BULLETIN NUMBER:	**PEN-18-004**
TITLE:	**Disclosure of Solvency Deficiency for plans with Target Benefit components**
LEGISLATION:	**Pension Benefits Standards Regulation**
DATE:	**November 2018**

PURPOSE

This Bulletin provides the Superintendent's expectation on the disclosure of solvency deficiencies for plans with target benefits component.

BACKGROUND INFORMATION

Effective September 30, 2015, the BC *Pension Benefits Standards Act* introduced a new type of benefit formula provision: target benefit provision. The funding rules for a target benefit provision are generally referred to as "Going Concern Plus". Effectively, solvency funding for these plans is no longer applicable; however, solvency disclosure is still required in actuarial valuation reports of these plans, pursuant to section 46(4)(e) of the Pension Benefits Standards Regulation (Regulation).

LEGISLATIVE CONTEXT

Section 46(4)(e) of the Regulation provides that an actuarial valuation report and a cost certificate for a pension plan that contains a target benefit provision, must include one of the following:

(i) *a statement that, in the opinion of the reviewer the target benefit component does not have a solvency deficiency;*
(ii) *the total amount of the solvency deficiencies of the target benefit component.*

As defined under section 1(1) of the Regulation, the solvency deficiency in relation to a target benefit component means the amount, if any, by which the component's solvency liabilities value exceeds the component's solvency asset value, both values determined as at the latest review date; where the solvency liabilities value and solvency asset value are determined on a plan termination basis.

Plan termination basis is defined in the Regulation and means a basis for determining the value of plan assets and liabilities that

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> *(a) is adequate and appropriate,*
> *(b) <u>is in accordance with accepted actuarial practice</u>, and*
> *(c) either, as the case may be,*
>
> > *(i) <u>would have applied to the plan if the plan had terminated as at the most recent review date</u>, or*
> >
> > *(ii) applies to the plan if the plan is terminating as at the effective date of termination of the plan.*

<u>(Emphasis added)</u>

SUPERINTENDENT'S EXPECTATION

While solvency funding is not required for a pension plan with target benefit provisions, the disclosure of the solvency position provides useful information about the extent to which the plan is capable of providing the benefit targets. Solvency disclosure also provides an indication of the financial health of the plan if the plan were to wind-up as of the review date, or if a participating employer were to withdraw from a plan as of the review date.

The standards of practice of the Canadian Institute of Actuaries provides that for purposes of preparing a hypothetical wind-up valuation, the actuary should determine member benefit entitlements on the assumption that the plan has neither a surplus nor a deficit. As such, for purposes of section 46(4) (e) of the Regulation, actuaries must identify the settlement methods based on the plan terms (i.e. commuted value transfer option versus annuity purchase) and should select a set of actuarial assumptions which are appropriate for the purpose of the solvency valuation, based on the settlement methods.

We set out our specific concerns and expectations below:

<u>Settlement methods: Commuted Value Transfer versus Annuity Purchase</u>

We expect the actuarial report to clearly identify how members' benefit entitlements are expected to be settled (e.g. commuted value transfer, purchase of an immediate or deferred annuity) for each category of members. The assumption made by the actuary with respect to the option chosen by the members should be consistent with the options offered based on plan terms and the membership profile of the plan. For greater clarity, the Superintendent expects the report to indicate what proportion of members are assumed to take each form of settlement.

Where members would be offered the choice of an annuity (immediate or deferred) or the commuted value, it is not acceptable to assume that benefits of all the members would be settled by a commuted value transfer, unless the actuary provides justification.

It is essential to note that section 134 of the Regulation provides that a person who is receiving a pension may elect a lump sum transfer if the Superintendent consents in writing to the transfer. If the Superintendent does not consent to the transfer for a person receiving a pension, such a member will only be entitled to an annuity, although condition 134(b)(iv) may be satisfied. For greater certainty, the actuary may not assume that any consent required by the Superintendent will be granted. As such, for persons already receiving pensions from the plan, it is not acceptable to assume that these benefits would be settled by a commuted value transfer.

Actuarial Assumptions: Commuted Value Transfer versus Annuity Purchase

Section 9(2) of the Regulation provides that the actuarial present value of benefits that a person is or may become entitled to receive under a target benefit provision must be determined in accordance with the actuarial assumptions used in the current actuarial valuation report to determine the going concern liabilities of the plan. It is therefore expected that the plan will use the going concern assumptions to determine the commuted value for members whose benefits are assumed to be settled by a commuted value transfer.

However, if the pension plan is a multi-jurisdiction plan with a material number of members in jurisdictions without "target benefit" legislation (i.e., where commuted values are calculated on a solvency basis), it is not acceptable to use the going concern assumptions to determine the commuted value for these members unless the resulting liabilities are higher. The Superintendent expects actuaries to use best judgement to determine levels of materiality.

For members whose benefits are expected to be settled by the purchase of an annuity, we expect that their liabilities would be valued using an interest rate assumption (annuity proxy) and mortality assumptions based on the most recent guidance by the Canadian Institute of Actuaries (CIA).

It is our expectation that actuaries will disclose and justify all the assumptions and methods used.