

# Advisory

## Provision for Adverse Deviation for Target Benefit Plans Reform and Other Amendments

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### PURPOSE

The Government of British Columbia has amended the *Pension Benefits Standards Regulation* (“PBSR”) to reform the definition of provision for adverse deviation (“PfAD”) applicable to plans with a target benefit provision (“TBPs”) registered in British Columbia. The PfAD reform reflects recommendations from the BC Financial Services Authority (“BCFSA”) to the Ministry of Finance that were developed by a working group led by BCFSA.

[Order in Council No. 505](#) will come into force on December 31, 2022, enabling the PBSR amendments. The amendments related to the PfAD reform will apply to each TBP on the plan’s first review date on or after December 31, 2022. In addition, the Order in Council makes housekeeping corrections and clarifications to various sections of the PBSR that are not exclusive to TBPs.

This Advisory reflects the views of the BCFSA. The specific legal requirements are set out in the *Pension Benefits Standards Act* (“PBSA”) and the PBSR.

### BACKGROUND INFORMATION

Since the introduction of TBPs into the PBSA in 2015, TBPs have raised concerns about the size and volatility of the PfAD funding requirements due to fluctuation based on interest rates and asset allocation. Concerns were also raised that the PfAD formula unfairly penalizes plans that adopt certain prudent investment strategies, due to asset classification. These challenges have made it difficult for TBP administrators to plan on a long-term basis and have reduced their flexibility to make appropriate decisions based on the unique characteristics of their plans.

A working group was established in 2019 to discuss and explore changes to the prescribed definition of PfAD for TBPs registered in B.C. and to develop recommendations for both short-term relief and long-term reform. On December 18, 2020, the PBSR was [amended](#) to offer short-term funding relief to TBPs for a period that begins on a review date from December 31, 2019 to December 30, 2022. In a series of meetings between August 2020 and January 2022, the working group developed a proposal for long-term reform. The proposal suggested that the new PfAD should provide a minimum buffer to promote benefit stability, be relatively stable and predictable over time, and also be easy to determine, understand, and administer.

This Order in Council responds to concerns raised by TBPs, reflects recommendations from the working group, and supports the long-term sustainability of TBPs.

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<sup>1</sup> The working group includes employees from the B.C. and Alberta Superintendents of Pensions’ Offices and finance ministries as well as individuals with technical pension expertise and stakeholder representatives.

## WHAT'S NEW

The definition of PfAD for TBPs in section 2 of the PBSR will consist of two components:

- 7.5 per cent; and
- A supplementary percentage.

The supplementary percentage is a percentage identified by the administrator of a TBP as appropriate to achieve the expectations for the PfAD, which must be described in the funding policy.

In addition, the Order in Council:

- Clarifies the use of actuarial excess by TBPs, including in relation to meeting funding requirements; and
- Corrects the scope of disclosure statements explaining when and how benefits under a TBP may be reduced.

## ADDITIONAL INFORMATION

BCFSA expects to shortly release a Regulatory Guideline that will set out the Superintendent's expectations with respect to the development and documentation of the new PfAD for TBPs.

If you have any questions, please contact us at [pensions@bcfsa.ca](mailto:pensions@bcfsa.ca).