Willis Towers Watson

Client Advisory

Québec amends the funding rules for defined benefit multi-jurisdictional pension plans

April 23, 2019

Summary

The final version of the regulation re-introducing solvency funding requirements for defined benefit pension plans registered in Québec that have members in other jurisdictions has been published and will come into force on April 25, 2019, with retroactive effect to December 31, 2018. It requires employers who sponsor such a plan to make special payments if the solvency ratio of the plan is below 75%. Some changes were made compared to the draft regulation that was published last December, especially related to the transition rules. This Client Advisory will be of interest to sponsors and administrators of pension plans registered in Québec that have members in other jurisdictions.

On April 10, 2019, the Québec government published the final version of the Regulation respecting the funding of multi-jurisdictional defined benefit pension plans (Regulation) which re-introduces funding on a solvency basis for defined benefit pension plans registered in Québec that have members in other jurisdictions (Multi-jurisdictional Québec Plans). The Regulation will come into force on April 25, 2019, with retroactive effect to December 31, 2018.

As a reminder, Québec eliminated the requirement to fund pension benefits on a solvency basis effective January 1, 2016, after implementing an enhanced going-concern funding approach. The re-introduction of solvency funding is intended to deal with concerns regarding the asset allocation rules in case of plan termination under the 2016 Agreement respecting Multi-Jurisdictional Pension Plans (2016 Agreement). For more information about such concerns, please consult our Client Advisory dated December 12, 2018. Note that although a number of provinces have not signed the 2016 Agreement, the new measures under the Regulation apply to plans that have members both in Québec and any other province, regardless of whether or not such provinces have signed the 2016 Agreement.

Summary of new solvency funding rules

Under the Regulation, solvency special payments are required for Multi-jurisdictional Québec Plans if the solvency ratio of the plan is less than 75%. This is comparable to the target solvency ratio in Ontario of 85%.

These new rules are effective for actuarial valuations as at December 31, 2018 or later.

The following measures apply to all Multi-jurisdictional Québec Plans except for those plans that are still subject to some solvency funding under separate regulations. In addition, some adjustments apply to negotiated contribution multi-employer plans.

Complete actuarial valuation as at December 31, 2018

Plan administrators of Multi-jurisdictional Québec Plans will be required to file a complete actuarial valuation as at December 31, 2018, unless one of the following two conditions is met:

- The annual notice as at December 31, 2018 confirms that the solvency ratio of the plan is greater than or equal to 75%
- The actuary certifies, in the annual notice as at December 31, 2018, that the contributions required at the date of the latest filed complete actuarial valuation would have been sufficient if the new solvency requirements had applied as at that date.

Where a complete actuarial valuation is required as at December 31, 2018, the report must be filed with Retraite Québec within nine months of the valuation date (i.e., by September 30, 2019), reflecting the new funding requirements. If the report has already been filed with Retraite Québec, it must be amended and resent.

Periodical actuarial valuations

Going forward, the threshold for determining whether an annual valuation is required will continue to be set at a going concern ratio of 90%.

Solvency deficit and amortization period

Solvency special payments will now be required to amortize the solvency deficit over a period of five years. The solvency deficit is defined as the amount by which 75% of solvency liabilities exceeds the solvency assets; the solvency deficit is then reduced to reflect going concern amortization payments to be made over the five-year period.

At each subsequent valuation, previous solvency special payments will be eliminated (i.e., fresh start amortization of solvency deficit at each new valuation).

Letters of credit and employer reserve

Employers can remit a letter of credit to replace solvency special payments determined under the Regulation for a given year. The amount of all letters of credit is subject to the limit of 15% of the plan's going concern liabilities.

Solvency special payments are included in the separate accounting under the employer reserve (e.g. amounts included in the employer reserve can be used first to take employer contribution holidays if the plan has surplus assets and the plan text so provides).

Québec-registered plans with Québec members only

No changes have been introduced for these plans by the Regulation. Solvency funding is not required for these plans.

Next steps

Plan administrators should determine whether they are required to file a complete actuarial valuation as at December 31, 2018. If they are required to do so, the applicable deadline will be September 30, 2019 (with some exceptions, notably for negotiated contribution multi-employer plans).

Plan administrators who are not required to file a complete actuarial valuation as at December 31, 2018 will file the next report based on the usual rules, i.e., once every three years, unless a special event occurs (e.g. annuity buy-out or going concern ratio of less than 90%). However, if the solvency ratio of the plan is less than 75% as at December 31, 2018, special wording will be necessary in the annual notice, due by September 30, 2019, to confirm how the plan is exempted from filing a complete actuarial valuation.

Plan sponsors may wish to contact their Willis Towers Watson consultant to estimate the impact of the new solvency rules on the financial position of their plan and the amount of contributions thereunder. In order to mitigate the potential increase in required contributions, plan sponsors may consider the use of letters of credit or sharing the increase with plan members (as is currently possible for going concern amortization payments).

For more information

This Advisory is not intended to constitute or serve as a substitute for legal, accounting, actuarial or other professional advice. For information on how this issue may affect your organization, please contact your Willis Towers Watson consultant, or:

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