February 20, 2018

Pension Benefits Guarantee Fund Assessment Formula
Pension Policy Branch
Ministry of Finance
5th Floor, Frost Bldg S.
7 Queen's Park Crescent
Toronto, ON M7A 1Y7

Via email: Pension.feedback@ontario.ca

To Whom It May Concern:

**Re: Reform of Ontario's Funding Rules for Defined Benefit Pension Plans: Description of Proposed Changes to Pension Benefits Guarantee Fund (PBGF) Assessments**

ACPM is the leading advocate for plan sponsors and administrators in the pursuit of a balanced, effective and sustainable retirement income system in Canada. We represent plan sponsors, administrators, trustees and service providers and our membership represents over 400 companies and retirement income plans that cover more than 3 million plan members.

We are writing to comment on the recently released proposal with respect to the basis for calculating PBGF assessments. Our comments are briefly summarized as follows, and discussed in greater detail below:

1) The assessment should not be based on total liabilities;
2) There should be transparency in the analysis supporting the proposed increase in PBGF assessments;
3) The rules should permit PBGF contributions to be payable from surplus.

**Basis for Calculating the PBGF Assessment and the Need for Transparency**

The proposals introduce a component of the calculation that would base PBGF contributions on the plan's liabilities. The policy rationale and relationship to risk is not clear. ACPM supports a calculation based on size of the solvency deficit only; **it should not be based on total liabilities**.

More generally, there should be **transparency in the analysis** underlying the proposed new contribution requirements so that they can be understood and fairly evaluated by the industry. This is particularly important in light of the significant increases that employers may experience under this proposal.

We acknowledge that the current structure might not be sustainable. However, the rationale for this approach is unclear, particularly given the comprehensive approach adopted for determining the PfAD. The proposed premium increase appears disproportionate to the 50% increase in maximum PBGF coverage (which does not produce a 50% increase in PBGF covered amounts). To the extent the objective is to obtain a base of funding from all plans, we suggest a per-member charge is more appropriate.

The liability-based assessment does not reflect the position of a pension plan with respect to its risk profile, for instance, a pension plan's investments or funded status. A well-funded plan is at a lower risk of a default requiring PBGF bailout, and accordingly, arguably should have a lower assessment rate. This approach is consistent with, for example, determining car insurance premiums based on an individual's driving record and other risk factors. The proposed approach increases costs for well-funded and well-managed plans.

For instance, if a plan has $100 Million in buy-in annuities, this poses no risk to PBGF and yet it is proposed that a new premium of $15,000 be charged every year. This would probably encourage the rapid conversion of buy-in annuities to buy-out annuities, although it is not clear why this ought to be encouraged. Many plans have been closed to new DB entrants for many years but have significant numbers of pensioners. In the example of a plan that has $1B of assets and liabilities and only 300 active members accruing DB benefits the liability based portion of the assessment would be $150,000 per year (or $500 per active member of the plan). It would seem that in this case the plan sponsor may want to wind up the plan to avoid this additional annual cost and that this would result in the loss of a DB benefit for the remaining active members. We suppose such an outcome would not be an intended consequence of the rules now proposed.

As a consequence of the premium increase, the number of defined benefit plans being offered may decline. Plan sponsors may seek to avoid the significant premium increases through an annuity buy-out or a plan wind-up. This was the experience in the United States when the PBGC premiums increased. However, since only well-funded plans are positioned to take such de-risking measures, a disproportionate number of higher risk plans with respect to PBGF claims will be ongoing. As a result, PBGF claims could increase while the current sustainability issue would not ultimately have been resolved.

We note that ACPM is not opposed to the principle that some of the premiums should come from all plans, as all plans are now subject to reduced solvency funding requirements. However, we note that in connection with the reduced solvency funding requirements, the plans are also required to increase their going concern funding through the PfAD. As such, any component of the premiums that is derived from the plan's liabilities would be a *very* small part of the overall assessment method. Some component based on liabilities makes sense from an insurance standpoint.

We acknowledge that in eliminating or significantly reducing the component of the PBGF premiums determined in relation to total liabilities, the premiums determined based on the other components will have to be adjusted accordingly. For instance, an additional assessment based on funded status would better reflect the risk-of-bailout associated with a plan, and strike a better balance in the assessment methodology and a logical connection to the purpose of the PBGF.

**PBGF Contributions Payable from Surplus**

Lastly, we see no policy reason to change the existing rules that **permit PBGF contributions to be payable from surplus** and, in fact, we would argue that maintaining such rules maintain balance between plan security and employer contributions within the full package of proposals. Having the ability to pay the assessment out of the fund would make the cost more manageable relative to paying out of pocket, as the sponsors could have the benefit of investment earnings. This approach would render maintaining the plan more manageable relative to undertaking an annuity buy-out. Certain parameters could be implemented around payments from the plan, for instance, the plan may be required to be in a surplus position on a solvency basis under the new funding rules (i.e. 85% target).

We appreciate the opportunity to provide input on this issue. Please do not hesitate to contact us if you have any questions.

Sincerely,

R Marrero

Ric Marrero
Interim CEO
ACPM