Canadian Institute of Actuaries / Institut canadien des actuaires

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Andrew Schrumm
Policy Manager, CAPSA Secretariat
5160 Yonge Street, Box 85
Toronto, ON M2N 6L9

The Canadian Institute of Actuaries (CIA) is the national voice of the actuarial profession in Canada. With more than 5,000 members, the Institute puts the public interest ahead of its own, and is dedicated to providing actuarial services and advice of the highest quality.

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 also assists the Actuarial Standards Board in developing standards of practice applicable to actuaries working in Canada.

We are pleased to provide the following suggestions for consideration in CAPSA's strategic plan for 2016–19. We are also attaching a copy of our submission from December 2011, in which we provided input on CAPSA's 2012–15 strategic plan, much of which was incorporated. We would like to note that many of the concerns raised in that document still exist, and continue to be important issues to us. That being said, our comments for the newest strategic plan appear below.

Harmonization of Pension Regulations

Although we recognize that regulatory authorities are not directly responsible for the creation and amendment of pension laws, we do believe that CAPSA can be a significant source of influence. To that end, we would encourage CAPSA to continue to pursue uniformity (or at least harmonization) of pension legislation and regulation across Canada, through proactive engagement with policymakers and stakeholders. We acknowledge that this was a stated objective of the previous strategic plan; however, the newly created regulations in areas such as the funding of defined benefit pension plans and the establishment of target benefit plans (TBPs) appear to have moved in the opposite direction. We will discuss TBPs in more detail below.

The specific recommendations we would like to make are the following:

- To develop options for permanent defined benefit funding rules, to replace the temporary relief measures introduced within the last seven years.
- To identify and adopt common elements on a regulatory framework for pooled registered pension plans across Canada. We think that this should be achievable, considering that we are starting with a clean slate. Several jurisdictions have already followed the federal lead, and we hope that others do the same.

- To continue the CAPSA initiative of providing technical training on common issues through the National Pension Compliance Officers Association (NPCOA).
- To encourage policymakers to harmonize the determination of commuted values (CVs). The Actuarial Standards Board has begun a review of the fundamentals behind CVs, and Québec has asked the CIA to examine how the new portability rules should be revised (e.g., adjusting the CV by the solvency ratio). A lack of harmonization will create issues for plans that have members in different jurisdictions across Canada.
- CAPSA could encourage harmonization by defining a model of regulatory policies, identifying and tracking which jurisdictions deviate from such a model, and reaching out to them to facilitate convergence towards a common ground.

The Agreement Respecting Multi-Jurisdictional Pension Plans (MJPPs)

We would first like to see all required jurisdictions sign on to the multi-jurisdictional agreement, and begin its implementation. Meanwhile, there are some specific problems in this area that we would like to see addressed:

- Particularly with respect to multi-employer pension plans (MEPPs), and now for Québec single employer plans as a result of Bill 57, members in provinces with a permanent solvency funding exemption may be treated unfairly for asset allocation upon plan wind-up.
- Québec Bill 57 allows for the removal of the "supplementary benefit" for deferreds in Québec, but not elsewhere.
- The approach to merging plans involving Ontario members requires Ontario rules to be followed regardless of the jurisdiction of registration, which essentially results in a "greater of" approach.

Pension Funding

We think this is another area in which CAPSA can play an influential role.

Different approaches to funding, and particularly solvency, have been seen recently in Québec, Alberta, BC, and New Brunswick, so this appears to be an opportune time to consider changes nationwide. The CIA has already begun work to develop new alternatives to solvency funding that are intended to balance benefit security and affordability.

It is clear that not all pension plans carry the same level of guarantees, and that the legislation and regulations should accommodate different funding requirements. Therefore, the need for, and value of, solvency funding for various types of pension plans should be up for consideration.

We would invite CAPSA to bring these matters to the attention of policymakers and other stakeholders.

In addition, some aspects of solvency funding are within the realm of regulators. The CIA is concerned about how alternative settlement methods are applied in different jurisdictions; specifically, the restrictions imposed by the Office of the Superintendent of Financial Institutions (OSFI), and the recent suggested changes in Ontario are inconsistent with each other. It is acknowledged that the assumed settlement via an annuity purchase is an imperfect approach, especially for large plans and indexed annuities. The CIA would be willing to work with CAPSA to review other approaches, which could include revisions to the annuity proxy and giving greater consideration to alternative settlement methods. Consistent with our earlier points, harmonization of the resulting solvency bases should be sought.

Target Benefit Plans (TBPs)

CAPSA should work to promote and encourage alternative plan designs which include TBPs and other hybrid plans. This can be done by addressing the areas listed below. We have identified which issues should be addressed by policymakers and/or regulators:

- Disclosure and communication of information to beneficiaries of these plans [regulatory];
- Conversion of benefits accrued under a defined benefit plan when the plan converts to a TBP [both];
- How to make non-collectively bargained plans work in a TBP regime [policy];
- Governance issues for TBPs:
    - How the plan should be administered; e.g. by a trustee board, jointly governed by employers and participants, etc. [policy];
    - What should be included in a funding policy and investment policy [regulatory];
    - How the TBP should be monitored as to whether it is on track to provide the target benefit [regulatory]; and
    - What the role of the superintendent should be in the regulation of TBPs [both].

We also note that, for TBPs, the plan trustees should determine the relative importance of adequacy, affordability, and benefit security, as opposed to being required to follow an overall solvency or other funding requirement that may not be appropriate.

Other Issues

- Defined contribution (DC) pension plans are growing and maturing quickly. Québec Bill 57 allows for the removal of the “supplementary benefit” for deferreds in Québec, but not elsewhere.
- CAPSA should develop guidelines around the decumulation of DC assets. DC plan sponsors and administrators are concerned about what their responsibilities will be in this phase, while plan members are being exposed to significant investment and longevity risks in retirement.
- CAPSA should also enunciate a vision that recognizes both the short-term and long-term balance in protecting the entitlements of plan members. More restrictions in the short term run the risk of diluting entitlements and coverage in the long term, and may result in the ultimate survival of fewer plans.

The Canadian Institute of Actuaries hopes its comments provided herein will be of value. Please feel free to contact me if you have any questions, or require any clarifications.

Robert H Stapleford

Robert H. Stapleford, FCIA
CIA President