

COMMUNIQUÉ

26 May 2015

NEW BRITISH COLUMBIA PENSION LEGISLATION PROCLAIMED EFFECTIVE 30 SEPTEMBER 2015

On 11 May 2015 the Government of British Columbia released the regulation to support the new *Pension Benefits Standards Act* (the Act). The Act was enacted in the spring of 2012 and subsequently amended by Bill 10-2014, the *Pension Benefits Standards Amendment Act*. The new *Pension Benefits Standards Regulation* (the Regulation) and the Act come into force on 30 September 2015, with some provisions taking effect at later dates.

The Act and Regulation are intended to harmonize substantially with the pension legislation enacted in Alberta in 2014, and signal a transition to principles-based regulatory supervision. Amendments to British Columbia registered pension plans, and other pension plans with British Columbia members, must be filed with the applicable regulator by 31 December 2015.

Significant changes include:

- Immediate vesting of pension benefits for all service
- New small benefit unlocking threshold
- Increase in pre-retirement death benefit for defined benefit (DB) plans
- Employer flexibility regarding member eligibility criteria
- Default investment requirements for member-directed defined contribution (DC) plans
- New disclosure requirements for member communications
- Introduction of target benefit plans and related funding requirements
- Introduction of a mandatory formal governance policy and, for plans with DB provisions, a mandatory funding policy
- Discharge of sponsor liability on the purchase of DB annuities
- Introduction of solvency reserve accounts to provide plan sponsors with access to funding excess under prescribed circumstances

This Communiqué discusses these changes in more detail.

Benefits

Vesting and locking-in of benefits for all service is immediate. Unlocking small pensions is now subject to a commuted value threshold of 20% of the YMPE (Year's Maximum Pensionable Earnings) for the calendar year in which the most recent determination of the commuted value was made. This threshold applies to all plans. The previous small benefit test based on 10% of the YMPE for annual pensions is eliminated.

Plans must permit unlocking in specified circumstances including shortened life expectancy and non-residency.

Commuted value payments must be calculated at the time of termination of membership and a recalculation must be done if the commuted value is not paid or transferred 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.

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

Pre-Retirement Survivor Benefits

The minimum pre-retirement death benefit is increased to 100% of the member's benefit for all service, with a pension payable immediately to a surviving spouse regardless of age at the time of the member's death.

Plans may now require a surviving spouse to take a locked-in transfer out of the plan where the member dies prior to pension commencement.

Participation Flexibility

Plan sponsors have more flexibility in determining the groups covered by their pension plans with the removal of the prescribed eligibility classes, subject to certain minimum entry standards.

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

New Default Fund Requirements for DC Members

Plan sponsors who offer investment choice to members of DC 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.

Plan sponsors have until 28 June 2016 to implement any required investment changes in relation to a default fund offering.

Member Disclosure and Communication

Enhanced disclosure will be required on many member statements, including information regarding the jurisdiction that governs a member's benefits. New statement requirements apply to retired members, members receiving lump sum payments, members receiving life-income type benefits, and members to whom a change in contributions or reduction in benefits applies.

Target Benefit Plans

The Act and Regulation permit the creation of target benefit plans, which permit benefit reductions when plan liabilities exceed the assets and plan contributions are insufficient to eliminate the unfunded liability. In such plans, all members bear risk through the potential of benefit reductions; likewise, benefits can be temporarily improved in times of surplus funding. Conversion of existing DB plans to a target benefit structure is also permitted, including, unlike Alberta, the ability to reduce benefits that accrued prior to the conversion date.

The Act and Regulation also permit jointly sponsored plans in which active members share risk by contributing based on a specified share of the funding obligation, including a share of any unfunded liability.

Governance

A written governance policy must be developed and adopted for all 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 decision making
- Performance measures for decision makers
- Skills and education requirements for decision makers
- Procedures for access to information
- Codes of conduct, conflict of interest policies and dispute resolution procedures
- Process for member dispute resolution

A triennial 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. The first assessment must be completed no later than 31 December 2016. There is no requirement to file the governance policy, but it must be available for review if so requested by the regulator.

Funding and Funding Policies

Written funding policies for benefit formula based (DB) plans must be developed and reviewed annually. Funding policies 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 affect 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)
- Uses of surplus and actuarial excess
- Frequency of monitoring through valuations

Funding policies are not required to be filed with the regulator, but a copy must be provided to the plan actuary.

Discharge of Liability

A discharge provision is created for the purchase of annuities in respect of DB entitlements of deferred or retired members. If the annuity provides the same amount and form of benefit to which the recipients were entitled under the plan, the plan sponsor is discharged from any further liability in respect of the benefits for which the annuity was purchased.

Solvency Reserve Account

Sponsors of DB plans may establish solvency reserve accounts within the plan to hold solvency deficiency special payments. If the plan's solvency ratio exceeds 105%, the plan sponsor can withdraw up to 20% of the accessible solvency surplus each year until the next required actuarial valuation.

Other Changes

- Partial plan terminations have been eliminated
- DC plans may provide for life-income type benefits to be paid directly from the plan
- A statement of investment policies and procedures is no longer required for member-directed DC plans
- Audited financial statements for DC plans are no longer required
- The terms "locked-in registered retirement savings plan", "locked-in RRSP" and "LIRRSP" are removed and the term "locked-in retirement account" is introduced
- Non-collectively bargained multi-employer plans must have a participation agreement in place which meets the content requirements in the Act and Regulations
- An original or copy of any record pertaining to a plan must be retained in Canada

Timelines for Compliance

Requirement	Compliance Date
Administration of new requirements	Plan must be administered in accordance with the new Act and new Regulations effective 30 September 2015 (unless otherwise noted)
Plan amendment reflecting new requirements	Plan amendments must be filed with the applicable regulator before 31 December 2015
Written governance and funding policies	Written policies must be in place by 1 January 2016
Participation agreements for non-collectively bargained multi-employer plans	New or amended agreements to comply with new requirements must be in force by 1 January 2016
Triennial administrator assessment	If a plan year is the calendar year, the first assessment must be performed by 31 December 2016
Default DC investment option	For DC plans with member-directed investments, a default fund of either a balanced fund or target date fund must be in place by 28 June 2016
Member communications/statements	First plan year end after 30 September 2015
All other changes (eligibility, vesting, benefits, disclosure, funding, plan design, etc.)	30 September 2015

Mercer expects to publish a comparison between the Alberta and British Columbia legislation in July 2015 to assist plan administrators in harmonizing administration and plan document provisions for Alberta and British Columbia members.

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