Report on Pension Plans

Registered in British Columbia

OCTOBER 2023

BCFSA

CLASSIFIED: PUBLIC

Contents

1. Message from the Superintendent of Pensions

On behalf of BCFSA, I am pleased to present our annual report on pension plans registered in British Columbia. In this report, we discuss various matters of note including the trends identified in the data we collected and our recent guidance on B.C. pension legislation.

BCFSA's mandate is to ensure the safety and soundness of B.C.'s financial services sector and protect consumers as they interact with the sector. In the pensions segment, this involves supervising over 600 pension plans in the province. We work to ensure plan administrators adhere to pension regulations, safeguard the assets and the rights of plan members, and maximize benefit security for current and future retirees.

Part of fulfilling that mandate is transparency. Every year, BCFSA collects data from all registered pension plans and summarizes it in a public report. Plan administrators and their advisors may find this useful to review trends or see how their plan compares to the broader segment.

The year 2022 was eventful for the pension landscape. Investment returns were lower, depressed by geopolitical events and rising interest rates. This posed a challenge for British Columbians with defined contribution accounts, particularly those who were approaching retirement. On the other hand, the rising rates generally improved the funded status for most defined benefit plans.

In the most high-profile change to the pension legislation in 2022, the provincial government amended the Pension Benefits Standards Regulation to reform the way target benefit plan administrators set their funding margin. BCFSA engaged stakeholders in extensive discussions on this topic in the years leading up to this change.

Since I took over as the Superintendent of Pensions, BCFSA has been busy. We have enhanced our risk-based process, modernized our technology, fine-tuned our regulatory framework, and continued to consult with stakeholders on important issues. I take pride in what we have accomplished and look forward to implementing the priorities set in our Regulatory Roadmap as we move forward.

Our approach to supervision of pension plans continues to focus on early identification of risk, intervening when required, and allocating resources to plans with the highest risk profile. We are working diligently as the modern, effective, and efficient financial services regulator that British Columbians need.

Blair Morrison
Superintendent of Pensions
Chief Executive Officer
BC Financial Services Authority

2. 2022 Highlights

RISING
interest rates and a persistent inflationary environment created challenges across the economy.

RISING
commodity prices and a partial recovery in tourism boosted the value of exports from B.C.

INCREASED
rates of pay and other economic gains led to a rise in contributions for most pension plans.

INCREASED
contributions to target benefit plans boosted inflows by 9.4 per cent to $565 million in 2022.

INCREASED
pension plan membership, although mergers and windups led to a decline in the number of pension plans.

CONTINUED
shift toward private investments and away from publicly traded assets (although those remained core holdings).

FALLING
stock and bond prices led to lower investment returns for most pension plans.

4%

NEGATIVE
investment returns caused the total value of pension assets to fall by four per cent in the year.

FULLY FUNDED
for the first time in decades, 24 pension plans were able to improve member benefits.

Common abbreviations

BC Financial Services Authority ("BCFSA")

Defined contribution ("DC")

Target benefit ("TB")

Defined benefit ("DB")

As of December 31, 2022, there were 631 pension plans registered in B.C. benefitting approximately 1,251,000 members including pensioners and inactive members. A year earlier, there were 636 plans with approximately 1,210,000 members.

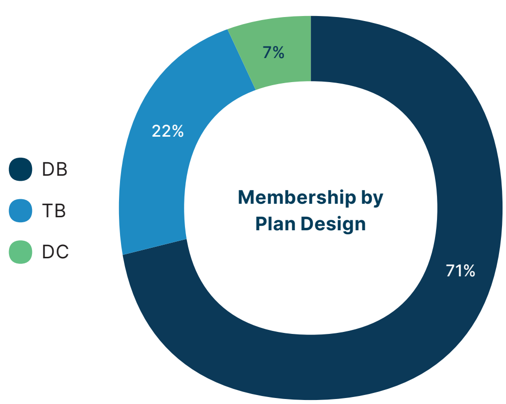
TOTAL ASSETS $204.6 billion
631 pension plans
1,251,000 members

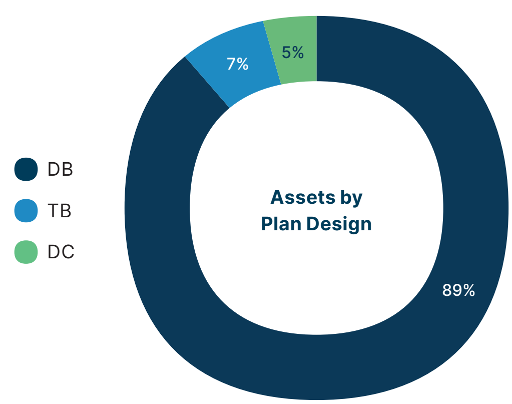
DC $9.5 billion
455 DC plans
90,100 members

TB $14.0 billion
36 TB plans
274,700 members

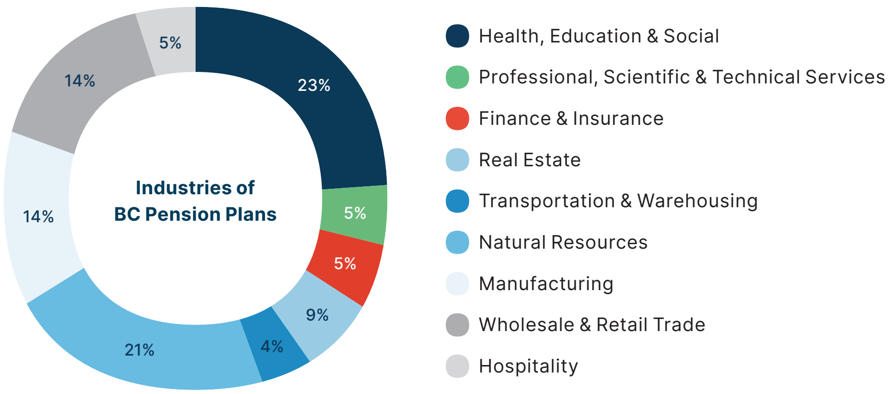
DB $181.1 billion
140 DB plans
886,000 members

The total number of pension plans continued to decline due to mergers and windups. However, plan membership grew by three per cent in 2022.





Plan members were employed in a broad range of industries throughout B.C.



3. DC Pension Plans

Falling stock and bond prices led to lower investment returns for most pension plans in 2022.

Members with DC pension accounts were most affected because investment risks and returns are not shared across generations in the design of defined contribution pension plans. The impact also varied depending on the types of investments. Members set the investment strategy for their account in almost two-thirds of DC plans registered in B.C.

DC Plan Membership

In 2022, the total number of members enrolled in a DC plan increased by 4.6 per cent year over year.

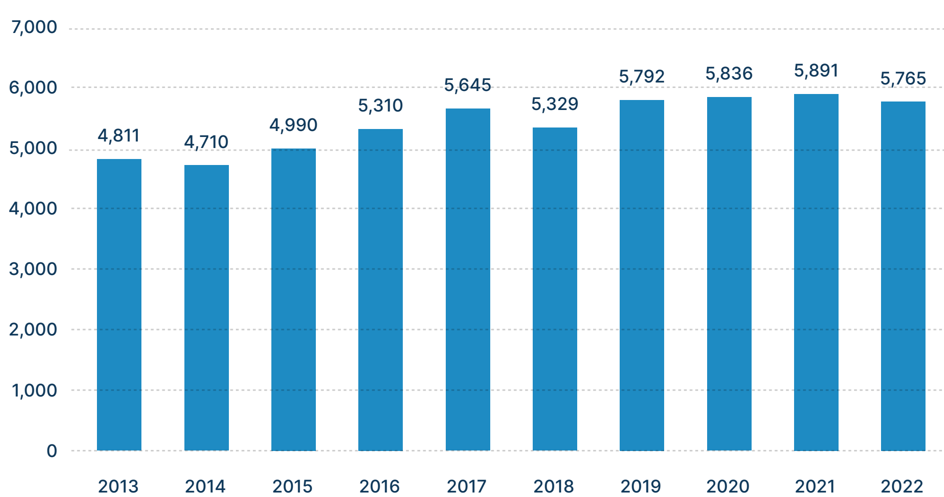
As at December 31, 2022, a total of 455 DC pension plans were registered in B.C. In 2022,

- three DC plans transferred to another jurisdiction;
- seven plans closed; and
- nine new plans were registered.

DC Plan Contributions

Contributions per member have been reasonably stable over the past four years. In 2022, the combined employee and employer contributions fell slightly to an average of $5,765 per active member because contributions did not keep up with the growth in active membership.

Average DC Contributions per Active Member ($)

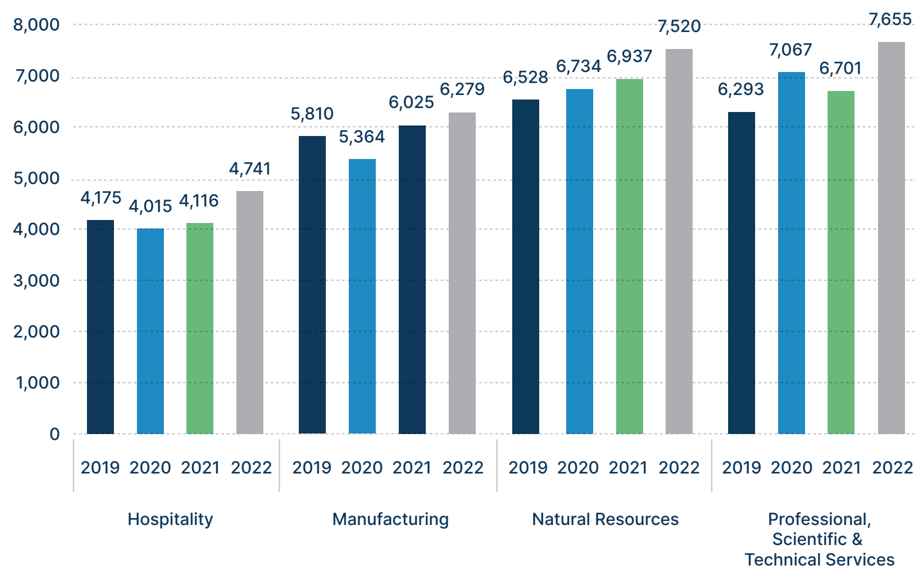


Total aggregate contributions to DC pension plans rose by 10 per cent in 2022, boosted in part by a 14 per cent increase in voluntary contributions made by members. As was the case the year before, employers contributed 64 per cent of the total amount deposited into DC plans in 2022.

Contributions to DC Plans ($Millions)				
Contribution Category	2019	2020	2021	2022
Employer	$337.3	$331.4	$326.5	$356.9
Member Required	$157.8	$154.7	$152.1	$167.3
Member Voluntary	$33.5	$33.3	$33.2	$37.8
Total	$528.7	$519.4	$511.8	$562.0

Pension contributions for those working in the hospitality sector increased 15 per cent in 2022. Contribution growth was also relatively high for plans in professional, scientific & technical services, where the increase was 14 per cent in the year.

Average DC Contributions per Active Member, Selected Industries ($)



4. DB and TB Pension Plans

DB Plan Membership

Most DB plan members participated in one of a handful of very large plans. The six largest DB pension plans in B.C. each had over $4 billion in assets and over 15,000 members. Smaller plans continued to merge into a few of these large plans, seeking efficiencies of scale and reduced administrative burden. Half of the DB plans that closed in 2022 transferred members to another pension plan before winding up. As such, multi-employer plans accounted for 89 per cent of DB plan membership.

DB Plan Membership on December 31, 2022

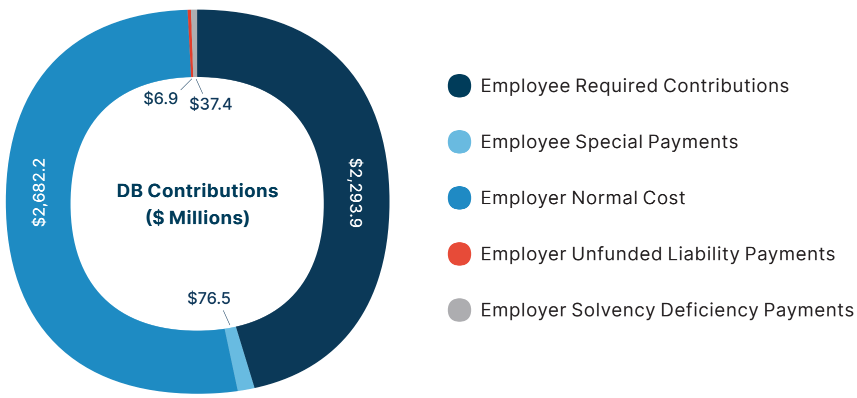
Plan Membership	Number of Plans	Total Membership	Members in Multi-employer Plans
Fewer than 1,000	107	18,100	200
1,000-4,999	21	49,200	6,100
5,000-9,999	5	36,600	15,900
10,000 or more	7	782,100	766,400
Total	140	886,000	788,600

DB plan membership rose 3.7 per cent in 2022 even though B.C. had four fewer DB plans than a year earlier. Just under half of DB plan members were active and continued to earn benefits, while the remaining members were retired or had deferred benefits.

DB Plan Contributions

Most plans were fully funded as at December 31, 2022.

Only one per cent of total contributions to DB plans in 2022 were with respect to unfunded liabilities or solvency deficiencies. Over $5 billion in contributions were made with respect to the benefits earned in 2022.



Benefit payments exceeded contribution inflows as has been the case for most DB plans for more than a decade.

DB plans registered in B.C. paid over $7.2 billion in pensions and transfers to members in their most recent fiscal year.

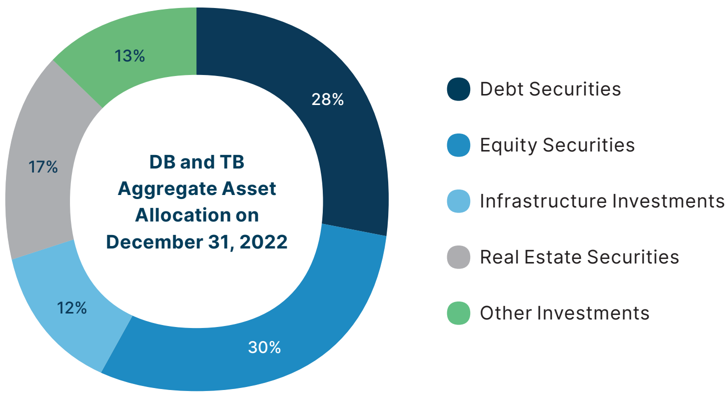
In comparison, TB plans paid $638 million in pensions and transfers.

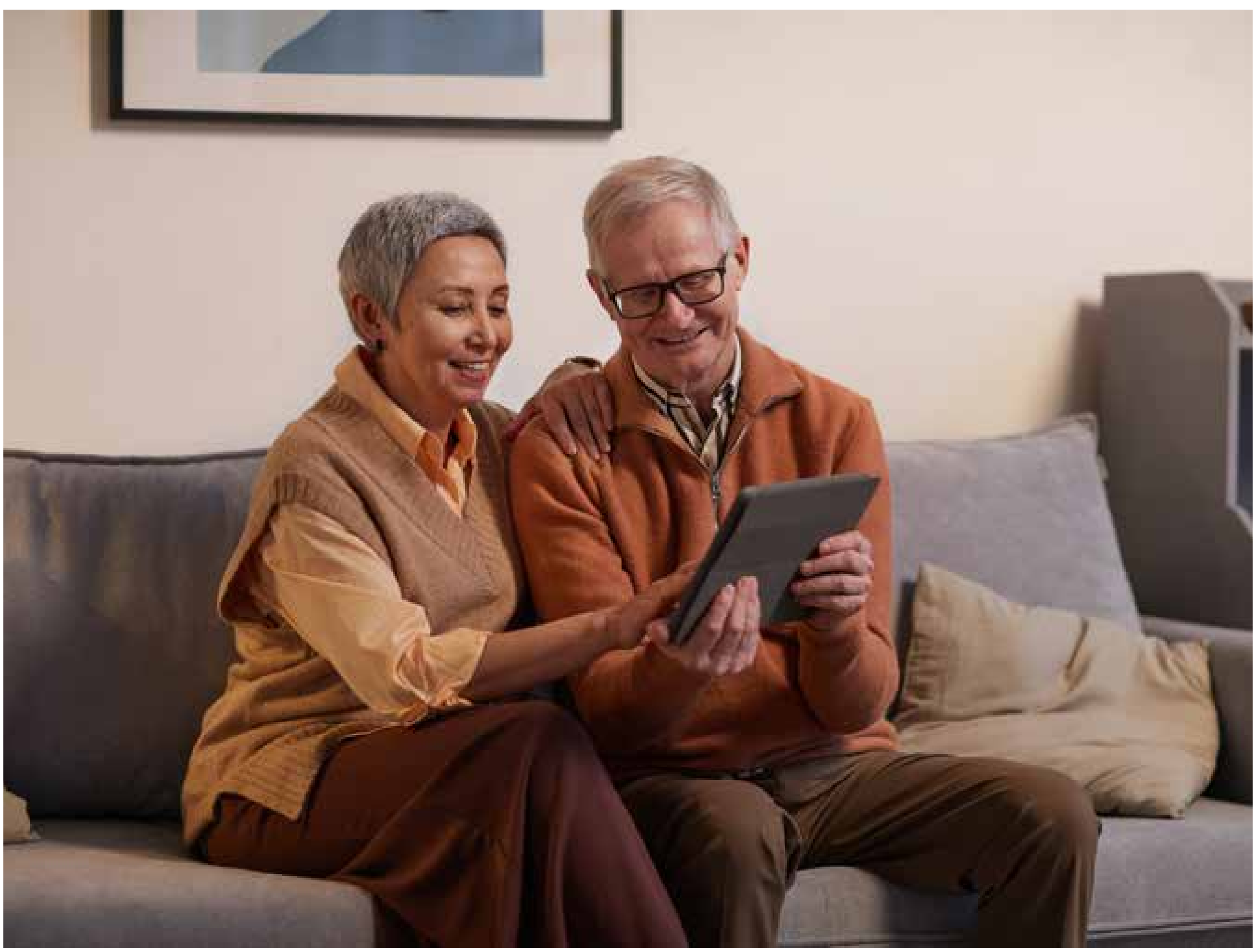
Regarding cash outlays, the table below summarizes the average expenses for the year – excluding investment and custodial fees – reported by DB and TB plans.

Average Non-Investment Expenses per Member ($)		
Plan Membership	DB Plans	TB Plans
Fewer than 1,000	658	619
1,000-4,999	214	178
5,000-9,999	124	141
10,000 or more	184	97

INVESTMENTS

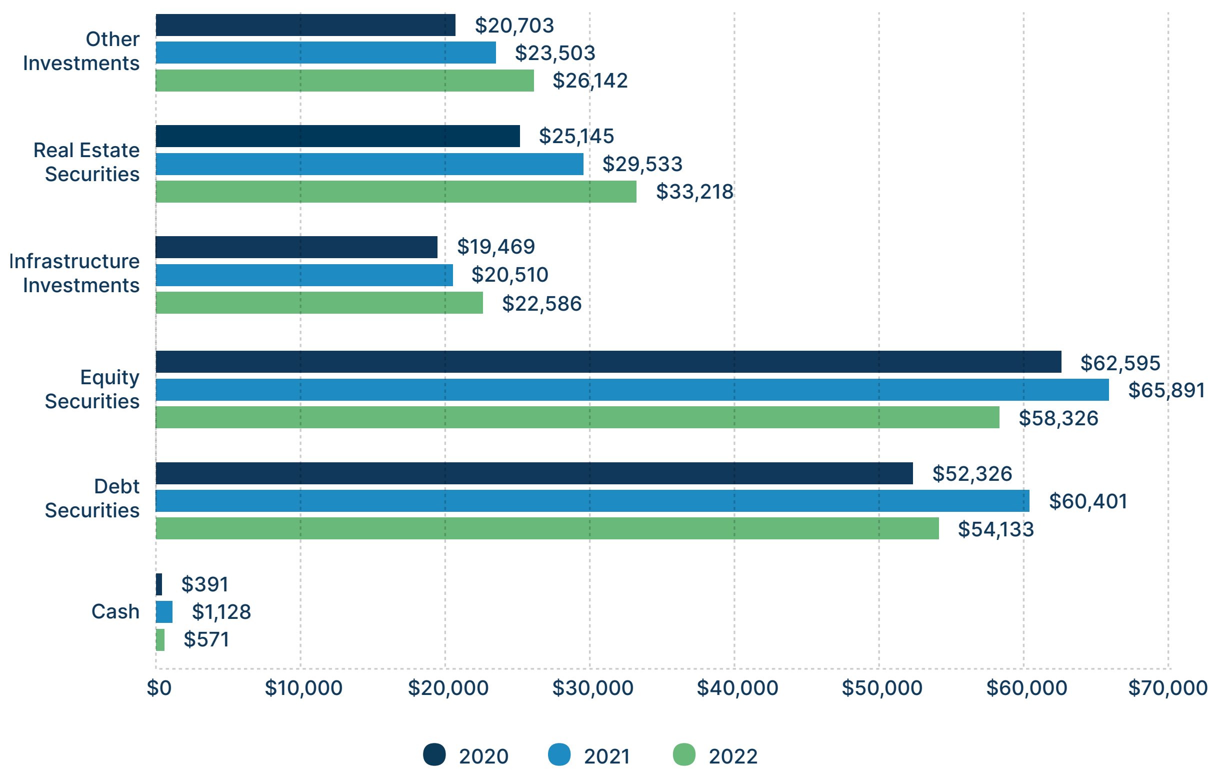
A plan's investment strategy is important given that most plans would be cashflow negative before including investment returns. Many plans continued to shift their target allocations toward private investments and away from publicly traded assets, although those assets remained core holdings.





Pension funds with assets of less than $2.5 million, plans with fewer than 50 total members, and DC plans are not required to file a breakdown of cashflows nor asset mix information. As a result, the asset allocation and cashflow analysis in this report excludes those plans. For the 128 pension funds that did submit detailed financial information to BCFSA last year, changes to their actual asset mix, in aggregate, are shown below.

DB and TB Aggregate Assets on December 31 ($Millions)



The total value of debt and equity securities held in B.C. pension funds dropped sharply during the year. High inflation led to rising interest rates and depressed stock and bond prices. In contrast, real estate investments continued to increase, with 2022 holdings up 12 percent year over year to $33.2 billion (compared to $19.2 billion in 2017 and $29.5 billion in 2021). Similarly, aggregate infrastructure holdings increased 10 per cent compared to the previous year.

TB Plan Membership

Approximately one in five B.C. pension plan members belonged to a TB plan as at December 31, 2022.

Over 76 per cent of those members belonged to one of the eight largest TB plans.

TB Plan Membership on December 31, 2022

Plan Membership	Number of Plans	Total Members
Fewer than 1,000	10	5,500
1,000-4,999	15	38,400
5,000-9,999	3	20,400
10,000 or more	8	210,400
Total	36	274,700

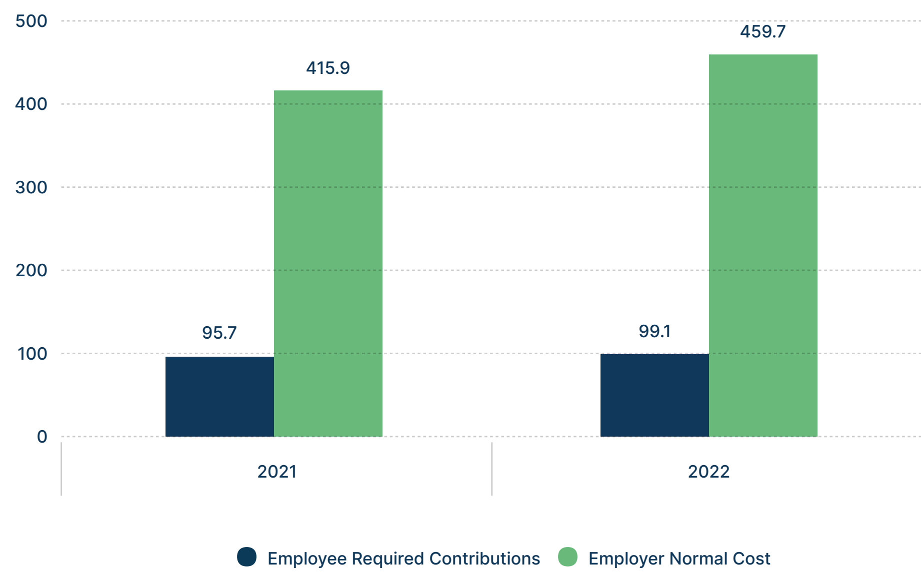
TB plan membership was younger than that of DB plans. The average age of the total TB membership was 52, compared with 61 for DB plans. Most TB plans had a growing proportion of pensioners and relied on investment gains to make up for the fact that pension payments and expenses exceeded contributions.

The number of TB plans in B.C. has been stable in recent years. In 2022, there were no new or terminating TB plans. In 2021 a merger between TB plans was balanced by a plan converting from DC to TB. All but one of the TB plans registered in B.C. is a multi-employer plan.

TB Plan Contributions

Contributions to TB plans rose 9.4 per cent in 2022 to $565 million.

TB Contributions ($Millions)



TB pension plans registered in B.C. spent a smaller amount of their contributions on funding legacy benefits. Given that most plans are fully funded, only 0.1 per cent of the contributions into TB plans last year were used to amortize unfunded liabilities. On the other hand, the cost of future accruals increased from $511.6 million in 2021 to $558.8 million in 2022, excluding the optional and additional contributions that employees chose to make.

FUNDED STATUS

Inflation peaked in 2022. In response, the Bank of Canada dramatically raised the target for its overnight lending rate from 0.25 per cent to 4.25 per cent. The bond yields that are used to set interest rates for solvency valuations rose in turn. As a result, the commuted value discount rate for unindexed benefits for December 2022 rose to 4.1 per cent for the first 10 years and 4.5 per cent per annum thereafter, up sharply from that of 2020.

Solvency Interest Rates (non-indexed benefits)[1] as of December 31

	2018	2019	2020	2021	2022
Commuted Value	3.2%/3.4%	2.4%/2.5%	1.4%/2.9%	2.3%/3.4%	4.1%/4.5%
Annuity Purchase	3.23%	2.96%	2.50%	2.86%	4.91%

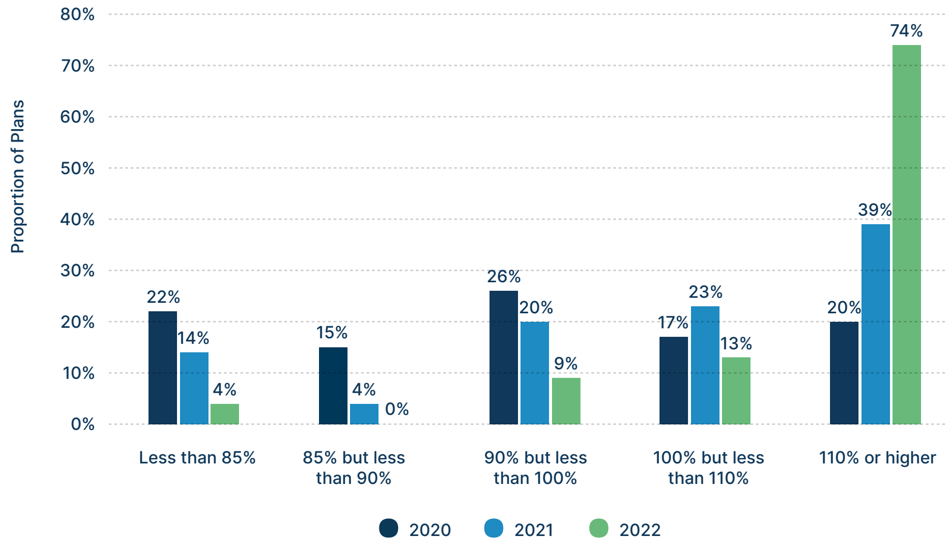
For the first time in 20 years, most plans were fully funded at year end due to those higher rates. BCFSA's projections[2] estimate that approximately 87 per cent of benefit formula plans were fully funded on a solvency basis at the end of 2022.

In aggregate, DB plans were better funded on a solvency basis than TB plans, which is to be expected given the latter have never been required to fund on a solvency basis. Only four per cent of DB plans were estimated to have a solvency funded ratio below 85 per cent, according to BCFSA's projections. As of June 2023, only two DB plans continued to use a letter of credit to meet part, or all, of their solvency funding requirements.

1 Based on guidance from the Canadian Institute of Actuaries. For calculation of a commuted value (lump sum payment), the first interest rate applies to the first 10 years after the calculation date and the second interest rate applies to subsequent years. The annuity purchase rate shown is for an illustrative block with medium duration.

2 The funding analysis provided in this section is based on the projected funding position of all benefit formula plans. It uses the actual data if a given plan filed a valuation for the year shown, or a projection if it did not, so that all plans can be compared at the same date. The figures exclude the largest public sector pension plans that do not fund on a solvency basis.

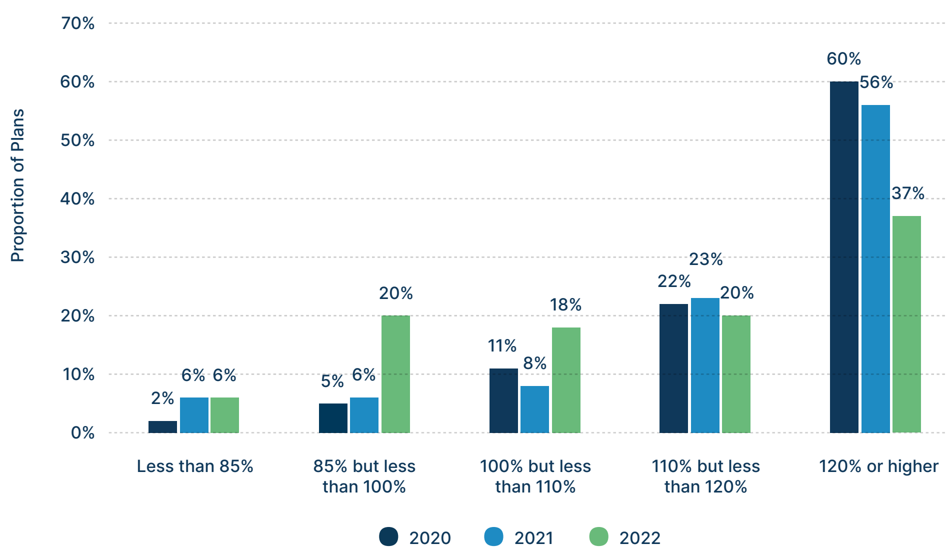
Solvency Funded Ratio – DB Plans



TB plans fared almost as well. BCFSA estimates that 85 per cent of TB plans were fully funded on a solvency basis at the end of 2022.

On the other hand, the aggregate funded status on a going concern basis was lower than in 2021 because of declines in asset values. Given that going concern discount rates are more stable (as they are based on best estimates of long-term investment returns), rising bond yields did not reduce going concern liabilities to the extent seen on a solvency basis. Nonetheless, most plans were also fully funded on a going concern basis.

Going Concern Funded Ratio – DB Plans



Being fully funded enabled 24 plans to improve benefits for the first time in decades.

Ten TB plans and 14 plans with a DB component improved benefits, supported by actuarial reviews with dates ranging from December 31, 2021 to December 31, 2022.

Given the improved funded status and more attractive annuity pricing, several plan administrators purchased annuities to cover benefits owing to pensioners or former members. Those benefits now are protected by additional coverage. In the unlikely event of the insurance company failing, annuity income is covered by Assuris, an independent, not-for-profit, industry-funded compensation organization. In May 2023, Assuris announced increased protection on annuity income. Those members whose pension benefits are annuitized and provided by an insurance company now have Assuris coverage up to the greater of $5,000 or 90% of the members' monthly pension benefits.

WIND UP EXPENSE ASSUMPTIONS

For each DB and TB plan that continued to be registered with BCFSA, the average windup expense that was assumed for the most recently filed valuation report is shown below. This analysis excludes those plans for which the employer pays the fees.

Average Assumed Wind-up Expense

Plan Membership	Number of Plans	Average Expense per Plan ($)	Average Wind-up Expense per Member ($)
Fewer than 100	55	82,800	2,186
100-499	45	226,700	932
500-999	9	425,700	583
1,000-4,999	32	923,800	417
5,000-9,999	7	1,252,400	174
10,000 or more	8	4,386,300	136

5. BCFSA Guidance and Legal Updates

BCFSA issues Regulatory Information such as Guidelines, Advisories, and Regulatory Statements on its website. This section summarizes recent releases as well as related amendments to the legislation.

BCFSA oversees the administration and enforcement of the *Pension Benefits Standards Act* ("*PBSA*") and the Pension Benefits Standards Regulation ("PBSR"). The *PBSA* and PBSR apply to individuals employed in B.C., apart from those in federally regulated industries who are covered under federal pension legislation. B.C. residents who participate in pension plans registered in other provinces are also protected under the *PBSA* and PBSR.

This legislation is designed to protect the interests of B.C. pension plan members by setting minimum standards for B.C. pension plans. It is also designed to protect the financial health of pension plans by establishing rules for governance, funding, and investment.

Target Benefit Provision for Adverse Deviation

For TB plans, a significant change to the PBSR was implemented last year by Order in Council No. 505. Effective December 31, 2022, the definition of provision for adverse deviation ("PfAD") for TB plans now includes two components:

- 7.5 per cent, plus
- A supplementary percentage determined by the plan administrator.

BCFSA updated the Actuarial Information Summary filing form to collect data on the amount of supplementary PfAD set by each TB plan administrator.

Following extensive consultation with industry about the PfAD, BCFSA published a Guideline for administrators and service providers of pension plans with TB provisions. Our expectation is that TB plan administrators:

- consider the development of the PfAD in the context of the plan's risk management framework;
- document in the funding policy the intended method for identifying the supplementary percentage included in the PfAD; and
- file a copy of the funding policy together with the actuarial valuation report.

Defined Benefit Provisions

Order in Council No. 505 also amended Section 57(2)(a.1) of the PBSR to clarify that the DB PfAD payable on normal cost only applies if the DB component has no accessible going concern excess. Given those amendments to the legislation, BCFSA issued the following:

- Regulatory Statement 23-012: This updated Question 4 in Information Bulletin PENS 20-001 regarding defined benefit funding requirements.
- Regulatory Statement 23-013: This updated Questions 1 and 4 in Regulatory Statement 21-013 regarding valuation filing requirements.
- Regulatory Statement 23-014: This revised the position of the Superintendent of Pensions ("Superintendent") on the application of Subsection 3570 of the Canadian Institute of Actuaries Standards of Practice. Specifically, it clarified the Superintendent's position on commuted value calculations for individuals employed in B.C. who participate in a multi-jurisdictional pension plan registered outside of B.C.

Financial Services Tribunal Decision

In 2021, a TB pension plan filed an amendment reducing benefits of former members whose employer no longer participated in the plan. The Superintendent rejected the proposed amendment and refused to register it because the benefit reduction was not based on the funded status of the plan. The plan trustees appealed to the Financial Services Tribunal which issued a final decision on May 26, 2023 upholding the Superintendent's initial decision. The Tribunal's decision is significant because it provides the first statutory interpretation of Section 93 of the PBSA.

BCFSA continues to assess the ongoing effectiveness and clarity of the legislation and recommend improvements.

Further Resources

- Filing Requirements and Deadlines Webpage: BCFSA released this resource for plan administrators to understand all regulatory filing requirements and deadlines. Additionally, each year plan administrators receive email reminders in advance of the deadline for filing the Annual Information Returns. Administrative penalties are issued in certain instances of non-compliance with the *PBSA*. One penalty was issued in 2022 for late filing of the Annual Information Return and late payment of the associated fees.
- Disclosure Requirements Advisory: This advisory assists pension plan administrators in keeping track of what information they must provide to members and beneficiaries and the deadlines for each of those disclosures.
- Information Security Guideline: BCFSA set out expectations that plan administrators manage and mitigate information security risks in this guideline that came into force on September 30, 2022.
- Outsourcing Guideline: Plan administrators that outsource one or more of their activities should review this guideline which sets out expectations that plan administrators:
  - perform and document a materiality assessment for outsourcing arrangements;
  - ensure that policies and procedures for the oversight of outsourcing arrangements are well documented;
  - establish contracts for all material functions done by third parties;
  - monitor performance; and
  - review these documents in a timely manner.
- Multi-Employer Pension Plans – Best Practices Guideline: This guideline informs industry of key best governance practices, many of which also apply to single employer plans. The guideline strives to promote effective risk management procedures, with the ultimate goal of protecting the rights and benefits of pension plan members. The following chart shows areas to consider for risk management.

Fiduciary Responsibility

Plan administrator has fiduciary responsibilities to plan members and beneficiaries.

Roles and Responsibilities

Plan administrator should clearly describe and document the roles, responsibilities and accountabilities of all participants in the governance process.

Monitoring and Review

Plan administrator should establish and document performance measures to monitor the performance of participants in the governance and administration of the plan.

Knowledge and Skills

Plan administrator, directly or with delegates, has a duty to apply knowledge and skills needed to meet the plan administrator's responsibilities.

Code of Conduct

Plan administrator should establish a code of conduct and a procedure to disclose and address conflicts of interest.

Transparency and Accountability

Plan administrator should establish and document a communication process with the aim to be transparent and accountable to plan members, beneficiaries and other stakeholders.

Oversight and Compliance

Plan administrator should establish and document appropriate processes to ensure compliance with the legislative requirements and plan documents.

Risk Management

Plan administrator should establish and document a framework and ongoing processes, appropriate to the pension plan, to identify and manage the plan's material risks.

Multi-jurisdictional Agreement

Every pension jurisdiction in Canada is now a party to the 2020 Agreement Respecting Multi-Jurisdictional Pension Plans (Manitoba and Newfoundland and Labrador joined effective July 1, 2023). The agreement establishes a clear legal framework for the administration and regulation of those pension plans that are subject to the pension legislation of two or more jurisdictions.

CAPSA GUIDANCE

The Canadian Association of Pension Supervisory Authorities ("CAPSA") is a national association of pension regulators whose mission is to facilitate an efficient and effective pension regulatory system in Canada. BCFSA expects pension plan administrators to follow the guidelines issued by CAPSA.

In 2023, CAPSA released for public consultation both a draft Capital Accumulation Plans Guideline and a draft guideline on Pension Plan Risk Management that covers a broad range of risks including leverage and cyber security. The draft guideline on risk management also sets expectations for managing environmental, social and governance risks. In alignment with the expectations set out in CAPSA's draft guideline, BCFSA also has issued for consultation a discussion paper on Natural Catastrophes and Climate-Related Risks.

6. Risk-based Supervision

BCFSA uses a risk-based prudential supervisory framework to identify which plans to monitor closely and which to review. Our methodology continues to evolve. As noted in our regulatory roadmap, BCFSA has committed to publishing an updated version of our Risk Based Regulatory Framework for Pension Plans in 2024.

In 2022, BCFSA conducted in-depth reviews of three DB plans, five DC pension plans, and one plan that had a hybrid design. BCFSA monitored whether filings were on time, member statements met the requirements set out in the PBSR, and governance policies were in place. For all plans, and DC plans in particular, BCFSA reviewed member education and communication. Investment risk and, where applicable, funding risks were also often reviewed.

As a result of our recommendations following the 2022 reviews, one plan text was consolidated, one plan summary was amended, and four plan administrators updated their member statements to include all the required disclosures. One board of trustees has decided to schedule an additional meeting each year to ensure they have adequate time to monitor their pension plan. Furthermore, several plans are in the process of drafting cyber risk management policies. The administrators of the reviewed plans also are considering how they conduct the next assessment of their plans and enhancing how they document the due diligence undertaken.

7. Stakeholder Engagement

BCFSA is committed to engaging transparently with our stakeholders and using a consistent approach to communicating regulatory priorities, in order to facilitate awareness-building and an open exchange of perspectives. BCFSA does this in various ways including by hosting stakeholder engagement forums, participating in industry forums and publishing discussion papers for consultations.

BCFSA Pensions Forum: BCFSA hosted its first pensions forum in October 2022. It brought together over 120 plan administrators, sponsors, service providers, and pension experts to discuss pension-related issues in the province and share ideas on how to address risks so that British Columbians get the most out of their pension plans.

The forum, *Defined Contribution Plans: Improving Retirement Outcomes for British Columbians*, included three panel discussions led by industry experts. The following topics were covered:

- Designing an Effective Investment Strategy for Defined Contribution Plans;
- Decumulation Options – Plan Design Considerations; and
- Effective Member Communication and Education Strategy.

BCFSA invited all plan administrators and service providers to the forum. If you are a plan administrator or service provider and did not receive an invitation, please update your contact information by sending an email to pensions@bcfsa.ca.

Since the forum was well received, BCFSA intends to host similar events in the future.

Industry Events: Speakers from BCFSA also presented at several industry events to further stakeholder engagement.

We welcome questions and seek further opportunities to engage with stakeholders of B.C. pension plans.

8. References

1. Bank of Canada, Policy interest rate, accessed April 12, 2023 https://www.bankofcanada.ca/core-functions/monetary-policy/key-interest-rate
2. Statistics Canada, Table 36-10-0402-Gross domestic product (GDP) at basic prices, by industry, provinces and territories, accessed May 9, 2023 https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3610040201
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6. Canadian Association of Pension Supervisory Authorities, 2023 Agreement Amending the 2020 Agreement Respecting Multi-Jurisdictional Pension Plans, accessed May 29, 2023 https://www.capsa-acor.org/Documents/View/2028
7. Canadian Association of Pension Supervisory Authorities, Consultation draft of Guideline No. 3, Guidelines for Capital Accumulation Plans, accessed August 2, 2023 https://www.capsa-acor.org/Documents/View/2045
8. Canadian Association of Pension Supervisory Authorities, Consultation draft guideline on Pension Plan Risk Management, accessed August 2, 2023 https://www.capsa-acor.org/Documents/View/2055

BCFSA pension regulatory statements and guidelines are found here:

https://www.bcfsa.ca/industry-resources/pension-resources/pension-regulatory-information

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