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The Association of Canadian Pension Management
L'Association canadienne des administrateurs de régimes de retraite

June 12, 2015

VIA E-MAIL

Pension Policy Branch
Ministry of Finance
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To Whom It May Concern:

RE: Proposed Amendments to Funding Rules in General Regulation 909 under the Pension Benefits Act: Contribution holidays / Actuarial gains / Benefit improvements

The Association of Canadian Pension Management (ACPM) is the informed voice of Canadian retirement income plan sponsors, administrators and their allied service providers. We are a non-profit organization and our objective is to advocate for an effective and sustainable Canadian retirement income system. Our membership represents over 400 retirement income plans consisting of more than 3 million plan members, with assets under management in excess of $330 billion.

In response to the draft amendments posted on April 21, 2015, we would like to provide the following comments:

Contribution Holidays
While the idea of avoiding well-funded pension plans taking steps that could lead to underfunding is based on the Report of the Expert Commission on Pensions (October 31, 2008) (the "OECP") and is laudable in some respects, it needs to be aligned with the significant changes in funding rules since the OECP report was released; in particular there are many variations of solvency funding relief which, when compared to the contribution rules, provide funding relief to sponsors of underfunded plans while the proposed change to the contribution holiday rules will provide additional limits applicable only to well-funded plans.

As you know, ACPM has advocated for the elimination of solvency funding (see the attached paper) and it would seem that a funding cushion would be appropriate where solvency funding had been eliminated.

In the alternative, solvency reserve accounts, similar to the Alberta and BC reform, should be added to the Ontario rules.

In addition, the ACPM has a number of technical comments:

It is important that any restrictions on contribution holidays retain elements of flexibility, smoothing and cost effectiveness.

The requirement to produce an annual cost certificate in order to be permitted to take a contribution holiday would be an additional expense to be borne by a well-funded pension plan. The certificate is likely to cost thousands of dollars a year. Given that underfunded pension plans, if they are 85% funded or greater, only do actuarial valuations every three years, it would be unfair for plans in surplus to pay for an actuarial cost certificate annually. It should be sufficient to use the three year actuarial results to measure the funding level relevant to the taking of contribution holidays.

Using triennial valuation results would also provide appropriate consistency and annual certificates require the plan to determine surplus on a volatile basis, which is avoided by a triennial approach.

Further, having to provide notice in the first 90 days of the year in which a contribution holiday is taken would be both practically very difficult, given the time required to make a decision as to whether to take a contribution holiday, and a significant additional cost compared to including the information in the annual statement. In addition, audited financial statements are required by June 30th and provide the best estimate of the asset position. The inconsistency of the 90 day notice requirement compared to the June 30th audit and annual statement requirements seem inappropriate. In addition, it does not seem to be prudent to require this additional cost and effort.

In addition, it would be inappropriate to hold specified JSPPs and SOMEPPs (provided different treatment under the benefit improvement rules) to a solvency-based test when they fund exclusively on a going-concern basis. Further, with the joint governance models of these plans, it seems inappropriate to require such notices to be provided in such a prescribed manner. This is an area where a principled approach, allowing flexibility would make the most sense, as large plans with an eye on efficiency may prefer to add a notice to other required mailings.

Benefit Improvements

In the OECP report, restrictions to benefit improvements were also recommended to prevent underfunded plans making their funded position worse through a benefit improvement. The ACPM supports this premise but must point to a number of technical and policy issues with the drafting. Some of these could have substantial impact on pension plan funding, which do not appear consistent with the policy direction.

With respect to the rules added to section 5 of the draft regulation:

- In subsection (23), it should be clear that the exemption not only applies to a plan amendment allowing optional CPI increases (whether ad hoc or conditional), but also amendments providing those increases for a particular time period (many plans must pass amendments to award increases).

- Subsection (26) creates a cliff effect in the difference between the requirements for below and above 85% funding; the "immediate payment" for the going concern payments is unusual in the PBA and requires further clarification; and the requirement to bring the funded ratio up to 85% could require greater funding than the cost of the benefit improvement. These requirements could have significant impacts on pension plans;

- Subsection (27) provides tailored rules for SOMEPPs and certain JSPPs; however, subsection (28) is not integrated with the criteria and existing funding rules for these plans. For JSPPs, subsection (28) should refer to members making payments as well as employers as they are required by the PBA to share in contributions for special payments; in addition the one year lag and percentage of payment methods allowed for JSPPs should be linked to these payments as well.

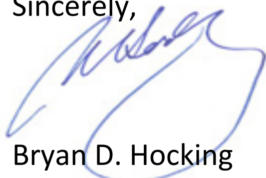
- Subsection (29) should exempt all kinds of plans from the compressed benefit improvement timelines as the benefit changes would not be chosen by the plans, but by the government. It would be inappropriate to penalize plans and their sponsors for unplanned actions taken by the government with regard to increasing benefits.

Actuarial Gains

It is unclear whether the addition of subsection (2.1) to section 7 of the draft regulation restricts the ability to reduce the amount of special payments created in respect of benefit improvements only in the initial report or in all subsequent reports. There has not been any discussion or consultation on a policy reason for disallowing future gains to reduce the amount of special payments and restrict applying gains to reducing the amortization period only. Without clear reason, this flexibility should not be restricted.

ACPM appreciates the opportunity to comment on these issues. If you would like to discuss the contents of this letter further, please feel free to contact us.

Sincerely,



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