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Client Advisory

Major amendments to Manitoba defined benefit pension plan funding now in place

January 20, 2022

Summary

Effective December 20, 2021, Manitoba has implemented major funding changes for defined benefit pension plans. They include only requiring a plan to fund a solvency deficit for a solvency ratio below 85%, introducing a provision for adverse deviation for going concern funding, and enabling plans to establish solvency reserve accounts.

Material changes to the funding framework for defined benefit pension plans registered in Manitoba came into effect on December 20, 2021. The changes are set out in amendments to the regulations under Manitoba's *Pension Benefits Act* (PBA). Related amendments to the PBA that allow for solvency reserve accounts are also effective December 20, 2021.

These amendments complete a process of solvency funding and other reforms that began with a consultation in 2018. Significant reform of solvency funding rules has also occurred in Québec, Ontario, British Columbia, New Brunswick, and Nova Scotia. Various other amendments to the PBA and regulations came into effect on October 1, 2021 (see our September 1, 2021 Client Advisory (English/French)).

Solvency funding

Like several other jurisdictions, Manitoba now only requires an employer to fund the portion of a solvency deficit that falls below 85%. Previously, the employer was required to fund the entire solvency deficit. The five-year period for amortizing a solvency deficit does not change; however, the amortization period will be reset at each valuation date. As well, the threshold that determines whether the next actuarial valuation is required in one year or three years drops to a solvency ratio of 85% from the previous 90%.

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Going concern funding

There are several changes that enhance going concern funding. One significant change is the requirement to include an explicit margin in going concern funding, which is known as a provision for adverse deviation (PFAD) amount. The PFAD is added to the going concern liabilities to determine what must be funded on a going concern basis. The PFAD required for a specific plan is derived from the formula specified in the regulations. Under that formula, the minimum PFAD is 5% of the going concern liabilities (excluding any liabilities transferred out by means of an annuity buy-out or hedged under an annuity buy-in). The PFAD could increase to as much as 22% depending on the fund's target asset allocation set out in the Statement of Investment Policies and Procedures. A plan with a higher allocation of return seeking assets will have a higher PFAD.

No PFAD is required for a plan exempt from solvency funding (i.e., public sector and specified non-profit sector pension plans) or for specified multi-employer plans or multi-unit plans.

Manitoba's PFAD requirements are similar to those of Ontario. There are, however, some differences. For example, Manitoba's PFAD only applies to going concern liabilities and not to normal cost (though this particular requirement aligns with some of the other provinces that have introduced funding reform). Another difference from Ontario is the absence of a benchmark discount rate requirement (i.e., an additional PFAD amount if the going concern discount rate exceeds a benchmark based on current Government of Canada bond yields and the plan's asset mix).

The maximum amortization period for a going concern unfunded liability also changes, shortening from 15 years to 10. However, plans exempt from solvency funding still have a 15-year amortization period. As with solvency funding, the amortization period will be reset as of the effective date of each actuarial valuation.

Contribution holidays

An employer participating in a plan that is not exempt from solvency funding is permitted to apply surplus towards employer or member required contributions (i.e., toward a "contribution holiday") provided that the plan remains fully funded on a going concern basis (including the PFAD) and maintains a solvency ratio of at least 105%. This is an expansion of the previous requirement that did not include a PFAD as part of the going concern test.

For plans exempt from solvency funding (e.g., public sector plans), an employer can take a contribution holiday if the plan is at least 105% funded on a going concern basis (which does not include a PFAD) and remains fully funded on a solvency basis. The 105% going concern funding is a new requirement.

Benefit improvements

A benefit improvement will not be permitted if the plan's solvency ratio after the improvement is reduced to less than 85%. Presumably an employer would be able to remit a top-up contribution to satisfy this test, though the regulations do not specifically address this. A pre-existing restriction on benefit improvements of a plan exempt from solvency funding that would reduce the solvency ratio below 90% remains in place.

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Solvency reserve accounts

The amendments to the PBA and regulations now allow an employer to establish a solvency reserve account (SRA). An SRA is a separate account within a pension fund to which the employer can remit solvency deficiency payments. The administrator can refund all or a portion of the assets in the SRA to the employer provided the plan remains fully funded on a going concern basis (including the PFAD) and maintains a solvency ratio of at least 105%. The administrator would not need to demonstrate entitlement to surplus based on historical documentation or by obtaining member consent.

An amount left in an SRA when a plan is terminated or wound up can also be refunded to the employer.

Disclosure requirements

The information an administrator must disclose in an annual member statement is expanded to address some of the changes to defined benefit funding set out above, including:

- A statement that special payments will only be required if the plan's solvency ratio is less than 85%
- The balance in any SRA and any amount that was withdrawn from the SRA during the plan year
- The amount of any surplus that was applied towards required employer or member contributions

Conclusion

These new defined benefit funding rules will have a major impact on the funding of Manitoba-registered defined benefit pension plans. They will help stabilize employer contributions over the medium- and longer-term; however, unlike Ontario, there are no rules to ease the transition in cases where the new funding rules require greater contributions. The impact on a specific plan will depend on its particular financial position and the risk profile of its investments. Administrators should review their plan's funding position and asset allocation to determine the impact of the funding reform.

For more information

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