Knowledge & Insights

MORNEAU SHEPELL

Special Communiqué

Bill 68: Target Benefit Pension Plans

Bill 68 "An Act mainly to allow the establishment of target benefit pension plans" was tabled in the Quebec National Assembly on October 7, 2020. A number of companies and unions have been waiting several years for this bill, which meets a need by adding a new option to Quebec's existing retirement savings vehicles. Previously, the target benefit plan was only available to a few companies in the pulp and paper industry.

The bill will come into force on the date it receives royal assent.

Target benefit pension plan characteristics

As proposed in Bill 68, a target benefit pension plan (TBPP) falls mid-way between a defined benefit (DB) pension plan and a defined contribution (DC) pension plan.

Some characteristics are the same as DB and DC plans		New
DB	DC	
• Lifetime pensions	• Benefits may be variable	• A target is determined to establish the desired level of benefits at retirement. • Contributions are calculated to ensure there is a strong likelihood the target can be met. • The employer contribution is set in advance and usually remains fixed. • In general, any variability or insufficiency in the level of contributions is borne by plan members and beneficiaries.
• Pooling of investment and mortality risks	• Investment and mortality risks are assumed by plan members	
• Regular actuarial funding valuations	• The expense is equal to the cash outlay on the employer's financial statements	

The bill sets certain restrictions on how the retirement pension can be calculated. It cannot, for instance, be based on the final average salary. Furthermore, the plan cannot provide post-retirement indexing or grant early retirement subsidies based on the member's number of years of service.

Mechanism for recovery in the event of a deficit or insufficient contributions

A full actuarial valuation is required no less than every three years in order to:

- certify the plan's funding level and identify any plan surplus or deficit;
- determine whether the annual current service contribution is sufficient until the next actuarial valuation;
- establish a stabilization provision and its funding (safety mechanism).

In the event that funding is insufficient, recovery mechanisms are as follows.

Note that any reduction in benefits for retirees and beneficiaries cannot be greater than any reduction for active members.

Recovery mechanisms

1. Increase member contributions
2. Increase employer contributions (limited to the maximum set in the plan)
3. Reduce benefits:
   a. Reduce the target benefit for future service; and/or
   b. Reduce the accrued benefits for prior years (including pensions in payment, prospectively)

Mechanism for restoring reduced benefits and improving benefits

Benefits may only be restored when the plan's liabilities plus the value of the stabilization provision are fully funded.

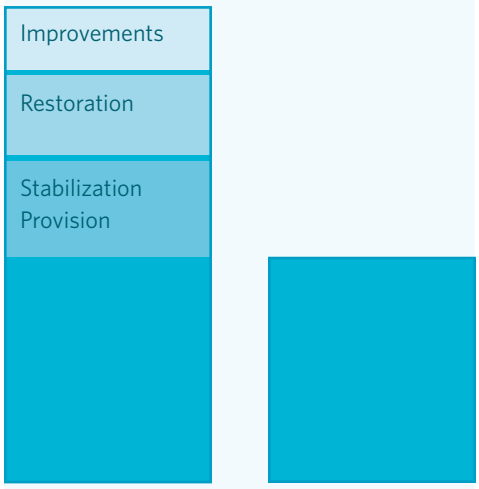
Surplus mechanism

When the stabilization provision is fully funded and the reduced benefits have been restored to the target level in keeping with the above restoration rules, it will be possible depending on the plan provisions, to assign part of the surplus to the reduction of employee contributions or to pay for the cost of a benefit improvement.

Recovery

Active member	Retiree
During an employee's active participation in the plan, the following recovery measures may be applied:	Once the member has retired:
• Promise of a lifetime retirement pension where the **target pension may change** over time	• Payment of a **pension that may vary** over time
• Contributions **may vary** during the member's career	

Benefit restoration and improvements



In a TBPP, only plan members and beneficiaries are entitled to any surplus, unless tax rules require the employer to take a contribution holiday.

> Any recovery mechanism or mechanism for restoring reduced benefits must be clearly spelled out in the plan text. Such a mechanism cannot be at the discretion of the pension committee.

Conversion into a TBPP

Certain plans, such as a DC plan or a negotiated contribution multi-employer pension plan, are eligible for conversion to a TBPP, subject to the rules and conditions set out in the regulations. However, a DB plan cannot be converted into a TBPP.

Note also that a pension plan cannot have both defined benefit and target benefit provisions.

Municipal and university sector

It will be possible to set up a TBPP or a member-funded pension plan (MFPP) in a municipality or university, subject to certain modifications, including limiting the employer contribution to 55% of the total contribution.

Other Bill 68 provisions

In addition to establishing the TBPP, Bill 68 also contains provisions for the following:

- A pension plan that has DC provisions, or a voluntary retirement savings plan (VRSP), is allowed to establish a variable payment life annuity (VPLA) fund. The purpose of this is to extend the decumulation options for such plans and allow them to offer retirees the option of a variable payment lifetime annuity paid from the plan itself. VPLAs were announced in the 2019 Federal Budget, as discussed in the March 2019 *News & Views*.
- The solvency ratio used for the payment of the value of benefits from a DB plan or a TBPP may be established more often than once every plan year, in keeping with the conditions set out in the regulations.

Conclusion

Given the declining interest in DB plans in recent years and the fact that in DC plans the financial risk is borne entirely by members, the TBPP could be an attractive solution in some situations.

The bill will be reviewed by a parliamentary committee before it is adopted. Interested parties are invited to submit their comments.

Contact your Morneau Shepell consultant if you wish to discuss this bill in more detail.

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