Canadian Institute of Actuaries
Institut canadien des actuaires

May 4, 2018

Target Benefit Funding Framework
Pension Policy Branch
Ministry of Finance
5th Floor, Frost Bldg. S.
7 Queen's Park Crescent
Toronto, ON M7A 1Y7

Subject: Proposed Funding Rules for Multi-Employer Pension Plans that Offer Target Benefits – Comments by the Canadian Institute of Actuaries

The Canadian Institute of Actuaries (CIA) is the national, bilingual organization and voice of the actuarial profession in Canada. Its members are dedicated to providing actuarial services and advice of the highest quality. 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 proposed funding framework for target benefit multi-employer plans, as described in your April 4 communiqué. Please refer to our prior submission dated January 29, 2018 for further background: http://www.cia-ica.ca/docs/default-source/2018/218019e.pdf.

There are several positive aspects of the proposed framework, including the following:

- The recognition that the non-guaranteed nature of multi-employer plans (MEPPs) and target benefit plans (TBPs) require a different regulatory framework from other plans;
- The recognition of the importance of funding policies;
- The extension of the going concern unfunded liability amortization period to 15 years;
- The revised basis for termination commuted values;
- Enhanced communication and disclosure to members; and
- The permanent removal of solvency funding.

However, the proposed calculation of going concern PfADs (provisions for adverse deviations) creates several issues.

We note that the proposed level of PfADs for target benefit/multi-employer plans is larger than that for single-employer defined benefit plans (DB SEPPs). We question whether this is appropriate, given, among other things, the nature of the pension promise associated with these plans and the low probability of an MEPP winding up. A high PfAD level effectively

changes the nature of the promise closer to that of a “guaranteed” defined-benefit plan, as opposed to one where the benefit is determined by the level of the collectively bargained contributions. In an MEPP arrangement, high PfADs may result in stable benefits. But the net effect of a high PfAD in an MEPP would be to force low benefits and create an intergenerational inequity. Both the liability and normal-cost PfADs should be built up in good times and drawn down in bad times, thereby sliding within an acceptable range for the plan.

There are valid reasons that a funding framework for MEPPs includes a 15-year amortization period for unfunded liabilities (rather than 10 years in the case of SEPPs), a complete solvency funding exemption (as opposed to the 85 percent threshold for SEPPs), and no backing by the PBGF (Pension Benefits Guarantee Fund). A longer amortization period for MEPPs may be warranted on the basis that the average lifetime of MEPPs is longer than for SEPPs. The solvency and PBGF exemption for MEPPs reflects the fundamental difference in the pension promise of an MEPP vs. an SEPP and the likelihood or not of plan wind-up.

The CIA does not offer an opinion on the optimal level of the PfAD in and of itself. We believe that policymakers should provide information on the rationale behind the determination of the PfAD, at which point we can provide input on how the PfAD should be constructed. It does not appear that this background information has been disclosed, so we request that the objectives and analysis supporting the proposed level of PfAD be shared, so we can provide a more detailed commentary.

We also believe that the regulations should specify only minimum funding standards, which could include a minimum level of PfAD. Plan trustees require the flexibility to set their own target PfADs based on each plan’s specific relative determination of the importance of benefit adequacy, affordability, security, stability, and equity. The TBP/MEPP situation is very different from that of DB SEPPs where security, by definition, is generally most important. If benefit reductions are deemed necessary, then the trustees are best qualified to determine them. Consequently, regulations should have adequate flexibility to recognize the differences among plans.

The framework proposes that earned benefits can be improved only if, after considering the cost of the improvement, the plan will be fully funded on a going concern basis with a fully funded PfAD. This new requirement would make it very difficult to make such benefit improvements, as current workers would need to agree to lower benefits or higher contributions for the plan to become fully funded in the future. This would cause intergenerational inequity and a transfer of wealth to future workers.

From an actuarial perspective, setting the minimum threshold for benefit increases

a. As anything greater than fully funded on a best estimate going concern basis (i.e., with no PfAD) will increase the likelihood of intergenerational wealth transfer to future workers; and
b. As anything less than fully funded on a best estimate going concern basis will increase the likelihood of intergenerational wealth transfer from future to current workers.

The CIA recognizes that there may be non-actuarial issues that result in a policy to require a plan to be more than fully funded following a benefit improvement. If so, we request that the reasons for such a policy be disclosed and the way in which these objectives can be met be open to further discussion.

Finally, this new framework should also be able to apply to single-employer TBPs and the non-union environment, as it is the nature of the pension promise which essentially defines the difference between these and DB plans.

There are several issues within this funding framework exploration that are highly technical and complex, and as such the CIA would be willing to meet with you to discuss them in greater detail. Please contact Chris Fievoli at chris.fievoli@cia-ica.ca if you are interested in arranging such a meeting.

Yours truly,

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Sharon Giffen, FCIA
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