

August 19, 2014

Direction du secrétariat des commissions  
Édifice Pamphile-Le May  
1035, rue des Parlementaires, 3<sup>e</sup> étage  
Québec (Québec) G1A 1A3

Dear Sir/Madam:

The Canadian Institute of Actuaries (CIA) is the national organization of the actuarial profession. The CIA establishes the Rules of Professional Conduct, guiding principles, and monitoring and discipline processes for qualified actuaries. All members must adhere to the profession's Standards of Practice. The CIA follows its Guiding Principles, including Principle 1, which holds the duty of the profession to the public above the needs of the profession and its members. The CIA also assists the Actuarial Standards Board in developing standards of practice applicable to actuaries working in Canada.

Thank you for the opportunity to submit the following comments on Bill 3, An Act to foster the financial health and sustainability of municipal defined benefit pension plans.

1. The CIA does not take a position on the merits of funding current deficits by reducing accrued benefits. However, we believe that any recourse to such a measure must be exercised very cautiously. The members of a defined benefit plan must be able to count on the fact that any promises made will be kept, unless the circumstances are exceptional.
2. According to the bill, the Québec government deems that the situation with municipal pension plans warrants such measures as a reduction in accrued benefits and a cap on costs, because of the financial squeeze they are causing. If we understand correctly, however, the government does not intend to apply equivalent measures to the other public sector plans. We invite the government to explain this difference in treatment.
3. The bill imposes the choice of actuarial assumptions in section 3. In our view, it is appropriate for the actuarial assumptions to be closely monitored, in particular the interest rate, if they apply solely for the purposes of the benefits reduction and the 18 percent (or 20 percent) ceiling, and not for funding.
4. The actuarial assumptions used for *funding* must be best estimate assumptions determined by the actuary in accordance with actuarial standards, subject to the decision by the pension committee to include margins.

5. The 18/20 percent ceiling should not be calculated according to the current members of each plan. It would not be appropriate for the benefits of two different groups of employees to differ because one group has a higher average age. The Régie des rentes du Québec should establish a standard population of members with which to determine whether the plan complies with the applicable ceiling.
6. The bill imposes a minimum stabilization contribution of 10 percent of the current service contribution. In our opinion, this minimum should be coordinated with that of the provision for adverse deviations. For example, if the stabilization contribution is 10 percent, the provision should also be 10 percent. We would like to point out that a 10 percent provision will not be enough to preclude the risk of future deficits. We believe that it is up to the plan sponsor or administrator to choose a higher provision to reduce the risk of future deficits.
7. During the restructuring process, administrators will not be able to establish precisely the benefits payable or the contributions required of employers.

A situation where administrators have major corrections to make at the end of the process must be avoided. The bill, once adopted, should allow administrators to adjust benefits and contributions according to their analysis of what will transpire at the end of the restructuring process. Thus, the corrections to be made at the end of the process will be less extensive.

8. It will be important that the arbitrator appointed possess the necessary knowledge on pension plan questions, and that this individual have access to his or her own experts for assistance.
9. We have difficulty understanding the relevance of certain criteria listed in section 38. Our understanding of the legislation is that the arbitrator will not have to decide the total value of the reductions, but rather the manner in which to distribute this reduction among the members.
10. An employer should have the flexibility of funding a low deficit on its own and thus avoiding the restructuring process for past service.
11. For some plans, the parties have already agreed on the funding of deficits or of future costs. The Régie should have the discretion to approve agreements that are in keeping with the bill's objectives and to exempt these plans from the restructuring process for past or future service, as the case may be.
12. The bill prevents contribution suspensions even if the stabilization fund is full. The parties should be able to agree on a suspension of contributions in such cases.
13. According to section 5 of the bill, active members will be required to assume 50 percent of the balancing contributions required to fund any deficit relating to service after December 31, 2013. These contributions, as well as the stabilization contributions that they pay, should not be subject to the "50 percent rule" growing out of section 60 of the Supplemental Pension Plans Act.

The Canadian Institute of Actuaries trusts that the above comments will prove useful.  
Thank you for giving us the opportunity to respond.

Yours truly,

A handwritten signature in black ink that reads "Jacques Tremblay". The signature is written in a cursive style with a horizontal line above the name.

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Jacques Tremblay  
President