September 30, 2016

Solvency Funding Review
Pension Initiatives Unit, Pension Policy Branch
Ministry of Finance
7 Queen's Park Crescent
5th Floor, Frost Building South
Toronto, ON M7A 1Y7

Subject: Review of Ontario's Solvency Funding Framework for Defined Benefit Pension Plans – Consultation Paper

We understand that your ministry is seeking feedback on how best to revise the funding framework for defined benefit (DB) pension plans in Ontario, including considerations around solvency and enhanced going-concern funding. In response to this consultation, we have prepared the attached submission, specific to the numerous options outlined in the consultation paper.

The Canadian Institute of Actuaries (CIA) acknowledges that the large amount of solvency special payments made by plan sponsors over the past 10 years has been a significant contributor to some sponsors closing or modifying their DB plans. Although solvency funding helps to protect plan members from bankrupt employers, the number of funding relief measures that were introduced in the past 10 years demonstrates the need for changes in funding regulations. Canada may be the only jurisdiction with solvency funding requirements, and it has been shown to be unaffordable for some plan sponsors. The CIA believes that DB-type plan designs are the best vehicles to provide secure and predictable retirement income. In order to slow down the decline of DB coverage, or potentially increase it, the CIA would support a policy decision by the Ontario government to change the funding regime by replacing the solvency funding framework with an enhanced going-concern funding framework, provided that the going-concern framework would appropriately include regulated provisions for adverse deviations (PfADs). The submission lists some pros and cons to assist with this decision.

On termination benefits, the CIA recognizes that Ontario government policymakers are responsible for establishing minimum benefits on termination of employment and the CIA would accept a reduction in the current minimum benefit. Please note that the CIA is in the midst of a review of the commuted value standards.

The submission also addresses other important items, namely annuity purchases and modifications to the Pension Benefits Guarantee Fund (PBGF).

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Thank you for taking the time to review our submission. If you have any questions, please do not hesitate to contact Joseph Gabriel, CIA staff actuary, education, at 613-236-8196 ext. 150 or joseph.gabriel@cia-ica.ca.

Yours truly,

David R. Dickson, FCIA
CIA President

Canadian Institute of Actuaries Submission to the Government of Ontario Consultation on Revising the Solvency Funding Framework for Defined Benefit Pension Plans

Introductory Remarks

The Canadian Institute of Actuaries (CIA) is the national organization and voice of the actuarial profession. The Institute is dedicated to serving the public through the provision, by the profession's 5,200+ members, of actuarial services and advice of the highest quality. In fact, the Institute holds the duty of the profession to the public above the needs of the profession and its members.

We are pleased to offer the following comments on the provisions included in the consultation paper. For ease of reference, our comments follow the order in which the different provisions appear in the consultation paper. However, the potential elimination of funding requirements under the solvency basis (approach B) while a plan is in existence is the most significant provision.

Current perceptions are that DB plan funding on a solvency basis is difficult to maintain as a result of the worst case scenario approach (plan wind-up with optimal benefits), particularly in a low interest rate environment, and due to the short amortization period for any solvency deficits. These effects often result in contribution levels that are high and volatile, and are seen as unsustainable by many plan sponsors. In addition, numerous plans already benefit from solvency rules exemptions, and funding relief measures have been implemented more than once over the last 10 years. This translates into inconsistent treatment of pension plans and leads many to the conclusion that the current funding rules were not appropriate to fund the benefit promise in traditional DB pension plans.

Note that the solvency basis is a measurement of benefit security at a given point in time, in case of a plan wind-up (ignoring benefit exclusions such as future indexing under solvency valuations). A process that removes solvency funding can ultimately result in a deterioration of the solvency position, regardless of the financial status on a going-concern basis. It should therefore be understood that with a new reinforced going-concern funding approach and the elimination of solvency funding (as per approach B), the risk of having a deficit and the risk of larger deficits will be higher for most plans upon wind-up; therefore increasing the risk of benefit reductions where the plan sponsor is not solvent.

Considerations around the removal of solvency funding requirements

Arguments for removing solvency funding requirements:

- While solvency funding has served to increase the pool of assets dedicated to fund DB pension plans, the need for repeated relief measures over the last 10 years indicates that the regime requires fundamental change.
- It has resulted in unsustainable volatility in contributions, as it is based on market interest rates, notwithstanding the smoothing mechanisms available.

- It is pro-cyclical, and asks plan sponsors to increase contributions once poor performance has already impacted the plan, and at a time when they likely can't afford the contributions, rather than building a buffer before the impact of poor performance is realized.
- For some sponsors, solvency funding requirements and the resulting level and volatility of contributions are difficult for them to budget and manage and are used to justify plan terminations and/or conversion to defined contribution plans.
- It is based on the assumption that the plan will be terminated. Plan terminations on an unfunded basis with an insolvent employer are rare and not the primary focus of the plan sponsor in the context of funding.
- It is also based on the assumption that stakeholders are willing to pay the price for the full security of benefits. Many are not willing to accept such a high price.
- Canada may be the only jurisdiction that uses such volatile measures which produce significantly higher contributions than in other countries. For example, contributions are much lower and less volatile in the U.S.
- Furthermore, in Ontario, unlike most other provinces, the solvency liabilities must include the value of early retirement subsidies in case of plan wind-up even though those members may not retire early from the labour force (i.e., grow-in benefits).

Arguments for keeping solvency funding requirements:

- Plan participants will be better protected on plan wind-up if contributions are made on this basis. Furthermore, participants need to be informed of the wind-up position of the plan in order to be aware of the risk.
- Sponsors' concerns can be partially addressed through the following:
  - Additional temporary relief during unfavorable economic circumstances;
  - Increasing the amortization period resulting in lower levels and volatility of contributions; and
  - Implementing a solvency reserve account where excess solvency contributions can be refunded.
- Without solvency requirements, there could be higher risk for the PBGF (and higher premiums).

Please find our comments on the consultation paper below:

Approach A – Modified Solvency Funding Rules

There are seven options under approach A, some of which could be combined in a reformed solvency funding regime.

Option 1: Average solvency ratios

This option would mirror provisions in the federal solvency funding regime, determining deficiencies using a three-year average solvency ratio, and using a five-year fresh-start basis for amortization, without interest.

Prior to the 2010 modifications, the federal regime permitted asset smoothing for solvency valuations, but not the corresponding smoothing of discount rates. Ontario currently requires that these be done in tandem if smoothing is elected. We perceive no fundamental reasons to change from the current Ontario approach (if a 100 percent solvency funding target were to be maintained) in favor of the federal approach. However, we acknowledge the comments in the paper about the enhanced transparency that would result from having all plans use the same methodology, and also observe that a federal-style averaging method is potentially less complex and more transparent than the current Ontario-style smoothing.

Furthermore, this change on its own would not go far enough to address the degree of change required, and if the solvency funding target were to be lowered (as under option 4 below), then the ability to smooth results on any basis might reasonably be eliminated.

The five-year fresh-start basis for amortization under the federal regime is similar to the proposals under option 3 below, and we address it at that point.

Option 2: Lengthened amortization period

The paper proposes a period up to 10 years for the amortization of solvency deficiencies, replacing the previous five-year period which results in high and volatile contributions. This represents a certain compromise between security and affordability, as contributions would be significantly reduced, but does not remove the basic problem of solvency variability.

Option 3: Consolidation of solvency deficiencies

Consolidating all past deficits at each valuation date is effectively the approach adopted under the federal solvency regime and, as for option 2, would serve to lengthen the amortization period for solvency deficiencies. Against that background, and having regard to the simplification merits noted in the paper, the CIA would support this approach, though the period should be chosen so as to target the desired funding level within a reasonable time frame.

The current regime, where gains can be used only to shorten the amortization period while losses add a new layer of contributions, can increase volatility by ratcheting up near-term contributions if a plan alternates between gains and losses.

Option 4: Funding a percentage of the solvency liability

The actuarial profession has developed standards of practice to determine the wind-up valuation basis. If a government policy decision is made to establish a minimum solvency funding target that would be lower than 100 percent, the CIA could support targeting a solvency ratio of 80 percent as a reasonable compromise between security and affordability.

As the PBGF could play an enhanced role in mitigating decreased benefit security associated with this option, please refer to our separate comments on the PBGF later in this document.

Option 5: Solvency funding for certain benefits only

In terms of the alternatives presented in the paper, it may seem more logical to require solvency funding for normal retirement benefits (which arguably should be accorded a higher degree of security) but not for additional benefits such as subsidized early retirement benefits, rather than the other way around. However, the CIA sees this option as problematic in terms of additional complexity which would reduce transparency to stakeholders, and given the fact that plans without generous ancillary benefits would obtain little or no relief under this option. Furthermore, there would be the issue of whether the early retirement benefits for retired members should be treated in an equivalent manner as for active members.

Option 6: Solvency reserve accounts (SRAs)

We would like to emphasize the fact that the CIA strongly supports the concept of an SRA under approaches A and B of the consultation paper. SRAs should be enabled whether or not the policy decision is made to uphold or remove solvency funding requirements—as noted later in this document, we believe that the concept should be extended to the going-concern funding requirement as well (although this would be under a different name).

The CIA has long been an advocate of SRAs, either achieved through a separate account or within the plan, for example through a "banker's clause" as in Québec. As surplus asymmetry represents an issue for the long-term sustainability of DB pension plans, we recognize that allowing employers to draw from excess surplus would be a positive step for them.

Plan sponsors are very concerned that they are required to make large solvency payments, especially in the current low interest rate environment. A significant increase in interest rates may by itself eliminate current solvency deficits. Under that scenario, those solvency payments would only contribute to a surplus. Often, the utilization of a surplus is a contentious issue; furthermore, on plan wind-up, it is often subject to litigation.

The CIA has suggested that these payments be accumulated in a special account and that the account be refunded to the entity that has made those payments if all accrued benefits are fully secured. In particular, on plan wind-up, if all accumulated benefits have been settled, the part of the remaining surplus attributable to those payments could be refunded.

This special account should also be used under approach B, where contributions to fund going-concern deficit and to fund the provision for adverse deviation would accumulate in the account (under a different name), and be refunded when accrued benefits are funded at the target level established under regulations.

This may also provide an incentive to sponsors to make contributions over the minimum required and to better fund pension plans. These contributions in excess of the minimum would be deposited in the account.

We note that provincial regulators in Alberta, British Columbia, and Québec (for both solvency and going-concern payments) have adopted SRAs as funding options for plan sponsors.

Option 7: Letters of credit (LOCs)

The CIA supports allowing the use of LOCs, and does not see a reason to impose a low limit on their use, given the high quality of these instruments. The threshold allowed remains a government policy decision, as 15 percent or any other limit is not the result of any actuarial analysis.

The market will find a natural limit for letters of credit, since banks will not offer them and sponsors will not buy them to any greater extent than justified (because they are expensive and reduce the sponsor's ability to obtain lines of credit for other business purposes). We note that Alberta, BC, and Manitoba have no such limit.

Existing LOCs should be fully recognized in the value of assets, on both the going-concern and solvency basis, as they would be fully available to support payment of benefits in the event of default of the sponsor.

Other comments

As an ending note on approach A, should Ontario choose to retain solvency funding, the regulator should allow more flexibility to actuaries in the use of the alternative settlement method.

Approach B – Eliminate Current Solvency Funding Rules and Strengthen Going-Concern Funding

The CIA supports the concept of enhanced going-concern funding if solvency funding requirements are removed.

We note that the PBGF could play an enhanced role in mitigating decreased benefit security under this approach; therefore, please refer to our separate comments on the PBGF later in this document.

Option 1: Require a funding cushion (provision for adverse deviation (PfAD))

Including a new PfAD in future going-concern valuations is a good way to address the risks involved. The PfAD should reflect the risks by being linked to the degree of asset liability mismatch and potentially other factors. The CIA is currently performing research that will update and enhance a 2013 CIA research paper titled Provisions for Adverse Deviations in Going Concern Actuarial Valuations of Defined Benefit Pension Plans, and we are willing to assist in the development of Ontario's PfAD.

Québec's new rules are intended to reflect option 1 but in a simplified manner that prescribes a relatively simple two-dimensional grid. We believe such a grid is a step in the right direction and hope to see a slightly more refined approach in the near future. Others have suggested determining a PfAD by reference to the valuation interest rate assumption, but that is not the best approach, as it poorly reflects the asset-liability mismatch. Suggestions to reflect certain plan provisions or the financial strength of the plan sponsor may be relevant to assess certain risks but we consider them too difficult to implement in a practical manner. Other factors such as plan maturity and demographics are taken into account by Québec's new approach. The suggestion to take into account the level of funded PfAD in determining the possibility to use surplus is appropriate, as is the suggestion to take into account the level of funded PfAD to determine the frequency of valuations.

In summary, we support the concept of requiring a PfAD addressed in the paper, if solvency funding requirements are removed. The CIA is not in favour of removing solvency funding without implementing a PfAD, and the PfAD should not totally be left to the discretion of the plan actuary or administrator; rather, it should be prescribed through legislation or regulatory policy.

Option 2: Shortened amortization period

The paper proposes a reduced period for the amortization of funding deficiencies, replacing the previous 15-year period. Though 15 years or another fixed amortization period has no underlying actuarial principles—other than perhaps coinciding with a typical EARSL (expected average remaining service lifetime)—the CIA considers 15 years as being a reasonable compromise between affordability, stability, and security. Should solvency funding be removed, we reiterate that a 15-year amortization period should be applied with a PfAD.

One of a typical plan's key funding objectives is stability of contribution requirements. Allowing a plan the ability to fund going-concern unfunded liabilities over a 15-year period is important in being able to achieve that objective and is no less so in the absence of solvency funding. There appears to be no strong actuarial rationale upon which to base a reduction in the amortization period.

Furthermore, a maximum amortization period of 15 years is a minimum requirement which means that, based on the needs of a particular plan—and its balancing of key funding objectives (adequacy, affordability, security, stability, and equity)—it can fund deficiencies over any time frame from immediately up to 15 years. This would then provide a plan with flexibility by allowing up to 15 years and thereby promoting stability of contribution requirements. Lowering the allowable amortization period would simply limit a plan sponsor's flexibility and the plan stakeholders' ability to decide the relative priority of its key funding objectives.

Option 3: Restrictions on return on investment assumptions

The CIA understands why regulatory oversight of actuarial assumptions may be desired by Ontario. The suggestion to set a maximum interest rate assumption would be acceptable provided such a maximum can be adjusted to reflect each plan's investment policy. This would tie in well with the earlier suggestion to determine a PfAD that reflects a plan's asset-liability mismatch and other relevant factors. The suggestion to refer to accounting rules does not seem appropriate because they do not reflect a plan's investment policy.

We would also suggest that the current approach of reflecting the actuary's best-estimate expectations be maintained, without any regulatory requirement or expectation that an implicit margin in or offset from the discount rate be reflected. The more direct and appropriate way to accomplish the objective is through regulated PfADs.

The recommendations of the D'Amours report to limit the recognition of equity risk premiums represents another possible compromise and we encourage the ministry to analyze this approach.

Option 4: Solvency trigger for enhanced funding

The paper proposes that under a framework where going-concern funding is enhanced, and solvency funding is eliminated, solvency could continue to play a role by referring to a plan's solvency position as a trigger to determine whether additional funding is needed or if the plan would be allowed to take an action that would weaken its funded position (as examples:

requiring additional funding or restricting benefit improvements if a plan falls below a certain solvency level). Implicit in this approach is that, regardless of the funding method, a specific level of benefit security on a solvency basis is required.

The CIA stresses that the level of the trigger is effectively a policy decision. Any level below 100 percent is a public policy compromise, and not rooted in actuarial principles. As noted in our comments under approach A, option 4, we believe that a level of 80 percent would constitute a reasonable compromise between security and affordability. However, requiring a lump sum contribution would create a potentially onerous pension funding cliff for plan sponsors in particularly challenging economic climates. Therefore, both the level of the trigger and the resulting funding requirements when triggered would need to consider this issue. We observe that this approach would therefore be most effective when combined with some of the solvency modifiers outlined in the paper under approach A (e.g., lengthened amortization periods, LOCs, SRAs).

Option 5: Enhance the PBGF

The CIA understands the rationale of having an insurance mechanism for pension plans to pool the risk for members facing an underfunded plan on employer bankruptcy. If the PBGF is to continue, it is incumbent on the government to ensure that the premiums paid reflect the risk of the various participants. Rather than simply increase the premiums across the board, we agree with the consultation paper that additional sophistication of the PBGF assessment is warranted if the PBGF is to continue. Actuarial input on setting the appropriate premiums would be warranted and the CIA would be pleased to assist. The 2008 Report of the Expert Commission on Pensions: A Fine Balance, had a number of recommendations for improving the PBGF, which it would be good to revisit at this juncture.

Additional Complementary Reform Measures

In addition to approaches A and B described above, the consultation paper outlines a number of measures that may help to balance reforms that could reduce the security of plan beneficiaries' benefits. Our comments follow.

Option 1: Annual valuation reports

As an introductory remark on valuation frequency, please note that the CIA does not support allowing the administrator to arbitrarily select any date within the plan year as the valuation date, in order to minimize contribution requirements. The use of an alternative valuation date would be acceptable if it is based on the effective date of an event (such as a plan spin-off), but for regular periodic valuations, the CIA supports the use of consistent valuation dates from valuation to valuation.

While many large pension plans regularly conduct annual valuations, whether filed or not, there are many single employer plans that conduct valuations only when required. An annual valuation requirement would improve transparency and benefit security. While the CIA agrees that annual valuations may be a best practice, Ontario needs to consider the benefits of annual valuations versus the additional burden particularly on small and medium-sized plans. Another consideration is that plan sponsors (which in the case of jointly sponsored plans include plan participants) understandably need time to implement higher contribution rates, so the practice of conducting annual valuations but not necessarily filing the valuation is a reasonable approach to regularly monitor plan health, giving sponsors time to plan for changes in contributions or benefits.

If the goals are transparency and full disclosure, these objectives can be met through an annual extrapolation of the funded status of the plan in years in which a valuation is not conducted. Larger plans would typically conduct annual valuations, even if the valuation is not filed; while actuarial extrapolation of the liabilities would meet the disclosure objectives for smaller plans.

We note that the request for comment mentions the practice of some plans to conduct annual valuations, even if only triennial valuations are required, and then the administrator decides whether to file the valuation or not. While the CIA agrees that there may be a bias in filed results if an administrator can elect to file annual valuations when the valuation is favorable, we do not see this practice as a significant concern. Plans that conduct valuations more frequently than the minimum requirement provide sponsors with better information and more time to make necessary adjustments.

Finally, we note that if Ontario decides to eliminate solvency funding requirements, the province may wish to reassess whether the trigger for an annual funding valuation should continue to be based on the solvency ratio or a minimum going-concern funded ratio. Ontario could decide to maintain an annual valuation filing requirement based on a solvency valuation threshold if the goal is to require annual valuations for plans where solvency deficits are large. Alternatively, Ontario could consider a going-concern funding ratio threshold as the trigger for annual valuations.

Option 2: Written policies

While having a formal funding policy and governance policy is a good practice and is supported by the CIA, we do not believe that mandatory establishment of such policies for all plans is helpful or necessary.

A funding policy is very important for plans that are not subject to highly prescriptive funding rules. For example, large, jointly sponsored plans that are currently exempt from solvency funding requirements generally do have a formal funding policy, and it is vital that these plans have such policies as they have much more discretion in funding.

However, in a regulatory environment where funding rules are highly prescriptive, we believe that it would not be helpful to require that all plans establish and file a funding policy. Many single employer pension plans would simply state that the funding policy is to contribute at least the minimum required contribution.

Similarly, while a governance policy may be a good practice, it is not necessary to make such policies mandatory for all plans. Plans with complex governance and decision-making structures generally already have governance policies; we do not see the need to file such policies with the Financial Services Commission of Ontario (FSCO). And for many single employer plans, requiring a formal governance policy does not add much value.

Option 3: Commuted values (CV)

The consultation paper considers a modification to the CV calculation.

The actuarial profession has developed standards of practice to determine the commuted value as the fair value of a pension benefit under financial economic principles. The CV does not attempt to adjust the value to reflect the risk inherent in each individual pension plan. Please note that the CIA and the Actuarial Standards Board have initiated a review of CV standards, and this review will be completed in the near future with new standards for the calculation of CV as a result.

The issue of how much a pension plan should pay to terminating members who elect a lump-sum settlement is a public policy decision. The range of answers includes (but is not limited to) the following:

- Commuted value, as currently defined;
- Some adjustment to the commuted value based on the funded status of the plan; and
- Some measure related to the funding reserve.

The government is contemplating that terminating plan members would have the option to receive a lump sum value that could be lower than the fair value. If such members do not agree with this approach, the deferred pension option remains available to them, albeit not fully funded on a solvency basis, should solvency funding be removed. It is our opinion that the decision to allow a reduced value (instead of the commuted value) is a government policy decision: the decision of paying a benefit that is less than the amount determined in accordance with CIA standards rests with the government. We believe that legislation should not alter or adjust the calculation of the commuted value; but if for public policy reasons, the government wishes to allow the payment of an alternative (e.g., lower) amount, then this can be provided for separately (either by allowing the payment of a fraction of the commuted value in plans with deficits or by referencing an alternative measure such as the funding reserve). However, the definition of commuted value itself should not change. Clear information on the implications of this option should be provided to terminating members. In the interest of increased transparency, members should also be informed about this impact. We would like to point out that there could be inconsistency between members who terminate before a plan winds up (they lose the unfunded portion of their CV) and the plan members at the time of wind-up and where the employer is solvent (such members would receive their full CV). This would create a potential for disputes.

As an additional comment, if the policy decision is made to pay termination benefits less than the CV, Ontario plan members may receive lower lump sum termination benefits than other members who would be subject to other jurisdictions in some cases. This raises an equity issue on the treatment of pension entitlements of Ontario pension plan members in comparison to pension plan members of other provinces.

In the event that only part of the CV based on the solvency ratio (SR) would be payable as a lump sum on termination, the SR should be established as per the most recent information (e.g., current quarterly SR estimate requirement could be imposed) rather than the SR at the previous valuation (or annual update). Using the SR estimate from last valuation or from last plan year-end would not depict an accurate picture of the circumstances of the plan at the time of termination given the volatility in market conditions on a monthly basis. Moreover, the process should allow the plan to pay the full CV if the plan sponsor makes an additional contribution covering the unfunded portion of the CV.

Option 4: Restrictions on contribution holidays and benefit improvements

The suggestion to restrict contribution holidays and benefit improvements ties in well with the earlier suggestion to determine a PfAD based on a plan's asset-liability mismatch. However, the restriction on benefit improvements should not be an all-or-nothing proposition (i.e., improvements should still be allowed but with more stringent requirements, such as immediate or relatively rapid funding). Another approach that could be useful would be to impose rollbacks for improvements granted very close to a wind-up date, such as Québec's five-year phase-in rule.

Option 5: Administrator discharge for annuity buyouts

The CIA supports this option as long as the funded position of the remaining plan is not reduced. Should annuity purchases occur in times of solvency deficit, accrued benefits for remaining members should be protected, in terms of the remaining solvency level being preserved either by additional contributions or by purchasing annuities according to the SR at the time the annuities are purchased. As an example, say a plan shows an 80 percent SR and the sponsor wishes to annuitize 100 percent of the retiree benefits with available assets from the plan, leaving the remaining benefits in the plan less than 80 percent funded on a solvency basis. Such a situation should not be allowed; therefore, immediate top-up solvency funding should be required in a context of an annuity purchase occurring in times of deficits, in order to preserve existing solvency levels and eliminate intergenerational asset transfers.

One of the main issues surrounding annuity purchases is the governance of the related policy. The regulations should be clear on who would be empowered to establish the annuity purchase policy. It is important to mention that annuity purchases may have sizeable impacts on a plan sponsor's financial results, if combined with additional employer contributions. These significant implications suggest that the entity empowered to decide on annuity purchase conditions should be the entity responsible for the funding of the plan, namely the plan sponsor in most cases. The choice of the annuity issuer and the administration of the process could be made in conjunction with the plan administrator, or its delegate, provided they possess the required knowledge to carry those tasks.

Clear directions on responsibilities should also be set, as annuity contracts are currently considered as plan assets and may fall under the fiduciary liability of the plan administrator. The CIA believes that these rules should also permit the conversion of current buy-in annuity contracts into fully settled buyout contracts in the future, provided the annuity purchase policy is respected.

Where annuity purchases were completed in the past, the power to convert these existing annuity contracts into full settlement should remain with the entity responsible for the funding of the plan and be addressed in the annuity purchase policy.

Also, several scenarios of annuity purchases can occur: as an example, a plan may elect to stagger an annuity purchase covering retiree pensions in two stages covering each 50 percent of the benefits. In such a case, clarification on the timing of the deemed completion should be established; namely, it would be preferable to deem any insured portion via buyouts to be settled and free of any ties.

Complex administration issues may arise for plans subject to more than one jurisdiction, as rules governing the purchase of annuities differ by province.

Given the wide variety of ancillary benefits provided by pension plans such as full, partial, or formula-based indexing, insurance companies may not offer annuity products with identical features or provide them at the cost of a significant risk premium, given the level of risks inherent in this type of promise and difficulty in obtaining assets to back these risks. Consideration should be given to allowing conversion of a plan's indexing provision to another feature, deemed to be of equivalent value, in order to enable a plan to fully annuitize accrued pension benefits, and not only in the case of a plan wind-up or for a solvency valuation.

We take the opportunity to outline to the Ontario government that similar conversion should be permitted to accrued benefits payable from the plan, in order to simplify complex indexing provisions provided by some plans. Conversion could be made conditional to a plan member consultation process with similar rules to the current surplus allocation process upon plan wind-up (e.g., less than 30 percent opposition).

Option 6: Increase PBGF coverage

We acknowledge that the current pension amount covered under the PBGF was put in place many years ago. However, it should be noted that non-Ontario members of an Ontario registered plan are not subject to PBGF coverage and are not treated like Ontario members. It should also be acknowledged that other provinces have not put into a place a pension guarantee fund. We recommend that actuarial analysis help determine the appropriate level of coverage. That level could depend on the risk tolerance that stakeholders (including the government) have to an underfunded plan on employer bankruptcy. As an aside, we note that Assuris insures annuities up to $2,000 per month or 85 percent of the promised monthly income benefit, whichever is higher.

Closing Remarks

As per the consultation paper, the proposed funding reforms will be made available for public feedback in fall 2016 and necessary legislative or regulatory amendments would be drafted accordingly. As always, the CIA remains at your disposal for any assistance in the work ahead.

Thank you for taking the time to consider our comments. If you have any questions, please feel free to contact Joseph Gabriel, CIA staff actuary, education, by telephone at 613-236-8196 ext. 150, or by e-mail at joseph.gabriel@cia-ica.ca.