

May 28, 2015

Solvency Exemption for New BPS Multi-Employer JSPPs
Broader Public Sector Pensions Branch
Ministry of Finance
7 Queen's Park Crescent
1st Floor, Frost Building South
Toronto, ON M7A 1Y7

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We are pleased to offer the following comments on the paper Proposed Criteria for Exempting New Broader Public Sector (BPS) Multi-Employer JSPPs from Solvency Funding Requirements (proposal 15-MOF009).

The paper suggests four criteria to be considered in determining whether an exemption from solvency funding rules will be provided for a newly established multi-employer jointly sponsored pension plan (JSPP) in the BPS:

1. A minimum of five participating employers;
2. Not more than 50 percent of the combined membership employed by a single employer;
3. A base level of \$5 billion of plan assets; and
4. An examination of plan governance practices.

The CIA supports the creation and development of structures that continue the provision of defined benefit-type pension plans, such as JSPPs. We also understand that certain public policies may be required to foster the creation of such structures, such as solvency exemptions. To that end, we would encourage the creation of rules that facilitate the creation of JSPPs.

We understand the desire to set criteria for solvency exemption that reflect a reasonable mitigation of risk. However, we suggest the proposed criteria do not meet that requirement.

We do not believe that a minimum number of employers is necessary, other than as is currently defined for a multi-employer pension plan under the Pension Benefits Act (i.e., two or more unrelated employers). Further, it is not clear to us why a minimum of five was chosen.

Although we understand the rationale for the 50 percent limit on any participating employer, we believe that this limitation will be unduly restrictive. These approaches place a premium on the risk of any one employer ceasing participation in the JSPP due to bankruptcy or insolvency, which is possible but remote in the BPS. We would expect that an employer ceasing participation voluntarily or through a merger of organizations would be required to fund benefits accrued to date. Instead, a more relevant risk mitigation method is diversifying the risk over a large enough number of active members. Any minimum number of active employees would be rather arbitrary but we note the private sector multi-employer pension plans (exempt from solvency funding through the Specified Ontario Multi-Employer Pension Plan regulations) generally have at least 1,000 active members.

We do not agree that using asset size is appropriate as this does not address risks per se but rather the efficiency of administrative and investment fees of any plan, JSPP or otherwise. For example, if a JSPP was started with a large set of members and zero assets, it could be better suited to handle future risks that the plan experiences compared to a mature plan with \$6 billion in assets that mainly consists of retirees, with a \$3 billion going concern funding deficit. The \$5 billion threshold is too restrictive, and we recommend that the asset size requirement be eliminated.

We agree that the financial risk management governance practices detailed within the government's proposal are ones that we can support, but we would caution against attempting to regulate governance at the plan level. Our preference is to have guidelines that are not overly prescriptive. Note that, by definition, joint governance is required for JSPPs and membership representation regarding pension matters is typically strong in the BPS. Further, any conversion from single-employer pension plan to JSPP status is subject to member approval (or deemed approval).

Although this consultation is specific to JSPPs, we would also support the permanent removal of solvency funding requirements for target benefit plans where benefits are potentially subject to reduction.

We summarize our submission by supporting a simplified approach whereby a plan that

- a) Is part of the broader public sector;
- b) Has the JSPP framework; and
- c) Meets a minimum active member requirement

would be exempt from solvency funding requirements.

The CIA hopes these comments will be of value.

Yours truly,



Jacques Tremblay, FCIA
CIA President