Exploring Pension Policy on Auto-Pilot - New Brunswick, Canada

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September 13, 2019
Overview

1. Background re: Canadian pension landscape

2. New Brunswick’s Shared Risk Plans
   - How did they come about?
   - What are they?
   - Key Design Features
   - Experience to date?

3. Shared Risk/Target Benefit Plans Elsewhere in Canada
Canadian Pension Landscape

- Pension Standards Legislation
  - 9 Provinces
  - Federal
- 3-legged Stool
- Tax Limits
New Brunswick SRPs – How did they come about?

• Task force struck by New Brunswick government to look at pensions in province (private sector and public sector)
• 2012: Changes to New Brunswick’s *Pension Benefit Act* and new Regs
• Plan design option
  ◦ Public/private
  ◦ Simple employer/multi-employer
  ◦ Union/non-union
New Brunswick SRPs – What are they?

• SRP New Plan design – spectrum between DB & DC
  ◦ DB features such as defined benefit formula and risk pooling
  ◦ DC features such as fixed contributions/cost certainty
  ◦ Ability to adjust benefits

• Create anew or convert existing plan

• Several public sector plans converted under new regime
New Brunswick SRPs – Key Design Features

Key Design Features

• Two Classes of Benefits
  ◦ Base Benefits – afforded more protection
  ◦ Ancillary Benefits

• Contributions
  ◦ Fixed (but may vary up or down in a narrow permissible band in accordance with funding policy)

• Target Benefit
  ◦ Ability to adjust benefits in accordance with funding policy
New Brunswick SRPs – Key Design Features (cont’d)

Funding

• Funding policy required – acts as roadmap
• Exempt from solvency funding

Risk Management

• Probabilistic testing
• Asset liability modeling
• Annual valuation and compliance requirements
New Brunswick SRPs – Key Design Features (cont’d)

Administration
• Trustee, board of trustees or non-profit corporation
• Trustees required to act independently of appointing party

Conversion of accrued benefits
• Permissible
• Most contentious element
New Brunswick SRPs – Experience to date?

**Experience So Far**

- Many have granted conditional COLA consistently
- Not aware of any SRPs having to reduce benefits
- One converted plan subject to ongoing litigation in respect of conversion
- Feedback otherwise generally positive
New Brunswick SRPs – Experience to date? (cont’d)

Some challenges

• Accounting treatment
• Actuarial inputs in modeling
• Tax rules
• Communication
• Increased compliance requirements/obligations
Shared Risk/Target Benefit Plans In Canada

Source: digimap.com (c)