

COMMUNIQUÉ

NEW ALBERTA PENSION LEGISLATION PROCLAIMED EFFECTIVE SEPTEMBER 1, 2014

On July 22, 2014 the Government of Alberta passed the long awaited regulation to support the new *Employment Pension Plans Act* (the Act) that was enacted through Bill 10 in 2012. The new *Employment Pension Plans Regulation* (the Regulation) and the Act come into force on September 1, 2014.

Key highlights of the Act and Regulation are:

- Substantial harmonization of the Alberta and British Columbia pension rules (once the British Columbia rules come into effect);
- Movement to principles based supervision, with expanded powers of the Superintendent;
- Enhanced flexibility for member eligibility and plan design;
- Introduction of mandatory formal governance and funding policies;
- Introduction of solvency reserve accounts to provide plan sponsors with access to funding excess and avoid trapped capital;
- Default investment for member directed defined contribution plans;
- A requirement for annual audited financial statements for benefit formula based plans with greater than \$10 million of assets or for collectively bargained multi-employer pension plans;
- Triennial valuations to be filed within 270 days after the plan year end;
- Immediate vesting of pension benefits;
- Gender neutral pensions and lump sum payouts;
- Changes to marriage breakdown settlement amounts;
- New disclosure requirements;
- Removal of partial plan terminations and introduction of payment flexibility for members of terminating plans;
- Introduction of target benefit shared risk plans and related funding requirements; and
- Introduction of an Alberta Pension Tribunal and rules for enforcement.

This Communiqué provides more detail on items of particular interest.

Benefits

Vesting of benefits for all service is immediate and the minimum spousal pre-retirement death benefit for all service is increased to 100% of the member's benefit. As a result of the changes to vesting, locking-in is also changing. The unlocking permitted for small pensions is now solely based on the 20% of YMPE (Year's Maximum Pensionable Earnings) threshold for commuted values. The small benefit test based on 4% of the YMPE for annual pensions has been eliminated. Plans must now permit unlocking in specified circumstances including shortened life expectancy and non-residency.

Committed value payments must be calculated at the time of termination of membership and a recalculation must be done if the committed value is not paid within 180 days of termination. The recalculation must be done as of a date that is not more than 30 days before the date of payment or transfer.

All benefits (including optional form pension amounts and committed value payouts) must not differentiate based on the gender of the member.

For marriage breakdowns involving a lump sum settlement, the total entitlement to be split with the member's former spouse is now based on the committed value as if the member had terminated membership on the date of the marriage breakdown (or, in other words, the regular termination committed value payout basis).

Plans may elect to introduce phased retirement in accordance with the rules established under the *Income Tax Act* and the Regulation.

On plan windup, committed value transfers may be made to retired members in specified circumstances with the Superintendent's approval (for example, if the administrator is not reasonably able to purchase an annuity that provides the same type and amount of benefit).

Governance

The Act and Regulation require a written governance policy to be developed for all types of pension plans. The governance policy must contain the following:

- Governance objectives;
- Identification of key risks and controls in place to manage those risks;
- Structures and processes for overseeing, managing and administering the plan;
- Roles and responsibilities of all involved in plan operations and plan decision making;
- Performance measures and monitoring procedures;
- Procedures for member communication and disclosure;
- Codes of conduct, conflict of interest policies and dispute resolution procedures; and
- Skills and education requirements for all involved in plan operations and plan decision making.

In addition, an annual assessment must be done to ensure the plan is being administered, funded, and invested in accordance with the plan document, governance policy, funding policy (if applicable) and investment policy.

New Shared Risk Plan Designs

The Act and Regulation permit plan designs that share risk with plan members (either through contributions or benefits). Target benefit plans permit benefit reductions when the plan's liabilities exceed the assets and contributions coming into the plan are insufficient to eliminate the unfunded liability. In such plans, all members bear risk through the potential of benefit reductions. Jointly sponsored plans share risk through contributions from active members. Under this type of plan, active members contribute based on a specified share of the funding obligation, including a share of any unfunded liability contributions.

Funding and Funding Policies

Written funding policies for benefit formula based plans must be developed and reviewed annually and must contain the following:

- Funding objectives relating to benefit security; stability of contributions, benefit levels and contribution levels or thresholds;
- Identification of key risks that impact plan funding, risk tolerances, and internal controls being used to manage the risks;
- Expectations for funded ratios;
- Expectations for elimination of deficits;
- For shared risk plans, expectations for benefit reductions (if applicable) and contribution increases (if applicable);
- Use of surplus and actuarial excess; and
- Frequency of monitoring through valuations.

Sponsors of plans containing defined benefit formula provisions (other than target benefit) may establish solvency reserve accounts within the plan to hold solvency deficiency special payments. When the plan's solvency ratio exceeds 105%, the plan sponsor can withdraw up to 20% of the accessible solvency surplus each year for the next three years (until the next required valuation).

Target benefit plans must contain prescribed levels of margin (called PfADs), based on the risk factors and investment policy of the plan. Plans will be permitted to phase into these levels of PfADs over the three year period following conversion to a target benefit plan. Stress testing for target benefit plans will also be required to be included in valuations filed with the Superintendent.

Valuation filing dates will be extended to 270 days following the plan year end.

Participation Flexibility

Plan sponsors will have more flexibility in determining the groups covered by their pension plans, with the removal of the prescribed eligibility classes. Employees who earn more than 35% of the YMPE over a two year period who otherwise meet the plan's eligibility criteria must still be permitted to join.

Plans with optional participation may introduce auto-enrollment, provided the employee is provided with the timelines and conditions for them to opt out, in writing.

New Default Funds for DC Members

Plan sponsors who offer investment choice to members of defined contribution plans must now provide a default fund which is either a balanced fund or a target date fund taking into account the member's age.

Member Disclosure and Communication

Enhanced member disclosure based on the type of plan will be required. In addition, new disclosure requirements apply for retired members, marriage breakdowns, phased retirement and whenever benefits or member contributions are changing.

Timelines

While the Act and Regulation largely come into effect September 1, 2014, some changes are not in force until the end of 2014. Plan administrators and plan sponsors are being given time to make the necessary changes to their plan documents, policies and procedures. The following table summarizes the key deadlines:

Description	Compliance Date
Plan administration	<ul style="list-style-type: none">Plan must be administered in accordance with the Act and Regulation effective September 1, 2014
Plan amendment	<ul style="list-style-type: none">Plan amendments must be filed before December 31, 2014
Written governance and funding policies	<ul style="list-style-type: none">Written policies must be in place by August 31, 2015No requirement to file with the Superintendent
Annual administrator assessment	<ul style="list-style-type: none">If a plan year is the calendar year, the first assessment must be performed by December 31, 2016Otherwise, the first assessment must be performed within the year following the second plan year-end after September 1, 2014Annual assessments thereafter
Schedule of expected contributions	<ul style="list-style-type: none">Updated schedule of contributions (formerly Schedule 7) must be provided to the fund holder by October 1, 2014
Default DC investment option, amendment of fund holder agreement	<ul style="list-style-type: none">For DC plans with member directed investments, a default fund of either a balanced fund or target date fund must be in place by December 31, 2014
Disclosure requirements	<ul style="list-style-type: none">As of December 31, 2014Annual statements as of a date prior to December 31, 2014 may follow existing disclosure requirements

Description	Compliance Date
Participation agreements	<ul style="list-style-type: none"> ▪ Amended agreements to comply with new requirements for non collectively bargained multi-employer plans must be in force by June 1, 2015
Unlocking due to Financial Hardship	<ul style="list-style-type: none"> ▪ Required unlocking for financial hardship September 1, 2014
LIRA and LIF changes	<ul style="list-style-type: none"> ▪ Changes to LIRA and LIF provisions in force January 1, 2015 ▪ Financial institutions on the approved list for transfers must confirm their ability to comply with the new LIRA and LIF provisions by December 31, 2014
All other changes	<ul style="list-style-type: none"> ▪ September 1, 2014

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