

An Early Christmas Present for Target Benefit Pension Plans in BC!

On December 18, 2020, target benefit pension plans registered in BC received an early Christmas present and can now elect to be temporarily exempt from funding the provision for adverse deviations in determining contribution requirements.

In August of 2020, the BC government, through the BC Financial Services Authority, created a working group, including industry participants (of which PBI was happy to take part), government representatives, the BC FSA and their Alberta counterparts. The purpose of the Working Group is to review the funding requirements for Target Benefit Plans in British Columbia (and potentially Alberta), with a specific task of recommending a revised PfAD in the Regulations.

Since the new Regulations for Plans with target benefit provisions were enacted on May 11, 2015, target benefit pension plans have struggled with the methodology for determining the PfAD (the Provision for Adverse Deviations). There has been a myriad of issues: from the volatility of the PfAD to the counterintuitive increased funding requirements of the PfAD during difficult economic periods. Under the current methodology for determining the PfAD, most TBPs were required to fund more when interest rates declined and less when interest rates were higher. In other words, as funding costs increased due to interest rates, the PfAD increased as well – hitting many plans with a double whammy of cost. This funding requirement did not help protect members but rather, in many circumstances, made benefits less stable and less predictable.

The first task of the Working Group was to draft a short-term solution to the PfAD issue. On December 18, 2020, through an Order in Council (No. 649), there was the recognition that the funding requirements for target benefit pension plans as they pertain to the PfAD are not appropriate and as such, Pension Plans will be able to elect to be temporarily exempt from funding the PfAD. However, this does come with some conditions:

- a) Plans will be permitted to make the exemption for a valuation that has a review date between December 31, 2019, and the earlier of December 30, 2022, or the date new Regulations come into force. The exemption will continue until the following review date (i.e., three years from the filed valuation).
- b) Plans that make the election will be required to disclose the election in the annual statements to active members and retirees.
- c) The plan may not be amended to improve benefits under the target benefit provision during the exemption period (unless required to comply with the Act).

This is the first step in reforming the Target Benefit Plan Regulations for BC. The Working Group established is continuing to review the Regulations, and it is anticipated that before the end of the temporary exemption period, new rules will be developed for determining and funding the PfAD as it relates to TBP.