

August 16, 2019

Michel Després
President and Chief Executive Officer
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Dear Mr. Després,

The Canadian Institute of Actuaries (CIA) is the national, bilingual organization and voice of the actuarial profession in Canada. Our 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 draft regulation published in the *Gazette officielle du Québec* on July 3, 2019. Our comments apply to specific sections in the draft regulation.

1. Section 4: Content of a partial actuarial valuation

We feel it would be simpler and lead to fewer errors if Section 11.2 of the *Regulation respecting supplemental pension plans*, which Section 4 of the draft regulation amends, were to indicate what must be included in a partial actuarial valuation, rather than defining its content based on the sections applicable to a complete actuarial valuation.

2. Section 17: Deleting the word “complete”

The word “complete” currently appears not only in paragraph 1 but also in paragraph 4.1. For simplicity, we think that this word should be deleted (or kept) in both instances.

3. Section 18: Revising the stabilization provision (SP) scale

We understand that the revision of the SP scale is based on an analysis conducted by a task force struck by the CIA and Retraite Québec. We are pleased to note that the SP has been determined on the basis of an in-depth analysis with a set objective, namely an 85 per cent probability of having at least a 100 per cent degree of capitalization over a three-year horizon. Having reviewed the task force report, we note that the scale proposed in the draft regulation differs slightly from the task force’s findings. We understand, however, that such differences can arise from the search for compromise with stakeholders from the employer and labour communities, which likely helps make the scale more acceptable.

We further note that some plans that provide for a rather high degree of matching between the duration of the asset and liability could see their SP increase significantly.

The current scale calls for decreases of 2 per cent in SP for each increase in matching level (i.e., per 25 per cent segment of the ratio between the two durations), while the proposed scale no longer provides for a decline in the SP beyond a certain matching level. For example, a plan with 60 per cent variable securities would no longer see its SP decline beyond 50 per cent matching, so in comparison with the current scale, such a plan would see its SP increase by 2 per cent if it has 50 per cent matching or by 4 per cent if it has 75 per cent matching.

Taking a closer look at the joint task force report, we note that one of the asset allocation assumptions provides for the inclusion of 5 per cent or 10 per cent in real estate, whereas in our opinion, a plan that seeks better matching would instead tend to go with long-term bonds, which would eliminate the other assumption for including a leveraging effect and would no doubt produce a lower SP calculation.

Since it is our opinion that better matching represents a sound approach to risk management, we find that the scale should not introduce this disincentive to doing so. Consequently, we recommend that the revised scale recognize the interest rate risk management resulting from better matching (i.e., per 25 per cent segment of the ratio between the two durations) so as to minimize the increases that would stem from the proposed scale for plans seeking to match assets with liabilities.

We would also like to draw your attention to the fact that the SP scale (current and proposed) does not account for foreseeable changes in asset distribution (in particular for plans that will follow a glide path), whereas actuarial standards require that this be taken into account in the choice of discount rate assumption. We understand that this question concerns the legislation and not the regulation, but we request that you bear this in mind in the event that the legislation is amended.

4. Section 19: Definition of fixed-income securities

We welcome the change that will allow private debts to be included in the definition of fixed-income securities when an investment manager feels that they are of a quality at least equivalent to securities rated BBB by DBRS (or other comparable level for the money market). However, we think that this opinion should be expressed only at the time of an actuarial valuation.

We also ask you to consider including 50 per cent of B- or BB-rated securities (or 25 per cent for B and 75 per cent for BB), or those of an equivalent quality, in the opinion of an investment manager.

5. Section 20: Calculating the asset duration

We feel that the proposal we are making in Section 19 to include certain bonds with a sub-BBB rating according to DBRS and other investments of an equivalent quality is enough to address the current shortcomings. We think that including the other investment categories

in this calculation (e.g., certain stakeholders could assign a duration to shares) would produce significant implementation difficulties and questionable results.

Thank you for taking the time to review our submission.

If you have any questions, please contact Joseph Gabriel, CIA Staff Actuary, Education, at 613-236-8196 ext. 150, or joseph.gabriel@cia-ica.ca.

Sincerely,

[Original signature on file]

Marc Tardif, FCIA
President, Canadian Institute of Actuaries