Alberta’s New Target Benefit Regime

Alberta is moving forward with sweeping pension reforms in the new *Employment Pension Plans Act* (EPPA) andregulations, which come into effect on September 1, 2014. Alberta’s new approach of providing comprehensive and specific rules for various types of pension plan designs is a welcome change from the “one size fits all model” employed in many other Canadian jurisdictions.

Although this article focuses on target benefits, there are numerous other changes in the new EPPA. If you sponsor a pension plan with members in the province of Alberta, a compliance review is in order to ensure that the new requirements are met.

New Design Option

Among the many changes in the new EPPA, is the introduction of a comprehensive target benefit plan (TBP) regime. Alberta is the second jurisdiction, after New Brunswick, to implement comprehensive TBP rules as a design option for plans registered in the province.

Under the EPPA, TBPs will not be limited to collectively bargained workforces, as has been proposed in some other jurisdictions.

Ability to Adjust Benefits

TBPs are generally more adaptive and flexible than traditional defined benefit (DB) plans. Specifically, where there are funding/plan solvency issues, benefits and/or contributions under a TBP can be adjusted. Accordingly, the new Alberta rules provide that where there are funding concerns, the plan must be amended to do one or more of the following:

- Reduce or eliminate ancillary benefits
- Reduce the targeted DB benefit, which reduction may apply to accrued target benefits, or
- Increase contributions

Unlike New Brunswick, the Alberta TBP rules do not at this time permit the conversion of a traditional DB plan provision to a target benefit provision on a retroactive basis. However, a traditional DB plan may convert to target benefit for future service and new hires. Bill 10, the *Employment Pension (Private Sector) Plans Amendment Act, 2014*, which is currently under review by the all-party Standing Committee on Alberta's Economic Future, proposed amendments that would permit such retroactive conversion of accrued DB benefits to a TBP regime.

The new Alberta rules also contemplate temporary improvements in retiree pensions under TBP provisions. Where the target benefit component of a plan has accessible going concern excess, the plan can be amended to provide for a temporary improvement in pension payments, provided that it will continue to have accessible going concern excess after taking into account the costs of the temporary improvement.

Benefit Security/Risk Management

Alberta has adopted an adverse deviation approach (PfAD) to risk management, as opposed to the probabilistic approach adopted by the New Brunswick TBP legislation. The PfAD under the Alberta rules is determined by two components: (i) a certain percentage based on the percentage of the fund that is invested in equities, and (ii) the amount, if any, by which the assumed discount rate exceeds the benchmark discount rate. For example, if a plan's equity allocation is 20%, and the assumed discount rate exceeds the benchmark discount rate by 0.01%, the PfAD would be 10.15%. Based on a table in the regulations, the equity allocation of 20% requires that 10% be added to the PfAD. The second component is the addition of .15% to the PfAD for every 0.01% that the assumed discount rate exceeds the benchmark discount rate.

The regulations also require that stress testing be performed, in respect of elements that the actuary believes may pose a material risk to the TBP's ability to meet funding requirements. Such testing must be done in a manner satisfactory to the Alberta Superintendent.

Funding Requirements

Under the new Alberta TBP rules the normal cost of the target benefits and PfAD are required to be funded. Where there is an unfunded liability, either the actuarial valuation must show that the expected contributions will be sufficient or a plan text amendment must be filed concurrently to reduce or eliminate benefits or increase contributions, such that the funding requirements can be satisfied.

Although not required to fund on a solvency basis, Alberta's target benefits are required to include in actuarial valuations either a statement that the target benefit component does not have a solvency deficiency, or disclose the total amount of the target benefit component's solvency deficiency.

Funding and Governance Policies

The new legislation requires all types of pension plans to have a written governance policy that meets the prescribed rules. In addition, for plans that contain a benefit formula provision (i.e., a target benefit provision or traditional DB provision), a funding policy which complies with prescribed requirements is required.

Although such policies need not be filed with the regulator, Alberta registered plans must have them in place by August 31, 2015.

Disclosure

The revised Alberta regulations provide for certain additional disclosure requirements for target benefits. For example, in the member annual statement, if the target benefit funded ratio is less than 100%, the disclosure must include a statement of the steps being taken to address the unfunded liability and a statement that failure to amortize the unfunded liability may result in benefit reduction. In addition, for active members the annual statement must include 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.

There are also additional TBP disclosure requirements in actuarial reports and cost certificates. These include, disclosure of the benchmark discount rate, the equity and non-equity allocation of the plan, the maximum equity risk premium, the PfAD and PfAD offset, the corporate bond yield, and the target benefit funded ratio.

Transfers

Where a member is eligible to transfer funds out of a TBP, the amount that can be transferred is limited to the commuted value of the benefit. However, if the target benefit funded ratio of the plan is less than 100%, the amount that may be transferred is reduced accordingly. If, for example, the target benefit funded ratio of a plan was 90%, a member would only be entitled to transfer 90% of his or her commuted value in satisfaction of his or her entitlements under the TBP.

This restriction is similar to the New Brunswick rules and helps to ensure that departing members cannot take more money out of the plan than the plan can afford at the time.

Administrator

Unlike New Brunswick, Alberta did not introduce special rules regarding who may act as an administrator of a TBP. Instead, the general rules apply.

An administrator of a single employer plan other than a jointly-sponsored plan must be the employer or a board of trustees or similar body acceptable to the Superintendent. An administrator of a non-collectively bargained multi-employer plan other than a jointly-sponsored plan must be either the participating employer that is identified in the participation agreement as the plan administrator or a board of trustees or similar body acceptable to the Superintendent and established under the supporting plan documents to administer the plan. If the plan is a collectively bargained multi-employer plan, the administrator must be a board of trustees or similar body acceptable to the Superintendent, and the number of plan member appointees to the board must not be less than the number of employer appointees. Finally, if the plan is a jointly-sponsored plan, the administrator is a board of trustees or other similar body acceptable to the Superintendent and established under the supporting plan documents to administer the plan.

Limitation on Liability

The Alberta legislation provides that the liability of a participating employer for funding benefits under a target benefit provision is limited to the amount that the participating employer is contractually required to contribute to the plan. New Brunswick's legislation contains a similar provision for participating employers in shared risk plans.

TBP Termination

If the target benefit component of a plan has an unfunded liability when the plan is terminated, assets are allocated as follows:

- first, to any balance in a member's additional voluntary contribution account and member's transferred contribution account; and
- then, the balance of the assets are allocated to each person entitled to benefits based on the commuted value of the person's benefit multiplied by the target benefit funded ratio.

We are pleased that Alberta has introduced comprehensive target benefit rules as a plan design option available to plan sponsors outside of traditional DB and defined contribution alternatives. We will continue to monitor the progression of target benefit rules as they develop in other jurisdictions across the country.

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