Briefing
Compliance News Affecting Pension Plans
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News from Alberta

Alberta Amends Calculation of Provision for Adverse Deviations That Applies to Target Benefit Plans

On June 20, 2024, the Government of Alberta amended the *Employment Pension Plans Regulation* (the Regulation) to change the calculation of the Provision for Adverse Deviation (PfAD) in relation to target benefit plans (TBPs).

Background

Target benefit plans in Alberta are required to fund an additional margin on top of the plan's annual normal cost. This provision, expressed as a percentage, is known as a PfAD.

Additionally, plans may not improve past benefits unless the PfAD as applied to the going concern liabilities is fully funded following the benefit improvement.

Prior to the change in the Regulation, the PfAD was determined as the sum of two percentage components:

1. One based on the plan's target asset mix; plus
2. Another based on the plan's going concern discount rate, which would be included only if the discount rate exceeded a market-based benchmark discount rate defined in the Regulations.

The result was a PfAD that, depending on current market conditions, could vary significantly from month to month.

What has changed?

Under the new methodology, the PfAD will be determined as the sum of:

- 7.5 percent
- A supplementary percentage

The method used to determine the supplementary percentage must be documented in the plan's funding policy.

The PfAD is a risk management tool to help trustees achieve the plan's long-term objective. Trustees should consider the following when determining the supplemental percentage:

- The plan's equity allocation
- Asset or liability mismatch in the investment policy
- The plan's demographics
- The plan's going concern discount rate

The level of PfAD determined for a plan is subject to the Superintendent's review in accordance with Section 38(1) of the *Employment Pension Plans Act.*

Regulatory requirements

Actuarial valuations filed on and after June 20, 2024 are expected to reflect the new PfAD definition. However, plans will also be permitted to file under the old rules provided there are no benefit improvements reflected in the actuarial valuation.

Additionally, trustees must update their funding policy to document the rationale and method for determining the PfAD.

- Rationale. The determination of the PfAD must reasonably follow the plan's funding policy objectives, risks and other plan specific considerations.
- Method. The funding policy must explain the process used to determine the level of PfAD. Examples of a method include a fixed PfAD or a quantitative method where the PfAD may vary.

Next steps

Trustees and their advisors should immediately begin work on developing an appropriate methodology for their plan's PfAD and reviewing the plan's long-term funding objectives. In addition, funding policy documents will need to be updated to reflect these changes.

Segal can be retained to work with the Board of trustees on reviewing the plan's long-term objectives and determining the appropriate level of PfAD for your plan. For assistance or if you have questions about the regulations and the law, contact your Segal consultant or get in touch via our website.