Financial Institutions Commission
BRITISH COLUMBIA

INFORMATION
BULLETIN

BULLETIN NUMBER:	**PENS-16-001**
TITLE:	**GUIDELINE FOR CONVERTING PLANS FROM DEFINED BENEFIT TO TARGET BENEFIT**
LEGISLATION:	***Pension Benefits Standards Act* and Pension Benefits Standards Regulation**
DATE:	**MARCH 2016**

PURPOSE

This Bulletin is to provide guidance to plan administrators who are considering a change in benefit type from a defined benefit to a target benefit plan structure as set out in Part 9 of the *Pension Benefits Standards Act* (PBSA) and Part 8 of the Pension Benefits Standards Regulation (PBSR).

The document describes the general expectations and requirements of the Superintendent of Pensions (Superintendent) concerning the conversion to a target benefit provision (TBP).

A ***Questions and Answers*** section is included at the end of the document to address some common issues that have been raised by plan sponsors and consultants regarding conversions.

Plan administrators may wish to use the *Checklist* provided in the Appendix when discussing the conversion process with the Trustees.

Procedure and Required Documents

1. Initial Notice to the Superintendent

a) Trustees must notify the Superintendent once a resolution has been passed to convert a plan to a TBP (with the conversion date). In the case where the conversion may reduce accrued benefits, the plan may only be amended with consent from the trade union representing members of the plan. (PBSA s. 20(2) (d)).

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b) In order to assist the Superintendent's reviewing process, please provide the Superintendent with a document containing:

   i. A high level summary of the TBP design. For example:

      - What is the effective date of conversion?
      - Does the conversion apply to all benefits or future benefits only?
      - Does the plan intend to change its asset mix as a result of the conversion?
      - Any other specific (key) changes to the plan provisions that relate to the conversion.

   ii. A conversion schedule summarizing the important events; such as, amendment filing, member communications, and the proposed timeline of each step in the conversion process.

2. Notice to Members

Member communication is critical to the successful functioning of a TBP. We encourage plan sponsors to provide clear communication with members concerning the potential benefits and risks of the plan at inception and at regular intervals.

A written notice explaining the conversion from a defined benefit plan to a TBP must be sent to members at least 30 days before a plan amendment is filed with our office (PBSR s. 92(3)).

We recommend that the administrator provide members with revised employee booklets (if applicable). We strongly urge plan administrators to hold information sessions to communicate the changes to members.

3. Filing Requirements and Conversion Timeline

Required Documents
TBP conversion is done by way of a plan amendment. The following documents related to the conversion must be filed with the Superindendent within the prescribed time period:

a) within 60 days after the date on which the amendment is made (PBSR s.18):

   i. Board resolution and amendment or restated plan text (both a clean version and a black-lined format);

   ii. Any supporting documents (if amended as a result of the conversion);

   iii. The required filing forms (PBSA s. 18 and s.26); and

b) within 180 or 270 days of the conversion date (see "Valuation Filing"):

   i. Actuarial valuation report or cost certificate.

In addition, please provide the Superindendent with copies of member communications and the funding and governance policies reflecting the target benefit provision.

Valuation Filing

In support of the conversion to a TBP, an actuarial valuation report or a cost certificate, including stress testing, as at the conversion date is required to be filed with the Superintendent (PBSR s. 60 and s. 92(2)).

We recognize that a valuation filing due 60 days after the conversion date or the filing of the amendment date may not be practical. We will accept valuation filing for purposes of TBP conversion as follows:

i. within 270 days of the conversion date (i.e. review date) if the conversion date coincides with the plan's fiscal year end date; or

ii. within 180 days of the review date for any other conversion if the conversion date does not coincide with the plan's fiscal year end date.

Conversion Timeline

The proposed timeline submitted to our office will be reviewed on a case-by-case basis. We encourage plan administrators and/or consultants to work with staff of the Superintendent in developing the conversion schedule.

Here are some key items that plan administrators should consider when putting together the proposed TBP conversion schedule:

a) The conversion amendment must be filed with the Superintendent <u>before</u> the plan administrator can administer the new rules.

b) An estimate of the target benefit funded ratio as at the conversion date is required to be submitted to the Superintendent if application of the TBP commuted value basis takes place <u>prior to</u> the completion of the actuarial valuation.

c) If the estimated target benefit funded ratio is less than 1.0 and the actuarial valuation reveals a higher target benefit funded ratio than the estimated ratio, members who have already been paid based on the estimated ratio will be entitled to receive an additional benefit accordingly.

d) If the actuarial valuation reveals a lower target benefit funded ratio than the estimated ratio, no adjustment will be made to members' payments.

Questions and Answers

1. What is the Superintendent's expectation on member communication plan?

Clear communication and transparency are fundamental to the successful functioning of a TBP. We expect that member communication will at least include the following information concerning the TBP conversion:

a) Plan name and registration number;
b) Effective date of conversion;
c) A high level summary of the key changes to the plan provisions;
d) Implications to members' benefits under the plan (for example, how is the commuted value payment calculation affected, and the effective date of the change to a TBP basis);
e) An explanation of how the member's benefits would be affected if the member terminated employment at a time when the target benefit funded ratio is less than one;
f) Plan administrator's contact information in case of members' inquiries; and
g) Other relevant information.

2. Can plan administrators file an amendment relating to the TBP conversion (instead of restated plan text) with the Superintendent?

Yes, if the plan amendment covers all the details related to the TBP conversion. However, we expect that language in various sections of the plan text will need to be updated to reflect the target benefit provisions. We recommend that a restated plan text be filed with the Superintendent.

3. Can a plan provide benefit increases on the conversion date?

Yes. In accordance with s. 21 of the PBSR, a plan may provide for a temporary improvement in benefits for pensions in payment under the plan if the actuarial valuation on conversion date demonstrates that:

a) The target benefit component has accessible going concern excess; and
b) After taking into account the cost of the temporary improvement in benefits, the target benefit component will continue to have accessible going concern excess.

The plan may also provide benefit improvements to non-retired members if the required conditions are fulfilled.

4. What is the Superintendent's expectation regarding the filing of the estimate of the target benefit funded ratio at the conversion date?

We require disclosure on the actuarial assumptions (with rationale of the assumptions selected if different from the going-concern assumptions used in the last filed valuation report) and methods used to estimate the target benefit funded ratio of the plan. It is also recommended that actuary discloses the estimated contribution margin after accounting for the plan's provision for adverse deviation.

5. A member receives his termination statement reflecting a commuted value calculation on a solvency basis, however this member did not return the signed form until after the plan administrator files an amendment for a TBP conversion; and that the 180-day period has expired (i.e., recalculation of commuted value would apply). Should the recalculation be based on the target benefit funded ratio?

Yes. Once the new CV basis becomes effective, any calculations performed after that date should be based on the TBP basis.

Checklist

The following checklist contains items that plan administrators should prepare as part of the conversion process:

- ☐ Initial notice (with conversion schedule) to the Superintendent
- ☐ Board resolution and amendment <u>and</u> related filing form
- ☐ Any supporting document (if applicable) <u>and</u> related filing form
- ☐ Actuarial valuation report or cost certificate
- ☐ Notice to members
- ☐ Funding and governance policies