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Subject: CAPSA Guideline No. 7 – Pension Plan Funding Policy

The Canadian Institute of Actuaries (CIA) is pleased to present the following comments on the November 2020 consultation draft of revisions to CAPSA Guideline No. 7 entitled *Pension Plan Funding Policy Guideline*. We would like to provide comments on funding policies as they relate to both shared-risk plans and traditional defined benefit plans.

For plans where there is a risk-sharing mechanism with plan members (for example, multi employer plans, target benefit plans, risk shared plans, and many public-sector plans with cost-sharing arrangements), we believe that it is important for the plan to establish a formal funding policy, as this will help determine and provide transparency as to how contribution and benefit adjustment decisions are made. Since plan members will bear some or all of the plan risk, it will be essential to build and maintain the trust of these members, and a funding policy helps to meet that requirement.

For traditional defined benefit plans (often single-employer plans), we do believe it is important for plan sponsors to determine a funding strategy. However, we view this as distinct from a formal funding policy. In practice, most plan sponsors choose to fund their plans based on minimum requirements. There are occasions when they may choose to fund above the minimum, but these instances tend to be opportunistic, and may not be foreseen. Our experience suggests that sponsors will be reluctant to document situations where they expect to fund above the minimum funding requirements due to concerns that it could restrict their flexibility to adapt the strategy to changing circumstances. Consequently, we expect that most funding policies for traditional single-employer plans would simply state that the sponsor plans to fund at a minimum level, with the option to fund at a higher level if certain situations arise. A funding policy along those lines would be of very limited use.

Consequently, in our view, funding policies should not necessarily be mandatory for traditional defined benefit plans. In addition to the concerns stated above, the administrative burden of developing a formal funding policy could result in unwarranted additional expense for smaller plans, with limited value in return. We would, however, support a non-mandatory funding policy guideline that is proportional to the plan, that is, the funding policy detail would vary according to the size and sophistication of the plan.

We acknowledge that the guideline does not mandate the preparation of funding policies. However, we do believe these guidelines have a strong signalling effect, which may lead to it being viewed as a de facto requirement.

The CIA appreciates the opportunity to provide feedback on these 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 or chris.fievoli@cia-ica.ca.

Sincerely,

[original signature on file]

Michel St-Germain, FCIA
President, Canadian Institute of Actuaries

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