



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

January 15, 2024

Heather Wood
Deputy Minister of Finance
PO Box 9417 STN PROV GOVT
Victoria BC, V8W9V1

Sent via Email: Heather.Wood@gov.bc.ca

Re: Bill 33: Pension Benefits Standards Amendment Act, 2023 – Variable Life Benefits

To Deputy Minister Wood:

The purpose of this letter is to provide commentary regarding the recent amendments to the British Columbia *Pension Benefits Standards Act* (PBSA) enabling employers to provide Variable Life Benefits (VLBs) to their employees.

The Pension Investment Association of Canada (PIAC) has been the voice for Canadian pension funds since 1977 in matters related to pension investment and governance. PIAC's members manage over \$2.8 trillion of assets on behalf of millions of Canadians. Our mission is to promote sound investment practices and good governance for the benefit of plan sponsors and beneficiaries.

PIAC commends the British Columbia government for moving ahead with legislative amendments to facilitate the introduction of VLBs, an important innovation in the Canadian retirement savings landscape. We believe VLBs have the potential to meaningfully improve the options available for managing longevity risk for Canadians who save for retirement outside of traditional defined benefit plans.

As the BC government moves forward with regulations to further enable VLBs, we provide the following comments:

High Level Commentary

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PIAC recommends that the British Columbia government's overall approach be to allow the VLB market to develop in a flexible fashion that is permissive of design innovation, subject to general guidance on process to ensure appropriate disclosure and actuarially robust structures.

There are different approaches along several technical dimensions that a VLB sponsor may reasonably choose, and as such we do not recommend overly prescriptive regulation. Similarly, standards should refrain from setting prescriptive measures on funding and adjustment limits. PIAC supports a principles-based approach.

PIAC also believes standards should seek to promote thorough and transparent communication to members to ensure informed decision making.

Detailed Commentary

In setting standards for VLBs, PIAC encourages the British Columbia government to refrain from setting limits on the type of entity that can offer VLBs. A broad scope of service providers should be promoted, including registered pension plans, to encourage a competitive landscape for retirees. Similarly, it is important to view VLBs under the BC PBSA and VLBs under BC PRPP as a part of the same retirement ecosystem. This will permit transfers from registered pension plans to PRPPs, since the most scalable VLB implementations are likely to come in a form of decumulation-only PRPPs.

The current British Columbia DC provision definition limits the decumulation of Additional Voluntary Contributions (AVCs) through both Variable Benefits (VBs-RRIF/LIF-like payments) and VLBs from an AVC account. The amendments introduced to the Federal PBSA allow for the establishment of a VLB within a pension fund. Plan members can then elect to transfer amounts from their DC provision account and their AVC account to the VLB Fund to receive VLBs. PIAC recommends that AVCs may be used for both VBs (RRIF/LIF-like payments) and VLBs. That may be achieved by including AVCs as a part of the defined contribution provision, which would align with the recent changes to the Federal PBSA. Alternatively, the BC PBSA may provide that if the plan provides VBs or VLBs, then additional benefits that AVCs may be used for must include VBs and VLBs.

PIAC also advises that the British Columbia government consider what rules should govern withdrawals from a VLB. While we believe that locked-in capital will be a design feature that VLB sponsors may choose, the ability to withdraw at least some capital may be a feature that plan members value – similar to early death payouts commonly found in life annuities – and if such a feature is offered in an actuarially sound manner, it should not be ruled out by regulation.

With regard to entering into a VLB prior to retirement, we expect that plan sponsors choosing to offer a VLB would tend to make the option available only at retirement with a view to ensuring that their employees have a complete perspective on their financial situation at the time of making the decision. Others may provide the option along with

education for their employees to build their retirement income plan over time. Therefore, it may be reasonable to let the market develop without prescribing this outcome by regulation.

Regarding plan termination, a portability option that should be eligible is a VLB transfer to another VLB vehicle, which would in practice likely be a DC/Pooled Registered Pension Plan (PRPP) to another PRPP transfer.

PIAC believes that spousal consent should be required for members electing VLB benefits, if the VLB benefit is defined in reference to the electing plan member's single life. This spousal consent is required to ensure joint and survivor pension benefits for eligible spouses, and not in the context of portability provisions. VLB benefits remain governed by the same plan, RPP or PRPP, and there is no transfer out of the plan, hence no basis for applying portability provisions. An alternative to this process, which would be administratively simpler and consistent with other existing provisions, is to define VLB benefits under an RPP in reference to joint and survivor benefits, in which case no secondary spousal consent would be required. Valuation of the VLB fund can be performed on a joint and survivor basis, as with a defined benefit plan.

Regarding upcoming revisions to the BC Family Law Regulation, VLBs should be divided in a method that considers the DC provisions set out in Section 20 (3), as a proportion of the total account balance used to establish the VLB. This proportionate share of the VLB recognizes the former spouse's proportionate share of the account balance used to establish the VLB. The options available to the former spouse should be consistent with the existing division of a lifetime pension in pay – i.e., when the former spouse's proportionate share of the lifetime pension amount is paid as a lifetime pension of the same form that was established at retirement.

Finally, PIAC believes that existing provisions around standard of care should apply for VLBs. While it is reasonable to assume that some companies will decide not to sponsor decumulation vehicles in any form to avoid a continuing level of fiduciary engagement with retired employees, it is also appropriate that one set of principles govern the British Columbia RPP complex both in the accumulation and decumulation periods. This will be a necessary part of the decision-making analysis for potential VLB plan sponsors.

Conclusion

PIAC reiterates its strong support for the introduction of VLBs. We understand that amendments to the PBSA will need to be developed to implement VLBs and that consultations regarding these amendments will take place between the Government of British Columbia and its federal and provincial partners on a regulatory framework for VLBs, based on a harmonized policy framework developed by a committee of the Canadian Association of Pension Supervisory Authorities (CAPSA).

PIAC looks forward to working constructively with the BC government and related parties on this important initiative and would be pleased to provide any further clarification on our comments.

Yours truly,

A handwritten signature in cursive script, appearing to read "Peter Waite".

Peter Waite
Executive Director