Canadian Institute of Actuaries / Institut canadien des actuaires

February 19, 2019

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2
info@psabcanada.ca

Re: Employment Benefits: Non-Traditional Pension Plans

Dear Mr. Puskaric,

Thank you for providing us with an opportunity to submit our comments on the Invitation to Comment issued by the Public Sector Accounting Board (PSAB) relating to accounting treatment of non-traditional pension plans.

It is clear to us that the PSAB task force involved in the research and preparation of the Invitation to Comment undertook a thorough and thoughtful review of various existing types of pension plans and their risk and cost-sharing provisions. We would like to acknowledge the in-depth analysis and the comprehensiveness of tables setting out possible outcomes in risk-shared/cost-shared plans.

We agree in principle that the financial reporting for employee benefit plans, including non-traditional pension plans, should reflect the economic substance of the risks and ultimate costs borne by an entity. We also agree that there is a need to review the current accounting standard in light of recent plan design innovations in the public sector landscape. We support the two-classification approach identified in the Invitation to Comment, provided that adjustments are made to recognize the economic substance of the risks and costs of the plan in circumstances where a participating employer/plan sponsor does not have discretion to unilaterally adjust contributions/benefits.

We would like to offer the following additional comments and observations:

- Given ongoing innovation in the public sector pension plan landscape, we encourage the PSAB to consider adopting a principles-based approach to financial reporting requirements for these plans.

1740-360 Albert, Ottawa, ON K1R 7X7 ☎ 613-236-8196 🖷 613-233-4552
head.office@cia-ica.ca / siege.social@cia-ica.ca **cia-ica.ca**

- The proposed definition of plans for which defined contribution (DC) accounting would apply is too narrow in scope if adopted as written. For plans in which cash contributions can only vary in a narrow band, the appropriate cost to be recognized should be within that band, or at least not systematically higher or systematically lower than that band. Our concern is that applying pure defined benefit (DB) accounting could result in such a systemic divergence between the costs reported on the financial statements and the actual cash cost incurred by the reporting entity. This is particularly the case if the discount rate used to determine liabilities is different from the discount rates being used to determine cash contribution requirements. Consequently, we believe that it is important that the accounting approach ultimately selected produces results that are consistent with the actual cash costs being incurred by the entities.

- While the charts and summaries set out in the Invitation to Comment provide significant details around potential outcomes for risk-shared/cost-shared pension plans, they do not provide guidance on how these best estimate assumptions should be set or how various potential outcomes for such plans should be considered and weighted. If the approach set out in the Invitation to Comment is adopted as written, it would introduce additional complexities and much higher costs for preparing financial reporting information. In addition, the assumption-setting process would become highly subjective and would vary from one plan sponsor to another, ultimately resulting in less, not more, comparability of financial statements. It is not clear whether its adoption would result in an improvement of the financial reporting information for public sector employee benefit plans. We would encourage PSAB to perform a detailed analysis and provide detailed examples, to be issued as another Invitation to Comment, on how it envisions the application of the proposed guidance, including best estimate assumption setting and valuation of conditional entitlements. Once such detailed examples have been worked through, a cost-benefit analysis could be performed to determine whether the approach produces materially better results.

- For many target benefit plans, multi-employer and jointly sponsored plans, contribution and benefit decisions are made in reference to the going concern valuations. As a result, decisions around cost and risk sharing are made from the funding basis perspective. Changes adopted as a result of this Invitation to Comment should be considered in conjunction with the conclusions from the recent Invitation to Comment relating to applicable discount rates to be used for financial reporting purposes for these plans. Consideration of basic financial reporting principles for these plans, without recognition of the importance of funding valuations and policy decisions, would impair the quality of produced information.

To summarize, the CIA agrees with the general principle that financial reporting for employee benefit plans, including non-traditional pension plans, should reflect the economic substance of the risks and ultimate costs borne by an entity. However, we have a number of key concerns around the setting and application of the proposed best estimate assumptions. Once PSAB provides additional analysis and examples as discussed in our letter, we would welcome the opportunity to comment on the proposed accounting treatment of risk-shared/cost-shared plans, in particular in combination with the PSAB's decision relating to the applicable discount rates to be used for such analysis.

The CIA appreciates the opportunity to engage on these important issues, and we would welcome further discussion with you throughout this process.

If you have any questions, please contact Chris Fievoli, CIA Staff Actuary, Communications and Public Affairs, at 613-656-1927.

Sincerely,

John Dark, FCIA
President, 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.