

Regulatory Statement

CIA Standards of Practice Section 3500 – Revised Commuted Values

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| Regulatory Statement Number | 23-014 |
| Legislation: | <i>Pension Benefits Standards Act and Regulation</i> |
| Date: | April 24, 2023 |
| Distribution: | Pension Plan Administrators, Plan Sponsors, and Actuaries |

This document replaces and supersedes information bulletins PENS 18-002 and PENS 20-003

PURPOSE

This Regulatory Statement outlines the position taken by the Superintendent of Pensions (“Superintendent”) on the application of subsection 3570 of the Canadian Institute of Actuaries (“CIA”) Standards of Practice.

The primary purpose is to clarify the Superintendent’s position on commuted value calculations for individuals employed in British Columbia (“B.C.”) who participate in a multi-jurisdictional pension plans registered outside of B.C.

BACKGROUND INFORMATION

On January 24, 2020, 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”). Revisions were made to the basis for commuted value (“CV”) calculations 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, such as certain target benefit plans and multi-employer pension plans. For full details of the revision, refer to:

- CIA’s cover [Memorandum](#); and
- The [Revised CV Standards](#).

The Revised CV Standards became effective December 1, 2020, with early adoption permitted for target pension arrangements.

Subsequently, the CIA published revisions to the practice-specific [Standards of Practice – Pensions \(Part 3000\)](#) on June 27, 2022, along with a [memorandum](#) that outlined the changes to the standards for pension plans effective December 1, 2022.

Classification: **Public**

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REQUIREMENTS

For Pension Plans Registered in B.C.

I. CV Calculations for Plans with a Defined Benefit Provision:

As defined under section 9(1) of the B.C. *Pension Benefits Standards Regulation* (“PBSR”), computation of the CV 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 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 the purpose 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 of the Revised CV Standards does not apply for the following reasons:

- While the reduction of accrued benefits for these pension plans may be contemplated under section 20(2) of the B.C. *Pension Benefits Standards Act* (“PBSA”), written consent of the Superintendent is required for the reduction of accrued benefits and such an amendment would only be registered by BCFSa 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 subject to solvency funding requirements in B.C. Therefore, the Superintendent expects that subsection 3570 of the Revised CV Standards may not be used to determine the CVs for these plans.

Note that a multi-employer negotiated cost plan that contains a defined benefit provision has the option to pay out CVs on a going concern basis if the plan is amended to convert from a defined benefit provision to a target benefit provision as set out in Part 9 of the PBSA and Part 8 of the PBSR.

II. CV Calculations for Plans with a Target Benefit Provision

Section 9(2) of the PBSR provides that the CV 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.

Plans with a target benefit provision meet the definition of a “Target Pension Arrangement” as defined under paragraph 3570.01 of the Revised CV Standards. Given the calculation method of CVs outlined in subsection 3570 of the Revised CV Standards defaults to the applicable legislation, the Superintendent does not expect the Revised CV Standards to result in any changes to the CV calculation method for B.C. pension plans with a target benefit provision.

BCFSa has received enquiries in the past concerning whether full going concern assumptions or simplified going concern assumptions (such as using only the discount rate, retirement age, mortality rates assumptions from the most recently filed valuation report, as appropriate) can be employed for purposes of calculating CVs under Section 9(2) of the PBSR. While the legislation may imply that full going concern assumptions shall be employed in CV calculations for pension plans with a target benefit provision, the Superintendent’s position is that the use of either the full assumptions or the simplified going concern assumptions is acceptable to prevent overly complicated and onerous benefit calculations by administrators.

III. CV Calculations for Plans that are Multi-jurisdictional

A multi-jurisdictional pension plan is an employment-based pension plan with members in more than one jurisdiction, whether provincial or federal.

The CV calculation for a B.C. member in a multi-jurisdictional pension plan registered in B.C. will be in accordance with the requirement outlined in sections I and II above.

For a member whose employment is based outside of B.C., the CV calculations will be subject to the respective jurisdiction's pension legislation (federal or provincial).

For Multi-jurisdictional Pension Plans Registered in Other Jurisdictions (with B.C. Members)

Jurisdictions may have different legislations that determine the funding requirements of different plan types, and how to calculate CVs for plans that meet the definition of a target pension arrangement, as defined in paragraph 3570.01 of the Revised CV Standards.

For B.C. members under a multi-jurisdictional pension plan registered outside of B.C., the Superintendent expects the CV calculations to reflect the method used to fund the plan as per the funding rules of the major authority (the jurisdiction the plan is registered with). For greater clarity, the CV for B.C. members may be calculated in accordance with subsection 3570 of the Revised CV Standards, i.e., the going concern basis, if the following conditions are met:

- i. The major authority's legislation contemplates reduction to accrued pensions of plan members and beneficiaries as one of the available options for maintaining the funded status of the pension plan while the pension plan is ongoing; **and**
- ii. The pension plan is exempt from solvency funding.

The Superintendent also expects that:

- For plans where the plan text document explicitly specifies that the solvency basis is to be used for CV calculations for B.C. members, the administrator must not administer the plan on a different basis unless an amendment to effect the application of the above has been filed with the major authority; and
- The effect of this regulatory statement applies to B.C. members with a **termination date on and after March 31, 2023**, unless prior consent was granted by the Superintendent for application on a different termination date.

ADDITIONAL INFORMATION

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

As the BC Financial Services Authority, we issue Regulatory Statements outlining how entities must operate, or the form and content required by the Regulator for mandatory regulatory filings identified in the Financial Institutions Act and Credit Union Incorporation Act, Regulations, and other pertinent legislation. While the comments in a particular part of a Regulatory Statements 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, instructions, definitions, and positions contained in a Regulatory Statements generally apply as of the date on which it was published, unless otherwise specified.