficiaries to transfer the value of their pension to an authorized vehicle (such as a LIRA or LIF) upon plan termination when their benefits are reduced because of insufficient assets. The current options offered to retirees and beneficiaries will remain (pension guaranteed by an insurer or pension paid out of assets transferred and administered by Retraite Québec).

Employer withdrawal from multi-employer defined contribution plans

When the benefits of all members and beneficiaries affected by the withdrawal of an employer from a multi-employer plan result solely in defined contribution benefits, the amendment to the plan with respect to the employer's withdrawal is no longer subject to Retraite Québec's consent and the benefits of the members and beneficiaries thus affected may, if the plan so provides, be maintained under the DC plan.

As PBI Actuarial Consultants is currently analyzing PL 68 in view of submitting comments on it, we invite you to consult our website and communications for further information on the adoption of this important bill.