

# Regulatory Statement

## Valuation Filing Requirements

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<b>Regulatory Statement Number</b>	23-013
<b>Legislation:</b>	<i>Pension Benefits Standards Act and Regulation</i>
<b>Date:</b>	April 11, 2023
<b>Distribution:</b>	Pension Plan Administrators, Plan Sponsors, and Actuaries

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**This document replaces and supersedes Regulatory Statement Number 21-013**

### PURPOSE

This Regulatory Statement establishes the Superintendent of Pensions' ("Superintendent") requirements on the filings of actuarial valuation reports ("AVR") and Actuarial Information Summary ("AIS") for defined benefit plans under the [Pension Benefits Standards Act](#) ("PBSA") and [Pension Benefits Standards Regulation](#) ("PBSR").

This document is intended to supplement Regulatory Statement 23-012.

All AVRs and AISs filed after the publication date of this Regulatory Statement must comply with the requirements set out in this document.

### BACKGROUND INFORMATION

Each AVR and actuarial cost certificate must be prepared in a manner that is consistent with the standards of practice issued by the Canadian Institute of Actuaries ("CIA") and acceptable to the Superintendent [Section 46 of the PBSR].

The December 31, 2019 AVRs were the first reports filed under the new funding requirements for defined benefit pension plans registered in British Columbia, which came into effect on December 31, 2019 through [Order In Council No. 649](#). The new requirements consist of several changes. These include the addition of a provision for adverse deviation ("PfAD") under the going concern funding requirements, changes to solvency funding requirements, and limitations on contribution holidays and withdrawals of accessible going concern excess ("AGCE").

Upon review of the first reports filed with us, we noticed that the interpretations of the new funding rules and disclosure requirements for these filings have not been consistent across industry stakeholders. This document has been prepared to address the Superintendent's requirements and interpretation of the various topics relating to the new funding requirements for AVR and AIS filings.

Further, [Order in Council No. 505](#) came into effect on December 31, 2022, providing a clarification to the funding requirements of PfAD on normal actuarial cost when a plan with a defined benefit provision has AGCE. Questions 1 and 4 below were updated.

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All section references are to the PBSA and PBSR of B.C. unless otherwise indicated.

## REQUIREMENTS

The Superintendent's requirements relating to AVR and AIS filings under the new funding rule are set out below in a question-and-answer format. They are grouped by these themes:

- **Provision for Adverse Deviation**
- **Accessible Going Concern Excess and Contribution Holiday**
- **Normal Actuarial Cost and Gain/Loss**
- **Plausible Adverse Scenarios**
- **Assumption Changes**
- **Termination Expense Assumption**

### PROVISION FOR ADVERSE DEVIATION

Q1: If a plan with AGCE as determined by an AVR wishes to eliminate the PfAD funding under Section 57(2)(a.1) of the PBSR, how should this be calculated and reported in the AVR and AIS?

A1: **[Updated April 2023]** As described in Regulatory Statement 23-012, as long as the AVR establishes the existence of AGCE, a plan will not be required to fund the PfAD on normal actuarial cost under Section 57(2)(a.1) of the PBSR.

With respect to the AIS, in the case of AGCE greater than zero, the "PfAD Adjustment to NC" field within the plan's contributions section of the AIS would be reported as nil.

Q2: Should the going concern liabilities, including going concern excess/unfunded liability and going concern ratio calculations, be inclusive of the PfAD?

A2: Under Section 1(1) of the PBSR, the definitions of unfunded liability and going concern funded ratio are not inclusive of the PfAD in the liabilities. Therefore, the going concern liabilities in the AIS, including sensitivities, will not include the PfAD. In the valuation report, the actuary must provide disclosure of the excess/unfunded liability both before and after, including the PfAD as the latter is required to determine the required amount of going concern special payments.

### ACCESSIBLE GOING CONCERN EXCESS AND CONTRIBUTION HOLIDAY

Q3: If a plan wishes to use AGCE to reduce or eliminate contributions under Section 71 of the PBSR, what are BC Financial Services Authority's ("BCFSA") requirements with respect to disclosure of this decision?

A3: Under Section 71(3)(e) of the PBSR, written notice—either by letter or email—must be provided to the Superintendent and the fundholder prior to the use of the AGCE. Disclosing this information in the valuation report only is not sufficient. The notice to the Superintendent must also include a disclosure of the amount of excess expected to be used and the resulting net minimum required contributions unless this information is clearly stated in the valuation report.

The administrator must also ensure they meet the additional disclosure requirements for members' annual statements under Section 71(6) of the PBSR. Further, the administrator is required to disclose the amount of AGCE used to offset contributions in section 4 (Current

Service Contributions) of the Annual Pension Report filed each plan year. Further, the administrator is required to disclose the amount of AGCE used to offset contributions in section 4 (Current Service Contributions) of the Annual Pension Report filed each plan year.

Q4: When using AGCE to reduce or eliminate contributions, how should the excess, including any limits specified in Section 71 of the PBSR, be allocated between required normal actuarial cost contributions and the PfAD under Sections 57(2)(a) and 57(2)(a.1) of the PBSR, respectively?

A4: **[Updated April 2023]** Since the PfAD on normal actuarial cost contributions would not be required if the plan establishes that AGCE exists, the full 20 per cent of the AGCE limit specified in Section 71 of the PBSR can be used to cover normal actuarial cost contributions, to the extent available.

#### **NORMAL ACTUARIAL COST AND GAIN/LOSS**

Q5: When the normal actuarial cost is being reported, does BCFSA require a reconciliation of the normal actuarial cost from the previous valuation to the current one?

A5: Yes. A reconciliation of the normal actuarial cost rule (per cent of earnings, dollars/hour, or another method) from the previous review date to the current one must be included in the valuation report.

Q6: What is BCFSA's position on the level of detail required in reporting gains and losses?

A6: Consistent with Section 3260.03 of the CIA standards of practice, the actuary must describe and quantify the gains and losses from the previous valuation date to the current one. Further, we will require more detailed explanations for experience gains and losses that are material or non-standard, especially where the description may not be obvious. We will also require detailed explanations on all gains and losses due to assumption changes, plan amendments, and plan events. We do not require that any changes to the PfAD be included as a gain/loss item as it is not an item that forms part of the going concern funded position.

#### **PLAUSIBLE ADVERSE SCENARIOS**

Q7: What are BCFSA's requirements on disclosures for plausible adverse scenarios in a valuation report?

A7: We consider the selection and disclosure of plausible adverse scenarios to be very important. They allow plan fiduciaries to understand threats to a pension plan's future financial condition and manage risks that may affect plan beneficiaries. It is important that plan specific risks and all known events that contribute to these risks be considered, as well as the financial impact on the plan and/or plan sponsor if applicable. The disclosure of plausible adverse scenarios must be consistent with Section 3260 of the CIA standards of practice and the CIA Educational Note Guidance on Selection and Disclosure of Plausible Adverse Scenarios. We require that the following disclosures be included in the valuation report based on any plausible adverse scenarios identified:

- Impact on the going concern funded status; and
- Impact on the required contributions in respect of normal actuarial cost, PfAD, going concern special payments, and solvency special payments.

Q8: Are Individual Pension Plans that do not contain connected persons as defined in the Income Tax Regulations (Canada) required to disclose plausible adverse scenarios in their valuation reports? These plans are not explicitly listed in the exceptions under Section 3260.06.6 of the CIA standards of practice.

A8: We will not require Individual Pension Plans to disclose plausible adverse scenarios in their valuation reports.

### **ASSUMPTION CHANGES**

Q9: What is BCFSA's position on disclosure requirements for assumption changes, including the removal of the implicit margin in the discount rate?

A9: We have noticed some valuation reports do not contain an explanation for assumption changes involving the removal of margins. The actuary must provide a rationale in the valuation report for any changes to assumptions, including any changes in margins.

### **TERMINATION EXPENSE ASSUMPTION**

Q10: What are BCFSA's requirements regarding the termination expense assumption for solvency valuations?

A10: We have noticed some valuation reports do not provide sufficient explanation or rationale as to when the wind-up of the plan might reasonably occur after the termination date, considering delays in preparing and filing the termination report to BCFSA, receiving approval from the Superintendent, and paying out the benefits. To provide for a realistic manner of settling benefits, the assumed termination date, settlement date, and wind-up date of the plan should not be the same. Stakeholders are encouraged to review [Regulatory Statement 18-001](#) in full detail to comply with this requirement.

### **ADDITIONAL INFORMATION**

If you have any questions, please contact BCFSA by email at [pensions@bcfsa.ca](mailto:pensions@bcfsa.ca) or by phone at (604) 660-3555.

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