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Mohammed Jaffri
A/Policy Manager
CAPSA Secretariat
5160 Yonge Street, 16th Floor
Toronto, ON M2N 6L9

capsa-acor@fSCO.gov.on.ca

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Subject: Consultation Paper on Proposed Changes to Funding and Asset Allocation Rules Under a Future Agreement Respecting Multi-jurisdictional Pension Plans

The Canadian Institute of Actuaries (CIA) is the national, bilingual organization and voice of the actuarial profession in Canada. Its 5,000+ members are dedicated to providing actuarial services and advice of the highest quality. The Institute puts the public interest ahead of the needs of the profession and those of its members.

We are pleased to provide our comments on CAPSA's [Consultation Paper on Proposed Changes to Funding and Asset Allocation Rules Under a Future Agreement Respecting Multi-jurisdictional Pension Plans](#). We have responded to the four questions listed at the end of the paper.

Q1. Is one option described in this Consultation Paper preferable to the other? If so, which one and why?

We assert that CAPSA should continue to pursue the objective of harmonization of pension legislation and regulation across Canada. To that end, CAPSA is soliciting feedback from various stakeholders respecting the funding and asset allocation methodology of multi-jurisdictional pension plans.

Over the last few years, pension funding legislation and regulation have begun to diverge amongst Canadian jurisdictions. Different approaches concerning solvency funding and different rules for target benefit plans have emerged. This divergence may be a temporary situation as other jurisdictions move toward the same or similar funding approaches that have been adopted recently. In the meantime, we must recognize these funding differences and how multi-jurisdictional pension plans should operate.

Jurisdictions that have or are changing their funding rules and are now excluding solvency funding have done so for a number of reasons. This new funding approach aims to balance protecting pensions for plan members while encouraging plan sponsors to continue offering affordable and sustainable pension plans. In these jurisdictions where solvency funding was eliminated or reduced, the going concern funding requirements were strengthened to ensure adequate funding of benefits. We also note that proposed amendments to section 3500 of the CIA Practice-Specific Standards for Pension Plans – Pension Commuted Values may result in reduced differences between solvency and going concern funding deficits. These jurisdictions

understand the risk around removing solvency funding and have put in place what they believe are reasonable additional funding requirements to recognize this risk.

The consultation paper did a good job outlining the key differences, advantages, and disadvantages between options 1 and 2. As for the mechanics of the new option 2, we note that the description provided in the consultation paper is a reasonable approach; however, this approach is complicated and will require additional time, and the plan sponsor will incur additional plan expenses.

There are many stakeholders involved in the Canadian pension system and the preference of option 1 vs. option 2 will depend on the particular viewpoint of that stakeholder. In general, stakeholders who would prefer simplicity, consistent treatment of all plan members, and ease of administration would prefer option 1. These stakeholders may understand that option 1 does not provide the same security of benefits for some of the plan members as provided under their province of employment legislation. However, these stakeholders may believe that the overall simplicity, consistency, and ease of administration under option 1 outweigh the added value achieved from perfect fairness for all plan members.

Other stakeholders who are more concerned with security of benefits as provided by the province of employment and accuracy would prefer option 2. These stakeholders may be concerned that certain plan members are at a disadvantage if their pension benefits are not fully funded on a solvency basis solely for the reason that their plan sponsor, under a major authority, is not required to fund these benefits. These stakeholders believe that the safeguards in option 2 are a reasonable accommodation to protect these plan members in case of a plan event where their benefits may negatively be impacted under the funding practices of the major authority. However, these additional safeguards come at a cost for the plan sponsor who would be required to make additional funding under option 2 and incur additional plan administration costs.

The CIA supports the movement towards a single uniform pension funding methodology for all jurisdictions across Canada. The uniform adoption of an enhanced going concern funding basis in our view is a reasonable approach that balances protections for plan members while allowing plan sponsors to offer a valuable pension plan.

With the goals of uniformity, harmonization, and ease of administration, our preference is option 1. This option 1 is in line with the 2016 Agreement and appears to be in line with the funding model jurisdictions are moving towards. In addition, we assert that option 1 would support the movement of all jurisdictions to a more uniform funding approach.

Q2. Are there advantages and disadvantages to either option that have not been described in this Consultation Paper? If so, what are they?

We consider that the following are additional disadvantages to each respective option:

- a) Option 1: still contemplates some modifications to the general rule that an ongoing multi-jurisdictional pension plan be funded in accordance with the requirements of the pension legislation of the major authority for the plan instead of the pension legislation of any minor authority for the plan.

b) Option 2:

- Complexity may discourage plan sponsors from maintaining multi-jurisdictional pension plans; and
- Exemptions from calculating the additional liability may impact plan sponsor's workforce planning decisions.

Q3. Is one method described in this consultation paper for addressing defined benefits that generate significant funding costs when valued and funded on a solvency basis, but lower funding costs when valued and funded on a going concern basis, preferable to the other? If so, which one and why?

The consultation paper provides the following examples of defined benefits that generate significant funding costs when valued and funded on a solvency basis, but lower funding costs when valued and funded on a going concern basis:

- Consent benefits;
- Plant closure benefits;
- Subsidized early retirement benefits; and
- Grow-in benefits.

With the goal of ease of administration, our preference is the second method:

Modifying the proposed asset allocation rules under both Option 1 and Option 2 to introduce priority asset allocation tiers in situations where the major authority's pension legislation would not require certain benefits to be funded on a solvency basis. Under such tiers, plan assets would only be allocated to cover the costs of these benefits after assets have first been allocated to cover other higher priority benefit liabilities.

This method is less complex and will not impact the security of the higher priority benefits.

Q4. Are there other options and methods that CAPSA should consider for the multi-jurisdictional pension plan funding and asset allocation rules under the Future Agreement?

Our comments to questions 1 to 3 respond to the basic question of option 1 vs. option 2. Under the current funding agreement there are a number of details in the agreement which may require additional review and adjustment given the changes to the funding rules across Canada. Regardless of the option chosen, some of these details would require additional review.

If CAPSA wishes to simplify the funding approach further, we suggest adopting a funding rule providing that an ongoing, multi-jurisdictional pension plan be funded in accordance with the requirements of the pension legislation of the major authority for the plan instead of the pension legislation of any minor authority for the plan. This will further simplify the regulation of multi-jurisdictional pension plans. It will also provide the same level of security of benefits for all members of the plan, regardless of the jurisdiction of their employment, and may result in simplifications of the asset allocation rules.

Ideally, jurisdictions moving towards a similar funding model would be the best solution to assist in drafting the future agreement. If not possible and CAPSA has some concerns for minor authority members, CAPSA may consider option 2 funding in certain limited situations. In situations where the plan members of a minor authority that are otherwise negatively impacted by option 1, option 2 funding would be required where there is a significant difference between the funded ratio of the plan determined on going concern and solvency bases. In these situations, option 1 would be the default approach; however, this option would be adjusted to option 2 funding in order to provide some level of option 2 protection to certain plan members in jurisdictions where funding on a solvency basis is still required.

The CIA hopes its comments provided herein will be of value.

Respectfully submitted on behalf of CIA President Sharon Giffen,

Michel Simard
CIA Executive Director