Regulatory Statement

Frequently Asked Questions pertaining to the new defined benefit funding requirements effective December 31, 2019

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Legislation:	*Pension Benefits Standards Act and Regulation*
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Distribution:	Pension Plan Administrators, Plan Sponsors, and Actuaries

This document replaces and supersedes Information Bulletin PENS 20-001

PURPOSE

This Regulatory Statement sets out the Superintendent of Pensions' ("Superintendent") expectations and interpretation of the funding requirements for defined benefit plans that came into force on December 31, 2019, through Order in Council No. 649.

BACKGROUND INFORMATION

Order in Council No. 649 introduced several changes to the funding requirements for defined benefit plans. This included the addition of a provision for adverse deviation ("PfAD") under going concern funding requirements, changes to solvency funding requirements, limitations on contribution holidays, and withdrawals of accessible going concern excess ("AGCE").

Additionally, Order in Council No. 505 came into effect on December 31, 2022, providing a clarification to the funding requirements of PfAD on normal actuarial cost when a plan with a defined benefit provision has AGCE.

This document replaces Information Bulletin PENS 20-001 which was published on March 26, 2020, to address the frequently asked questions pertaining to the defined benefit funding requirements. Question 4 below was updated.

FREQUENTLY ASKED QUESTIONS

Q1: Prior to filing an actuarial valuation report as at December 31, 2019 or later, can a plan begin making contributions under the new defined benefit funding rules by filing an actuarial cost certificate?

A1: No. An actuarial valuation report must be filed with the Superintendent before a plan may make contributions under the new defined benefit funding rules.

Q2: Should the PfAD be applied to an explicit allowance for expenses in normal actuarial cost?

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A2: For valuations prepared on a going concern basis, the PfAD must be applied to any provisions for plan expenses payable from the pension fund.

Q3: Given there is now an explicit PfAD for going concern funding, what is the Superintendent's position on margins for adverse deviation in setting the going concern assumptions?

A3: The Superintendent expects plan actuaries to exercise professional judgment in determining if an additional margin for conservatism is necessary. The actuary should consider factors pertaining to the pension plan, including the terms of engagement, the funding policy, the investment policy, the extent to which the plan trustees or administrators hope to mitigate contribution volatility, etc. The actuary is expected to provide a rationale in the valuation report for any changes to assumptions, including any changes in margins, if applicable.

Q4: A plan has AGCE if an actuarial valuation report reveals that the going concern assets value exceeds 105% of the going concern liabilities value plus a PfAD. Section 57(2)(a.1) of the PBSR requires a plan to fund the PfAD on normal actuarial cost if the most recent actuarial valuation report does not establish that the defined benefit component has AGCE. How much of the AGCE can a plan use to fund the PfAD under this provision?

A4: ***[Updated April 2023]*** If the actuarial valuation report establishes that AGCE exists as at the valuation date, a plan will not be required to fund the PfAD on normal actuarial cost over the period covered by the actuarial valuation report regardless of the amount of available AGCE.

Q5: If a plan was using a letter of credit to meet the solvency funding requirements prior to December 31, 2019, can the letter of credit be reduced or allowed to expire at a subsequent review date if the plan is above the 85% solvency level?

A5: Yes. A plan may reduce or allow any existing letters of credit to expire, as applicable, provided that the actuarial valuation report certifies that 85% of the plan's solvency liabilities does not exceed the sum of the plan's solvency assets value and the solvency asset adjustment (which factors in any letters of credit, if applicable).

Q6: Is it acceptable to remit the payment of the amount of a letter of credit into the plan's solvency reserve account ("SRA")?

A6: Yes. The amount of the letter of credit can be made into the SRA portion of the plan fund as such payments are in respect of solvency deficiencies.

Q7: Since Section 57(2)(c) of the Regulation requires solvency funding only up to 85% of the solvency liabilities, are transfer deficiency payments also only required up to 85% of the commuted value?

A7: No. Plans are required to make transfer deficiency payments equal to the amount by which the commuted value of the benefits exceeds the product of that commuted value and the plan's solvency ratio. The provisions under Section 80 of the Regulation on transfers made from defined benefit plans with a solvency ratio less than 1 continue to apply. If a pension plan has a letter of credit in place, the transfer deficiency top-up payment must be made in accordance with Section 63(17) of the Regulation.

Q8: If the plan contributor has remitted contributions in excess of the required contributions as determined upon filing of a new valuation report as at December 31, 2019 or later, can the overpayments be credited towards future required contributions, including normal actuarial cost?

A8: Yes, in accordance with Section 57(12) of the Regulation, excess contributions may be credited towards future contribution requirements.

Q9: Further to Q8 above, if the excess contributions were made into the SRA portion of the plan fund, can the overpayments be credited towards future normal actuarial cost contributions?

A9: Yes. However, any overpayments must be transferred from the SRA to the non-SRA portion of the plan fund prior to being used to cover future normal actuarial cost contributions, as the only funds that may be deposited to an SRA are payments made in respect of solvency deficiencies. It is important to note that, in accordance with Section 54(4) of the *Pension Benefits Standards Act* (“Act”), assets must not be transferred from the non-SRA portion of a pension fund to the SRA in the same pension fund. Further, the actuary is expected to provide a reconciliation of the SRA fund in the valuation report.

Q10: If the plan contributor has remitted contributions that are less than the required contributions as determined upon filing of a new valuation report as at December 31, 2019 or later, what is the “applicable interest” as provided under Section 64(2) of the Regulation to be used, given calculations of special payments do not take into account interest component over the valuation period?

A10: It is the Superintendent’s position that the same rates of interest as were used in the most recent actuarial valuation report will apply for purposes of calculating interest under Section

64(2) of the Regulation. That is, the going concern discount rate should be applied to the normal actuarial cost and going concern special payments, and the solvency discount rate should be applied to solvency special payments.

Q11: Section 1.1(2) of the Regulation requires the use of the target non-fixed income allocation “as at the review date” set out in the plan’s statement of investment policies and procedures (“SIPP”). For a plan taking a de-risking glide path that would occur after the valuation date of the report, what target asset allocation shall be used for purpose of determining PfAD under the going concern basis?

A11: For the purpose of determining the PfAD under Section 1.1(1) of the Regulation, the target asset allocation in the SIPP in effect as of the valuation date must be used and referenced. Future changes to the asset allocation noted in the SIPP, such as those in a de-risking glide path, that would occur after the valuation date of the report are not required to be considered when calculating the PfAD. Please note that this may differ from the practice of setting the discount rate for purposes of the valuation report.

Q12: Are plan sponsors required to file a new SIPP as a result of the new funding rules?

A12: It is the Superintendent’s expectation that if a plan makes significant amendments to the SIPP, a copy of the amended SIPP would be submitted to our office for our records.

ADDITIONAL INFORMATION

If you have any questions, please contact BCFSA by email at pensions@bcfsa.ca.