Interpretive Guideline #22

Provision for Adverse Deviation

Introduction

This guideline explains changes to the PfAD (provision for adverse deviation) in relation to a target benefit component, as required under the *Employment Pension Plans Act* (the Act) and Employment Pension Plans Regulation (the regulation). This guideline summarizes the legislative requirements that apply to the subject matter and includes, as applicable, additional details outlining the Superintendent of Pensions' (Superintendent) expectations and requirements where such authority has been provided by the Act and regulation. Finally, the guideline outlines best practices and policies that the Superintendent expects from provincially regulated pension plans.

The Act and regulation should be used to determine specific legislative requirements. Any legal authority of this guideline rests in the areas in which the legislation delegates authority to the Superintendent to accept a proposal or action.

What's New

The Government of Alberta amended the regulation to update the definition of PfAD applicable to pension plans with a target benefit provision registered in Alberta. For this guideline, a target benefit plan (TBP) is defined as a pension plan with a target benefit provision.

This guideline sets out the Superintendent's expectations with respect to developing and documenting the PfAD for TBPs. The Superintendent expects the plan's funding policy, as well as all actuarial valuation reports filed after June 20, 2024, will reflect the new PfAD definition.

The PfAD was amended by order-in-council 181/2024. The new PfAD is the sum of two components:

- 7.5 per cent; and
- a supplementary percentage.

The method for identifying the supplementary percentage must be documented in the funding policy.

Regulatory Expectations

The PfAD provides a minimum buffer intended to promote benefit stability. It is one of the primary risk management tools available to TBP administrators to better achieve the plan's long-term funding objectives.

The Superintendent may assess the appropriateness of the PfAD of a TBP relative to this guideline and the regulation. Further, the PfAD, as one of the components of the actuarial valuation report, must be satisfactory to the Superintendent in accordance with Section 38(1) of the Act.

Administrators must clearly document how the PfAD is appropriate to achieve funding expectations, and to manage the risks identified in the funding policy established under section 44 of the Act. The Superintendent expects the rationale and the method/approach for identifying the PfAD be well-documented for transparency in the decision-making process.

- **Rationale:** the PfAD must reasonably follow from the plan's stated objectives, risks, and other plan-specific considerations. There should also be a sound explanation of how these factors lead to the intended method for identifying the PfAD.

- **Method**: in establishing risk management strategies, administrators must explain the process that identifies the PfAD. Examples of the method or approach include, but are not limited to, the following:
    - a fixed PfAD;
    - a quantitative method where the PfAD may vary; and

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- a qualitative approach that explains the decision-making process for determining the PfAD.

In the opinion of the Superintendent, the supplemental percentage must be sufficient and reasonable to manage the material risks and ensure the stability of the plan. The Superintendent may ask for additional documentation to support the supplemental percentage. Factors to consider in determining the PfAD are:

- equity allocation of the plan’s fund;
- asset or liability mismatch in the investment policy;
- demographic profile of the plan; and
- discount rate used.

Legislative Requirement

In addition to the fixed 7.5% provided in section 2 of the regulation, the supplementary percentage must be equal to or greater than 0%. The supplementary percentage is an amount the reviewer identifies as appropriate to achieve funding expectations described in the funding policy. Under the Act and the regulation,

1. The administrator must ensure the contractually required contributions of participating employers are sufficient to cover the plan’s normal actuarial cost plus PfAD, as applied to the normal actuarial cost, and any unfunded liability payments; and
2. the administrator may not improve accrued benefits unless the PfAD, as applied to the going concern liabilities, is fully funded and remains so immediately following the benefit improvement.

Section 44 of the Act provides that the administrator of a pension plan with a benefit formula provision must ensure a written funding policy is established that meets the prescribed criteria respecting funding objectives and the intended method for achieving those objectives. The policy must include the items set out in Section 55 of the regulation and the intended method for achieving them.

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