Canadian Institute of Actuaries | Institut canadien des actuaires

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Pension Policy Branch
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Subject: A Permanent Framework for Target Benefits

The Canadian Institute of Actuaries (CIA) is pleased to offer the following comments on the proposed funding framework for target benefit plans, as described in your March 2023 consultation document on a permanent framework for target benefits.

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

- the recognition that the non-guaranteed nature of multi-employer pension plans (MEPPs) and target benefit plans (TBPs) require a different regulatory framework from other plans;
- the permanent removal of solvency funding;
- the revised basis for termination and family law commuted values;
- the recognition of the importance of funding/benefit policies and governance policies; and
- the recognition of the importance of member education and communication.

However, there are several problematic aspects of the proposed framework that are summarized below.

Provision for adverse deviation
The proposed calculation of going-concern provisions for adverse deviation (PfAD) creates several issues.

We note that the proposed level of PfADs for TBPs/MEPPs is volatile and higher than that for single-employer defined benefit plans. We believe this is not 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 lower benefits and create an intergenerational inequity. Furthermore, a volatile PfAD level will create significant challenges for funding, plan management and long-term sustainability. If the funding framework includes a PfAD, it should be a stable PfAD.

The PfAD should be built up in good times and drawn down in bad times, allowing for flexibility in funding the PfAD. 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 single-employer defined benefit plans where security, by definition, is generally most important.

Amortization period for deficiencies

Under the proposed framework, if previously scheduled special payments are not needed to satisfy funding requirements, current schedules could be shortened, but the monthly rate of special payments would remain the same if some are still needed. We question why the special payment amount cannot be reduced given that the contributions are fixed by the collective agreement. The amount of contributions does not change based on the amortization schedule, however, allowing the special payment amount to be reduced provides flexibility to meet the funding requirements.

Benefit adjustments

The proposed framework indicates that rules for the equitable application of benefit reductions will be set out in the regulations. It is important to note that the circumstances that lead to benefit reductions can be complex and can vary significantly from plan to plan. We believe that a formulaic or prescribed approach to determining benefit reductions that is dictated by regulation could not practically achieve fairness or even-handedness in all situations, and it may work against achieving the desired outcomes. Therefore, we do not believe a process for implementing benefit reductions should be prescribed in the regulations. If benefit reductions are deemed necessary, the trustees are best qualified to determine them.

The proposed framework also states that TBPs would be required to prioritize the restoration of previously reduced benefits over other benefit improvements. Like benefit reductions, the circumstances that lead to benefit improvements can be complex and can vary significantly from plan to plan. For example, the change in plan design may have been due to changes in the industry or the membership's desire for different provisions. The restoration of previously reduced benefits will not be appropriate in many circumstances. As such, we do not believe the regulations should include this provision.

The trustees should continue to have flexibility in determining benefit adjustments and will remain subject to their responsibility to fulfill their fiduciary duties, including that any adjustments must be determined in an "even-handed" manner. Similarly, the funding/benefit policy regulations should not be overly prescriptive and should allow flexibility for the trustees to make decisions based on the current situation. For example, if benefit reductions are required, default reductions or prescriptive reductions should not be a requirement for funding/benefit policies.

Commuted values
We support the change to determine commuted values (CVs) in accordance with the CIA standard for target pension arrangements. However, we question why the rules would prohibit adjusting CVs by the funded status of the plan.

Multi-jurisdictional plans
The proposed framework stipulates that plans would only be allowed to provide target benefits provided no more than 10% of their membership is in a jurisdiction that does not allow reductions in benefits. This provision will be difficult to administer given that a plan's membership can be mobile, resulting in frequent changes in a plan's membership distribution. Therefore, a multi-jurisdictional plan's status may change frequently. We believe that the current multi-jurisdictional agreement, to which Ontario is a signatory, addresses this issue and should not be superseded by the proposed framework.

Member communication and disclosure
We support member education and communication, however, we question the value of some of the proposed disclosure requirements.

The proposed framework requires that if any benefits provided by the plan have been adjusted within the last 10 years, a description of when the adjustment occurred and the amount of the adjustment is provided to all new members and disclosed on annual statements. For plans that made the prudent decision to reduce benefits for a variety of reasons including long-term sustainability, this type of disclosure may cause members to view the plan negatively. Conversely, plans that have challenges with long-term sustainability but have not made benefit reductions may be viewed more positively.

Given that solvency funding is permanently eliminated, we question why the transfer ratio continues to be disclosed on annual statements and provided to new members. For the same reason, we also question why plans would continue to be required to provide solvency valuations in all filed valuation reports.

The proposed framework requires new members be provided with a summary of the plan's funding policy. While we support the education of new members, we question the value of this requirement given that funding/benefit policies are often complex, lengthy documents developed and used by pension professionals and trustees.

Plan conversion
MEPPs have been operating as TBPs in Ontario for decades, however, the proposed framework requires that they formally convert to a TBP. We believe that the proposed conversion process is too onerous and should be simplified, especially for plans designated as specified Ontario multi-employer pension plans (SOMEPPs). For SOMEPPs, the required conversion communications will likely be confusing to plan members because the plan is already operating as a TBP.

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 that essentially defines the difference between these and defined benefit plans.

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, FCIA, Actuary, Communications and Public Affairs, at 613-236-8196 ext. 119 or chris.fievoli@cia-ica.ca.

Sincerely,

Hélène Pouliot, FCIA
President, Canadian Institute of Actuaries

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