ACPM/ACARR

Presentation made by

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to

Department of Finance National Consultation Hearing

Toronto, Ontario, 9:00 a.m. Friday, March 20, 2009

Good morning Mr. Menzies.

My name is Scott Perkin, and I am the President of the Association of Canadian Pension Management (ACPM).

With me this morning is Bryan Hocking, CEO of ACPM, Hugh Kerr, Chair of the ACPM Advocacy & Government Relations Committee and Jay Mann, Chair of the ACPM Task Force that developed our submission in response to the Federal Consultation Paper.

Let me begin by thanking you, your colleagues and Minister Flaherty for initiating this consultation on pension reform, and for allowing stakeholders the opportunity to attend these important sessions that are being held across the country.

The retirement income system in Canada is at an important crossroads.

Just over 10 years ago, Canadians were discussing the fate of the Canada Pension Plan, one of the main pillars of the retirement income system in this country. The success of that discussion is apparent today, as the CPP has a proper governance structure in place, and the funding of the Plan has been placed on a more solid foundation heading into the future.

Today we are here to discuss another critical pillar of Canada's retirement income system - the occupational pension plan.

The consultation processes that have been unfolding across the country over the past two and a half years in Ontario, jointly in Alberta and B.C., in Nova Scotia, and now at the Federal level, all speak to the importance of the employer-sponsored pension plan in providing retirement income security to Canadians.

What has happened in the economy, over the past 6 months in particular, has simply highlighted, and accelerated, many of the concerns affecting occupational pension plans.

There is a problem with the current picture, and that problem is **COVERAGE**.

Statistics tell us that very few Canadians working in the private sector have some form of pension plan coverage at work. When we look at Canadians working in the public sector, coverage figures jump significantly. In both cases, however, pension coverage has been in decline, and the current disparity in coverage between the private and the public sectors has, unfortunately, provided fodder for some commentators.

However, as an organization that advocates not only for the health, but also the growth of the retirement income system in Canada, the ACPM prefers to focus on opportunities for growing pension coverage for Canadians. And we see some opportunities for growth in some of the reports that have already been released across the country.

For example, the Arthurs Report here in Ontario proposes the development of larger plans (to facilitate economies of scale and better pooling of risks), as well as the promotion of target benefit plans (that would, in our view, engage Canadians much more in planning for their retirement).

The Report of the Joint Expert Panel on Pension Standards (or JEPPS) in Alberta and B.C. proposes the establishment of the ABC Plan, a joint provincial plan with automatic enrolment for those currently without any pension coverage at work, and with an opt-in for the self-employed.

The Report of the Nova Scotia Pension Review Panel has similar recommendations designed to improve coverage for the citizens of that province.

We view all of these recommendations as a positive sign to governments (including the Federal Government) that something can AND SHOULD be done about improving pension coverage for Canadians, so that future generations are not burdened by the legacy of inaction today.

So is coverage the silver bullet ? . . . not entirely !

For those who presently enjoy pension plan coverage through their employment, **BENEFIT SECURITY** is a major issue, particularly in the current economic climate. Canadians want some assurance, and rightly so, that their pension benefits are secure and that promised benefits will be paid to them when they retire.

To this end, we support suggestions in the Federal Consultation Paper that speak to the issue of benefit security for defined benefit (or DB) pension plans.

For example, the ACPM supports elimination of the current regime that allows federally-regulated plan sponsors to "walk away" from pension funding deficits upon voluntary plan termination. Plan sponsors SHOULD BE required to fully fund pension benefits when a plan is fully terminated. In fact, we believe that such funding should occur within a maximum of 5 years after termination, as is currently the case in other Canadian jurisdictions.

When it comes to pension deficits arising upon involuntary plan termination, where the plan sponsor has become insolvent, ACPM believes that the priorities under bankruptcy legislation should be enhanced to include any amounts (including deficit payments) that are due, but unpaid, at the time of the bankruptcy.

Finally, when it comes to partial terminations that may occur during the life of a pension plan, ACPM agrees with eliminating the concept of partial terminations as unnecessary, complex and cost-inefficient. At the same time, however, we agree that immediate vesting would provide a means to protect accrued benefits for members who terminate, particularly for those with short service.

Ultimately, however, benefit security depends upon well-funded pension plans. So, I turn now to the issue of **FUNDING** which, given recent economic events, has taken on a life of its own.

There is no question that current solvency funding rules for DB pension plans across Canada have accelerated the current debate around pension reform.

Solvency rules have been producing somewhat volatile and onerous contribution obligations for plan sponsors since they were first introduced some 20+ years ago. The last 6 months of economic activity has simply exaggerated the existing situation in a dramatic fashion for all to see.

Is solvency funding an appropriate measure ?

The ACPM believes that the solvency valuation provides the pension regulators with a reasonable test of benefit security during the ongoing life of a DB pension plan.

Could the existing solvency rules be improved ?

We believe so.

We suspect that you have already heard a lot from plan sponsors, plan members and retiree groups regarding DB funding rules, so I don't propose to go into detail. Except to say that one way to minimize the volatility currently produced by solvency funding rules would be to lengthen the period over which solvency deficits may be amortized from 5 to 10 years. An appropriate balancing item, in our view, would be to amortize any surplus over the same period, when it comes to the amount of surplus that might be used for a contribution holiday in any year.

We also support the use of Letters of Credit, where possible, as a solvency funding tool, to protect accrued pension benefits while allowing plan sponsors to devote much needed resources to grow their businesses.

Another measure that we believe could lead to better funding of DB pension plans is the concept of solvency accounts or, as the JEPPS Report from Alberta and B.C. refers to them, "pension security funds". Such accounts, or security funds, would allow reasonable access for plan sponsors to excess funding that is not ultimately required to fund promised benefits. This concept would not only preserve the security of benefits for plan members, but could also encourage plan sponsors to fund DB pension plans beyond the minimum levels required by law.

Of course disclosure and transparency are paramount.

In this regard, we fully endorse the concept of Funding Policies to be established by plan sponsors.

Similar to the existing requirement for plan sponsors to maintain a Statement of Investment Policies and Procedures, the Funding Policy should be reviewed annually, should be available upon request to plan members and other stakeholders, and should set out the plan sponsor's funding objectives, contribution strategy (including policies on contribution holidays) and a general explanation of funding risks.

With respect to other elements of the pension regulatory system over which the Federal Government has control, we believe that there are certain changes that could be made under the Income Tax Act that could enhance the current environment for DB pension plans in particular.

As an example, the current 10% surplus limit in the ITA is too low and should be raised or eliminated, so that DB pension plans are allowed to build up sufficient reserves when investment returns are good, in order to cover those 'rainy days' that we seem to be experiencing at present !

In addition, current benefit and contribution limits under the ITA should be increased so that Canadians are allowed to save towards retirement on a tax-assisted basis at levels comparable to citizens in other G7 nations such as the U.S. and the U.K.

The Federal Government has an excellent opportunity to play a significant leadership role in the pension debate that is currently unfolding across this great nation . . .

. . . the retirement plans of Canadians lie in the balance !

Thank you !