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Quebec legislation introduces target benefit plans, updates degree of solvency calculation

This *FYI* discusses Quebec Bill 68, an Act mainly to allow the establishment of target benefit pension plans (Bill 68), which was introduced on October 7, 2020 and has been referred to the Committee for Public Finance. If enacted, Bill 68 would implement a number of pension reforms, including ones relating to target benefit plans, the calculation of a plan's degree of solvency, and the use of variable payment life pensions.

Bill 68 overview

If passed, Bill 68 will amend the *Supplemental Pension Plans Act* (SPPA) to:

- Enable the establishment of target benefit pension plans (TBPPs);
- Allow both defined benefit (DB) plans and TBPPs to establish their degree of solvency for the purpose of member benefit payments at intervals shorter than the plan's fiscal year; and
- Give both pension plans with defined contribution (DC) provisions and voluntary retirement savings plans (VRSPs) the ability to offer members variable payment life pensions (VPLPs).

TBPP provisions

Bill 68 defines a TBPP as "a plan under which employer contributions, or the method used for calculating them, and the benefit target are set in advance." Employer contributions to a TBPP are limited to those set out in the plan, with members and beneficiaries paying the balance. In the event that contributions are insufficient to fund promised benefits, TBPP benefits may be reduced. The documents that create and support a TBPP must address a range of matters listed in Bill 68, including the benefit target, the recovery measures to be taken in the event of insufficient contributions, and the procedure for restoring reduced benefits.

Special provisions apply to:

- The conversion of certain multi-employer pension plans (MEPPs) to TBPPs,
- Certain TBPPs in the pulp and paper sector, and
- TBPPs and member-funded plans in the municipal and university sectors.

Detailed rules and requirements for TBPPs will be contained in upcoming regulations.

Degree of solvency

Currently, section 143 of the SPPA requires that member benefit payments (subject to certain exclusions, such as AVCs and transferred amounts) are to be paid in proportion to a plan’s degree of solvency. This degree of solvency is currently established as of the last actuarial valuation report sent to Retraite Québec (RQ). Bill 68 proposes that the degree of solvency to be used by DB plans and TBPPs is the one determined at the most recent of the following:

- The last actuarial valuation report sent to RQ,
- The date of the report on the plan’s financial position sent to RQ pursuant to section 119.1 of the SPPA,
- The report prepared following the withdrawal of an employer from a MEPP pursuant to section 202 of the SPPA, and
- “According to the intervals shorter than a fiscal year provided for in the plan in accordance with the rules prescribed by regulation.”

Additional information, in the form of regulations, is required to determine the circumstances under which the final interval option can be used.

Variable Payment Life Pensions (VPLPs)

Bill 68 adds new Division III.2, Variable Payment Life Pension, to the SPPA. This division allows pension plans with defined contribution (DC) provisions to offer VPLPs to an inactive member, or to a member’s surviving spouse. A VPLP will be paid out of all or part of the member’s DC account balance, which must be paid into a variable life pension fund (a variable payment LIF) meeting requirements to be set out in regulations. Note that a plan that pays VPLPs cannot be considered a DB plan or a TBPP, although it is possible for some VPLP provisions to be applied to TBPPs by regulation.

Bill 68 also contains amendments to the *Voluntary Retirement Savings Plans Act* to allow VRSPs to offer VPLPs to eligible plan members and their spouses.

Most of the details regarding the nature and operation of VPLPs will be contained in upcoming regulations. These regulations will address matters such as establishing the amount of the VPLP that may be purchased and increasing or decreasing the VPLP amount.

Other measures

In addition to the items discussed above, Bill 68 also contains measures that will:

- Amend the *Act respecting the Québec Pension Plan* to credit periods during which a person receives the supplement for handicapped children under age 18 requiring exceptional care;
- Give RQ the power to make regulations regarding “certain measures to mitigate the consequences of the state of emergency related to the COVID-19 pandemic”; and
- Make various technical and consequential legislative amendments.

Next steps

Pension plan sponsors could review the pros and cons of TBPP and decide whether this new pension plan design would be a better fit for their organizations.

DC pension plan sponsors who opt not to convert their plan into a TBPP may then want to consider adding the VPLP provisions to their pension plans.

For more information on Bill 68 and its impact on your organization, talk to your Buck consultant or contact the Knowledge Resource Centre at talktocanada@buck.com or +1 866 355 6647.

For the latest from Buck about the COVID-19 crisis, please refer to: https://buck.com/ca/expertise/covid-19-key-considerations-for-employers/.

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