# QUEBEC'S SOLVENCY CHANGES ONE YEAR ON

By Julius Melnitzer

## *Cost savings, reduced volatility among the impacts of landmark pension shift*

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More than a year after its implementation, Quebec's shift to going-concern funding obligations for defined benefit pension plans has already led to some positive results for employers.

"On average, in our experience, employers' costs have been reduced by 40 per cent," says Natasha Monkman, a pension and benefits lawyer at Hicks Morley Hamilton Stewart Storie LLP.

Besides employers, the reaction from other stakeholders has been positive as well.

"This was a negotiated solution that included the stakeholders from the outset," says Tina Hobday, a partner at Langlois Lawyers LLP in Montreal. "Eventually, employers and unions agreed that this was the best compromise and that is what the government adopted."

### Volatility reduced

The legislation, which came into effect on Jan. 1, 2016, was the first of its kind in Canada. The goal was to reduce the volatility of employer contributions to defined benefit plans by removing the requirement to fund themselves based on short-term assumptions about their own finances and market conditions.

"So far, the objective of reducing volatility in employer contributions appears to have been met," says Julien Ranger, a partner at Osler Hoskin & Harcourt LLP in Montreal. "Hopefully, that will be a factor that will allow employers to at least maintain DB plans, if not create new ones."

Employers must also augment their going-concern funding with contributions to a stabilization fund specific to each plan's investment policy.

"Stabilization funding is like a margin or buffer that will depend on the risk assessments used by individual plans," says Hobday. "The formula really is more a reflection of the type of investing in which a plan is engaging than something that's directly related to solvency."

But that doesn't mean solvency valuations are extinct. "Employers are still required to do them and report the results," says Ranger. "What's changed is that they don't have to put money in the plan based on that calculation."

Still, notwithstanding the positive initial reaction, most observers are reserving final judgment on the new regime. "It's still a bit early to tell how this will ultimately play out, because the final regulations have not been adopted," says Hobday.

What is on the table are the rules for determining the stabilization requirements, which the government adopted in June with retroactive effect.

"Many people were worried about what these would look like, but they were also developed by a broad-based advisory committee," says Hobday. "Actuaries are telling me that it's better than nothing and it's a decent start, although there are some difficulties with the way the scale is calibrated."

In the meantime, stakeholders are still awaiting regulations governing investment and funding policies.

"Because the stabilization scale is based on investment policy, it will have to be determined in light of the new rules," says Hobday. "Right now, plans are working with the transitional provisions in the legislation, making do as best they can."

### 'Wait and see' for other provinces

From a national perspective, the general expectation that Quebec's changes would prompt other provinces to move quickly on the solvency issue hasn't panned out.

"Everyone believed that things would move faster than they have in the rest of Canada," says Natalie Bussière, a partner at Blake Cassels & Graydon LLP in Montreal.

To be sure, British Columbia and Alberta have introduced a voluntary solvency reserve account system that allows employers to access the surplus once the fund exceeds a certain threshold. Ontario is in the midst of a consultation process that's considering the Quebec model as one of its options.

"Elsewhere in Canada, there seems to be a wait-and-see approach," says Ranger. "But I believe that everyone is at least looking at the Quebec experiment." BC

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### QUEBEC PENSION STATISTICS

**1,560,529**
Number of Quebec workers participating in a supplemental (private) pension plan

**962**
Number of supplemental plans overseen by Quebec's pension regulator

Source: Retraite Québec 2013 statistics on supplemental pension plans