Governance Update

A Review of News Affecting Pension Plans

July 2020

Segal's *Governance Update* reviews news affecting pension plans. This issue identifies news from the provinces shown in blue on the adjacent map.

In addition, news from the Canadian Institute of Actuaries (CIA) and these federal entities is discussed:

- Canadian Association of Pension Supervisory Authorities (CAPSA)
- Federal Department of Finance
- Office of the Superintendent of Financial Institutions (OSFI)

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Alberta

COVID-19 response

In response to the COVID-19 pandemic, Alberta Finance has announced the following relief measures:

- The deadline to file annual information returns and associated annual fees, financial statements and actuarial valuation reports has been extended 180 days for filings due between March 31, 2020 and July 1, 2020.
- The deadline to issue annual member and retiree statements has been extended 180 days for statements due between March 31, 2020 and July 1, 2020.
- The deadline to issue statements for member-driven events, such as retirements, termination, death or marriage breakdowns, has been extended 90 days for statements due between March 31, 2020 and July 1, 2020.
- Administrators are not permitted to transfer assets out of the pension fund without consent or direction from the Superintendent, if doing so would impair the solvency of the plan.
- Going-concern and solvency special payments have been suspended to the end of 2020 for DB and target benefit plans.

- Collectively bargained multi-employer plans (CBMEPs) have been granted an exemption from applying the Provision for Adverse Deviation (PfAD) on current service contributions for the remainder of 2020. This will reduce the plan's funding obligation.
- Currently, DB plans more than 105 percent funded on a going-concern basis can use up to 20 percent of their funding excess to reduce or eliminate current service contributions. For 2020, plans may temporarily increase the funding excess that can be used to reduce or eliminate contributions which would have been or will be required to 40 percent.

British Columbia

COVID-19 response

In response to the COVID-19 pandemic, the British Columbia Financial Services Authority (BCFSA) has announced the following relief measures and provided answers to FAQs:

- Filing deadlines for the Annual Information Return and Financial Statements have been extended by 60 days.
- Filing deadlines for actuarial valuation reports and the Actuarial Information Summary have been extended by 90 days.
- Deadlines to prepare annual member and retiree statements have been extended by 60 days.
- Deadlines to prepare termination statements have been extended by 30 days.
- DB and target benefit pension plans may request to extend amortization periods for unfunded liabilities and/or solvency deficiencies.
- As provided by the *Pension Benefits Standards Act*, an administrator of a pension plan must not, without the consent of, or without being directed to do so by the Superintendent, transfer assets out of the pension fund, if such transfer would impair the solvency of the plan. It is the administrator's responsibility to determine whether a transfer would impair the solvency of the plan and restrict lump-sum transfers, where appropriate.
- DC plans may reduce the level of employer or employee contributions by filing a pension plan amendment.

The exact deadlines for all extensions are determined by each plan's year end.

Interpretation of new commuted value standards

The BCFSA has released its interpretation of the CIA's new commuted value standards, which were discussed in Segal's February 2020 *Briefing*.

- DB pension plans must determine commuted values in accordance with the new standard once it comes into effect.
- It is the Superintendent's interpretation that the target pension arrangement section of the new commuted value standards does not apply to jointly sponsored plans.
- Target benefit plans fall under the definition of "target pension arrangement" in the revised standard. The Superintendent's position is that the calculation method outlined in the new standards is consistent with current legislation and does not expect any changes in the commuted value calculation method.

Answers to FAQs about the new funding framework

The BCFSA has released answers to FAQs about the new DB plan funding framework (previously discussed in the December 2019 *Governance Update*) that came into effect December 31, 2019. The answers clarify that:

- Plans should be required to fund a Provision for Adverse Deviations (PfAD) on both going-concern liabilities and normal cost.
- The PfAD applies to the administrative expense assumption.
- Margins must be included in establishing going-concern valuation assumptions.
- If a plan was using a letter of credit to meet the solvency funding requirements prior to December 31, 2019, the letter of credit can be reduced or allowed to expire at a subsequent review date if the plan is above the 85 percent solvency level.
- Plans may use excess contributions towards future contribution requirements.

Manitoba

COVID-19 response

Manitoba has announced the following measures:

- The deadline to file the annual information return has been extended two months for plans with a fiscal year ending between October 1, 2019 and December 31, 2019.
- Should the plan administrator become aware that the plan's solvency position has declined since the last filed actuarial valuation report, the administrator should assess whether any transfers from the plan would impair or further impair the solvency of the plan.

Nova Scotia

New DB funding framework

On February 24, 2020, Nova Scotia amended its regulations to reform the funding framework for DB plans as follows:

- Solvency funding to 85 percent rather than 100 percent for valuation dates on or after December 31, 2019.
- Solvency deficits are to be funded over five years.
- Going-concern deficits are now funded over 10 years rather than 15 years.
- Going-concern liabilities must now include a PfAD based on the plan's target non-fixed income asset allocation.
- Contribution holidays may only be taken if the plan assets are at least equal or greater than 105 percent of the solvency liabilities and 105 percent of the going-concern liabilities.
- Benefits may be improved without having to be immediately funded if the solvency ratio remains at least 85 percent after the amendment.
- Reserve accounts within a DB pension plan can be established to hold payments for solvency deficiencies or going-concern PfAD. The employer may withdraw any surplus in a reserve account at wind-up if certain conditions are met.

The new framework came into effect April 1, 2020. Specified multi-employer pension plans are not subject to these changes and continue to be exempt from solvency.

Ontario

COVID-19 response

On May 22, 2020, the Financial Services Regulatory Authority (FSRA) published the Pension Sector Emergency Management Response to the COVID-19 pandemic:

- FSRA considers the 2020 market decline to be a subsequent event that should be reflected in the preparation of actuarial valuation reports.
- To the extent that member contributions are optional in a defined contribution pension plan, members can choose to reduce or eliminate optional contributions in accordance with plan rules and any matching employer contributions will then be reduced accordingly.
- During the COVID-19 disruption, FSRA has temporarily suspended on-site examinations along with certain pension sector consultations.

In addition, on June 18, 2020, the Ontario government amended Regulation 909 to provide extensions to deadlines for certain filings, including the Annual Information Return, Actuarial Valuation Reports, Financial Statements, Investment Information Summary and annual member statements. Segal has created a chart summarizing summarizing the changes.

Actively monitored single employer plans

FSRA has released a proposal outlining how it will supervise Ontario registered single employer DB plans where there may be a concern about the security of the pension benefits (actively monitored plans).

Actively monitored plans are subject to an enhanced level of supervision. The enhanced level of supervision and engagement may require a plan to develop a risk-management plan and additional reporting.

FSRA will undertake a risk assessment of all single employer DB plans each quarter and the criteria used to define an actively monitored plan may change over time.

Individual pension plans and designated plans

FSRA has proposed exempting certain individual pension plans (IPPs) and designated pension plans (DPPs) from the *Pension Benefits Act*. Details include the following:

- Existing IPPs and DPs with connected members that have consented to the exemption would be allowed to elect to be exempt.
- IPPs and DPs established after the date when the amendment comes into force and contains only members connected to the employer would be automatically exempt from the PBA.
- IPPs and DPs whose registration was previously revoked under the ITA may be exempt.

Québec

COVID-19 response for supplemental pension plans

Retraite Québec has announced the following in response to COVID-19:

- The deadlines for actuarial valuation reports, annual member and beneficiary statements, notice regarding the plan's financial situation, the annual information return and financial report, the notice of annual meeting and termination report have been extended by three months.
- All payments (transfers and refunds) between April 17, 2020 and December 31, 2020 must take into account a degree of solvency that reflects the plans' current financial situation. The payments must take into account the degree of solvency updated on the last working day of the month preceding the date on which the value of the member's benefits was determined.
- Active members under a supplemental pension plan under which the accrual of new benefits has been suspended will maintain their active membership.
- The requirement to produce an actuarial valuation as of December 31, 2020 for DB plans in the private sector whose funding level as of December 31, 2019 is less than 90 percent has been removed.

However, the deadline for making contributions into the plan (every month) has *not* been extended at this time.

COVID-19 measures regarding life income funds

Retraite Québec has implemented a temporary measure to ease the rules for life income fund (LIF) withdrawals in 2020. For 2020, anyone holding a LIF who was under age 70 on December 31, 2019 may obtain temporary income subject to the same conditions as people between the ages of 54 and 64 on December 31, 2019.

Saskatchewan

COVID-19 response

In response to the COVID-19 pandemic, the Financial and Consumer Affairs Authority (FCAA) has announced the following:

- The deadline to file the annual information return and applicable fees has been extended by three months for filings due between March 31, 2020 and July 31, 2020.
- The deadline to provide members with annual statements has been extended by three months for all plans required to provide statements between March 31, 2020 and July 31, 2020. Members should be informed of the extension.
- Administrators must obtain the prior written consent of the Superintendent of Pensions to transfer monies or make payments out of DB plans, with very few exceptions, if, in the Superintendent's opinion, the transfer or payment would impair the solvency of the pension fund.

CIA

Delayed effective date for new commuted value standards

The CIA's Actuarial Standards Board has delayed the effective date of the new actuarial standards for how pension plans will calculate commuted values. The original effective date for the new standards was August 1, 2020. The new effective date is "a date no earlier than December 1, 2020."

The Actuarial Standards Board made the announcement on April 6, 2020.

CAPSA

2020 Agreement respecting multi-jurisdictional pension plans

The provincial governments of Alberta, British Columbia, New Brunswick, Nova Scotia, Ontario, Québec, Saskatchewan and the federal government have all signed the 2020 Agreement Respecting Multi-Jurisdictional Pension Plans (MJPPs). Effective July 1, 2020, this Agreement replaces the 2016 Agreement.

The 2020 Agreement reflects the following changes:

- Requirements governing the ongoing funding of a MJPP are amended to include the application of only the major authority's legislated pension plan funding rules.
- A new requirement is added to permit a major authority that has legislated funding rules for annuity discharges to apply those rules in place of any minor authority's legislated annuity discharge funding rules.
- Requirements governing the allocation of the assets of a MJPP between jurisdictions upon plan wind up or certain other major plan events are amended. This will accommodate recent legislative changes in some jurisdictions that eliminate traditional solvency funding requirements for some pension plans, while continuing to maintain the overall asset allocation approach and results of the 2016 Agreement.
- Requirements governing the change of the major authority for a MJPP are amended to allow an upcoming change of major authority to be cancelled if the existing major authority's jurisdiction once again has the plurality of active plan members before the effective date of the upcoming change of major authority.

Federal Department of Finance

COVID-19 response — solvency relief

The federal government has released the *Solvency Special Payments Relief Regulations, 2020*. Under the new regulation:

- Federally regulated DB plans are not required to make contributions towards a solvency deficiency that are due between April 1, 2020 and December 31, 2020.
- Any solvency special payments made between March 31, 2020 and May 27, 2020 can be deducted from normal cost or going-concern special payments due between May 27, 2020 and December 30, 2020.

- Any plan amendments that would increase benefits or benefit credits and result in a solvency ratio below 1.05 would require the authorization of the Superintendent of Financial Institutions.
- Plans that apply the solvency moratorium are required to disclose to members and former members the amount of reduced solvency special payments for the plan year and what payments would have been required for the plan year.

The new regulations came into force May 27, 2020.

COVID-19 response — other relief

The Ministry of Finance has announced changes to the *Income Tax Regulation* affecting registered pension plans (RPPs). The proposed changes include:

- Adding temporary stop-the-clock rules to the conditions applicable to salary deferral leave plans for the period of March 15, 2020 to April 30, 2021
- Removing restrictions that prohibit an RPP from borrowing money
- Extending the deadline for decisions to retroactively credit pensionable service under a DB plan or to make catch-up contributions to money purchase accounts
- Permitting catch-up contributions to DC plans to be made in 2021 to the extent that 2020 required contributions had been reduced
- Setting aside the 36-month employment condition in the definition "eligible period of reduced pay" for the purpose of using prescribed compensation to determine benefit or contribution levels
- Allowing wage rollback periods in 2020 to qualify as an eligible period of reduced pay for prescribed compensation purposes

OSFI

COVID-19 response

As a result of the COVID-19 crisis, OSFI has adjusted its policies and directives as follows:

- Effective March 27, 2020, portability transfers and annuity purchases relating to DB provisions of pension plans are prohibited until further notice.
- Filing deadlines for the Annual Information Return, Certified Financial Statement, Actuarial Report, Actuarial Information Summary, Annual statements to members and former members and spouses or common-law partners and the Auditor's Report Filing Confirmation have been extended by three months.
- A number of consultation initiatives and policy development work have been suspended.

Instruction guide: termination of a DB pension plan

OSFI has issued a draft guide outlining the filing and reporting requirements for non-insured DB plans that terminate. This guide would replace the previous guide issued in 2016.

Revisions reflect amendments to the *Assessment of Pension Plans Regulations* that came into effect April 1, 2019, specifically the elimination of assessments in the sixth year following a plan termination (or earlier if all assets have been distributed).

The document also provides additional details on OSFI's expectations on the timing expectations for solvency deficit amortization payments and how any overpayment of an employer's contribution towards a solvency deficit is treated under the PBSA on plan termination; pension benefit and pension benefit credit calculation dates for former members; refunding surplus to members and former members or the employer and locating missing members and former members.

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