

BULLETIN NUMBER: PENS 20-003

TITLE: CIA Standards of Practice Section 3500 - Revised Pension Commuted Values

LEGISLATION: *Pension Benefits Standards Act*

DATE: April 23, 2020

PURPOSE

BC Financial Services Authority (BCFSA) has prepared this information bulletin to provide the Superintendent of Pensions' (Superintendent) interpretation of the *Final Standards – Amendments to Section 3500 of the Practice-Specific Standards for Pension Plans – Pension Commuted Values* based on the legislation requirements in British Columbia (BC).

BACKGROUND

The Actuarial Standards Board (ASB) released the *Final Standards – Amendments to Section 3500 of the Practice-Specific Standards for Pension Plans – Pension Commuted Values* (Revised CV Standards) on January 24, 2020. Revisions were made to the basis for calculating commuted values (CVs) under defined benefit pension plans and to introduce a new subsection 3570. Subsection 3570 provides a different basis for calculating CVs under target pension arrangements (TPAs), such as certain target benefit plans and multi-employer pension plans.

The Cover Memo and the Revised CV Standards can be found here:

Cover Memo: <https://www.cia-ica.ca/docs/default-source/2020/220008e.pdf>

Revised CV Standards: <https://www.cia-ica.ca/docs/default-source/2020/220009e.pdf>

The effective date of the Revised CV Standards has been delayed to be released no earlier than December 1, 2020. Early adoption of subsection 3570 is permitted for TPAs.

SUPERINTENDENT'S INTERPRETATION

Pension plans with a defined benefit provision:

As defined under section 9(1) of the BC Pension Benefits Standards Regulation (Regulation), computation of CVs that a person is or may become entitled to receive under a defined benefit provision must be determined in accordance with the standards of practice issued by the Canadian Institute of Actuaries (CIA), as amended from time to time. As such, CVs under a defined benefit provision must be calculated in accordance with section 3500 of the Revised CV Standards.

For purposes of calculating CVs under a negotiated cost plan or a jointly sponsored plan that contains a defined benefit provision, it is the Superintendent's interpretation that subsection 3570 (Target Pension Arrangements) of the Revised CV Standards does not apply. However, these plans may be construed as meeting the definition of TPA as provided under paragraph 3570.01 of the Revised CV Standards.

While the reduction of accrued benefits for these multi-employer pension plans may be contemplated under section 20(2) of the BC *Pension Benefits Standards Act* (Act), written consent of the Superintendent is required for the reduction of accrued benefits and such an amendment would only be registered by our office "if the circumstances of the plan require reduced benefits." The plan administrators may not assume that the Superintendent will consent to a request to reduce benefits, as the Superintendent may impose conditions deemed necessary on any consent. Further, these plans are currently subject to the solvency funding requirements in BC, and therefore the Superintendent expects that subsection 3570 of the Revised CV Standards may not be used to determine the CVs for negotiated cost plan or a jointly sponsored plan that does not contain a target benefit provision.

Pension plans with a target benefit provision:

Since September 2015, with the introduction of target benefit plans for multi-employer plans in BC, 36 multi-employer plans have converted their defined benefit provisions (34 both accrued and future and two future benefits only) and one converted their defined contribution provision into a target benefit provision.

Section 9(2) of the Regulation provides that the commuted value 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 last filed actuarial valuation report to determine the going concern liabilities value of the plan.

It is the Superintendent's position that BC registered pension plans with a target benefit provision would fall under the definition of TPA as provided under paragraph 3570.01 of the Revised CV Standards. Given the calculation method of CVs outlined in section 3570 of the Revised CV Standards defaults to the applicable legislation, the Superintendent does not expect any changes in the CVs calculation method

for BC pension plan members with a target benefit provision as a result of the release of the Revised CV Standards, as provided under section 9(2) of the Regulation.

Further, while the legislation may imply that full going concern assumptions shall be employed in the CVs calculations for pension plans with a target benefit provision, our office had received enquiries in the past concerning whether the full going concern assumptions or the "simplified going concern assumptions" (such as using the discount rate, retirement age, mortality rates assumptions only, as appropriate) as used in the last filed valuation report can be employed for purposes of calculating CVs under section 9(2) of the Regulation. It is the Superintendent's position that the use of either the full assumptions or the "simplified going concern assumptions" (to prevent overly complicated and onerous benefit calculations by administrators) are acceptable.

ADDITIONAL INFORMATION

Find more information by contacting the Office of the Superintendent of Pensions at Pensions@bcfsa.ca or by phone at 604-660-3555.

As the BC Financial Services Authority, we issue information bulletins to provide technical interpretations and positions regarding certain provisions contained in the *Pension Benefits Standards Act*, the Pension Benefits Standards Regulation and other pertinent legislation. While the comments in a particular part of an information bulletin may relate to provisions of the law in force at the time they were made, these comments are not a substitute for the law. The reader should consider the comments in light of the relevant provisions of the law in force at the time, taking into account the effect of any relevant amendments to those provisions or relevant court decisions occurring after the date on which the comments were made. Subject to the above, an interpretation or position contained in an information bulletin generally applies as of the date on which it was published, unless otherwise specified.