October 16, 2019

Evelyn Rego, Policy Manager
CAPSA Secretariat
5160 Yonge Street, 16th Floor
Toronto, ON M2N 6L9
capsa-acor@fsrao.ca

Re: Enhancing retirement security for Canadians

Dear Ms. Rego,

We are attaching our correspondence from the CIA to the federal government regarding enhancing retirement security for Canadians in the event you have not already received a copy. We submitted this as part of the consultation process opened by Innovation, Science and Economic Development Canada, Finance Canada, the Minister of Seniors, and Employment and Social Development Canada in December 2018.

With the recent changes in funding standards for defined benefit pension plans in Québec and Ontario, as well as the consultations in Nova Scotia and British Columbia currently underway, we believe it is important to highlight some high-level issues to consider when your members give advice to governments on pension funding.

The CIA is generally supportive of the trend towards going concern plus funding regimes. However, it is critical that the implications are clearly communicated and understood by all stakeholders.

As noted in our attached correspondence, the decision on funding rules for defined benefit pension plans requires balancing interests among many stakeholders. Two primary stakeholders are the employers required to contribute to the cost of benefits and the plan members who receive those benefits. For employers, unpredictable and volatile contribution patterns are a deterrent to sponsoring a defined benefit plan and may in the extreme drive an employer into insolvency if funding relief is not granted. For plan members, many do not have a clear understanding that their pension plan is not always fully funded, and, at times of under-funding, the security of the pension promise is in some part dependent on their employer remaining solvent and/or being able to make contributions.

Going concern valuations largely focus on delivering a rational and orderly accumulation of assets. These valuations use several techniques to smooth contributions by employers and, as a result, at any particular time, the assets of the plan may be greater or less than the plan's liabilities on a wind-up basis. Adding margins to going concern funding valuations is not ideally suited to increasing the security of benefits, although to the extent that the addition of the margin requires the plan sponsor to contribute larger amounts and/or continue contributing for longer periods it may help in this regard. Policy makers should consider the purpose of requiring a margin before determining the type and size of the appropriate margin. They should also consider whether the rules for determining the margins create incentives for excessive investment risk-taking.

Solvency/wind-up valuations largely focus on ensuring benefits security. These valuations do not typically include margins but are commonly based on current best-estimate assumptions for a plan to discharge all its obligation. The degree of benefit security provided to a plan member in the short term will in part be driven by what percentage of the wind-up liability a sponsor is required to fund.

Of concern to the CIA is the notion that the volatility of employer contributions can be reduced by reducing solvency funding below 100 per cent, and that at the same time benefit security for members can be enhanced relative to the prior solvency funding regime by increasing margins in going concern funding. The reality is that the new rules lower the volatility of contributions, but likely reduce the level of benefit security (except in the limited situation where the new rules prevent the insolvency of the employer). We encourage government to be transparent with plan members that these goals are trade-offs.

The lack of uniformity in legislation across jurisdictions has often been cited as a major concern for sponsors of registered pension plans. The current wave of funding reform would be an opportune time to harmonize funding rules; however, it appears that each jurisdiction is choosing to implement slightly differently. Given the broad government policy objectives of enhancing retirement security and encouraging the maintenance of defined benefit plans, the CIA strongly encourages legislators (particularly in Nova Scotia and British Columbia) to harmonize legislation as much as possible.

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

Sincerely,

[original signature on file]

Marc Tardif, FCIA
President, Canadian Institute of Actuaries