Special Notice

October 14, 2022

British Columbia amends *Pension Benefits Standards Act* and *Regulations*

Definition of target benefit plan PfAD reformed

British Columbia has announced a major overhaul of the Provision for Adverse Deviation (PfAD) applicable to target benefit plans. In general, the changes will mean a lower, more predictable minimum funding requirement that better reflects each plan's specific circumstances.

The changes come into effect for a plan's first actuarial valuation effective on or after December 31, 2022.

Under the *B.C. Pension Benefits Standards Act* and *Regulations*, contributions to a target benefit plan must be sufficient to fund the plan on a going concern basis plus a PfAD on the normal actuarial cost. Before any benefit increase may be granted, the PfAD must also be funded on the valuation balance sheet.

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The new definition of PfAD for target benefit plans consists of two components:

- A fixed minimum PfAD of 7.5%; and
- An additional PfAD, or "supplementary percentage," to be determined by the plan administrator (e.g. the board of trustees).

The plan's funding policy must set out how the supplementary percentage is expected to achieve the funding objectives and manage risks. The supplementary percentage may be as low as zero if the plan administrator determines this is appropriate. Further guidance on the Superintendent's expectations for the supplementary percentage is expected shortly.

This is a significant departure from the current PfAD definition, which is both complex and volatile. In the low-interest rate environment of recent years, many plans have seen steep rises in their PfADs. The BC Financial Security Authority's (BCFSA) October 2022 report shows that the average PfAD for target benefit plans was 17% in 2015, and 28% in 2020.

The PfAD reform will provide welcome relief to plan administrators, although careful consideration will be needed to determine the appropriate supplementary percentage based on each plan's circumstances.

We expect plan administrators will consider many factors, which could include:

- Investment risk (reflecting the plan's investment strategy in a more sophisticated way than the simple split between equities and other investments under the current PfAD definition);
- Asset/liability mismatch risk;
- Plan maturity;
- Contribution risk.

Currently, the calculation of the PfAD for target benefit provisions for plans registered in B.C. and Alberta is aligned. Alberta recently invited feedback from stakeholders on many aspects of private sector pension legislation, including the PfAD applicable for target benefit provisions. Although this has not yet been confirmed, the changes in B.C. may soon be mirrored in Alberta based on the possible frameworks raised in the consultation.

Impact: BCFSA has said it expects to release regulatory guidelines setting out its expectations concerning the development and documentation of the new PfAD shortly. Eckler will provide a more in-depth analysis of the changes and their impact on pension plans once more details are available.

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