



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

October 9, 2017

Byron Rafuse
Deputy Minister
Finance and Treasury Board
Pension Regulation Division
PO Box 2531
Halifax, NS B3J 3N5

via E-mail: pensionreg@novascotia.ca

Dear Mr. Rafuse,

Re: Pension Funding Framework Review and Temporary Solvency Funding Relief

The purpose of this letter is to respond to the pension regulation changes released in August 2017 on temporary solvency relief and the consultation document entitled *Pension Funding Framework Review*.

PIAC has been the national voice for Canadian private and public pension funds since 1977 in matters related to pension investment and governance. Senior investment professionals employed by PIAC's member funds are responsible for the oversight and management of over \$1.8 trillion in assets on behalf of millions of Canadians. PIAC's mission is to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries. PIAC's positions on public policy reflect the fiduciary framework in which member funds operate and its commitment to work in the best interests of plan members.

Temporary Solvency Funding Relief

We appreciate the government is recognizing the need for funding relief during these times of stress on pension plans financially and support the measures recently introduced for the 2016-2019 valuation periods.

PIAC has long advocated for fundamental long-term reform of pension funding rules in Canada and has been very supportive of the changes in Quebec and those recently proposed in Ontario. We are encouraged that the government of Nova Scotia is joining these other jurisdictions in exploring more effective ways of securing pension plan obligations for the long term.

Pension Funding Framework Review

As communicated in submissions from PIAC to other regulatory authorities and the actuarial profession, and in our letter to your jurisdiction on December 19, 2014 (attached) we note:

- Minimum solvency funding rules are detrimental to the viability of defined benefit pension plans.
- Plan Sponsors struggle with their commitment to their business and pension plan sustainability, necessitating repeated rounds of temporary regulatory solvency relief.
- As defined benefit pension plans mature in a low interest rate environment, plan sponsors struggle with the large financial burden solvency funding creates; a burden that is clearly worse than expected due to the extraordinary economic circumstances. Clearly, the repeated temporary relief measures implemented by numerous jurisdictions over the last several years represent an acknowledgement that the minimum solvency funding requirements are not working.
- PIAC believes Canada needs a fundamental solution to defined benefit pension plan funding rather than serial “temporary relief programs”. We need a better long-term funding model and a more effective valuation and funding methodology.

Consequently, PIAC supports Option 2 in your paper as the best long-term model to appropriately balance benefit security and plan sustainability. Our response to the four aspects of this option are as follows:

A. Require a Funding Reserve (provision for adverse deviation or PfAD): require an amount in excess of a plan’s liabilities that must be funded before the plan may take an action (for example, benefit improvements) that could weaken the plan’s funded position.

PIAC Response: We agree with this approach.

B. Shortened Funding Period: currently, going concern deficiencies must be funded within a 15-year period. A shorter maximum funding period would increase benefit security.

PIAC Response: We agree with this approach in the context of an overall move away from solvency funding toward an enhanced going-concern regime.

C. Return on Investment Assumptions: the interest rate is typically the most significant assumption in determining the liabilities in a going concern valuation. Ensuring that interest rates are not unrealistically high would help to ensure liabilities are being valued conservatively. The maximum allowed interest rate for use in going concern valuations could be required to be based on high-quality long term corporate bonds.

PIAC Response: We disagree with a regulatory cap on discount rates for going concern valuations and believe the vast majority of Canadian plan sponsors use appropriately conservative return assumptions in line with their long-term investment policies. These assumptions are set based on forward-looking assessments of both the actuary and the plan sponsor and there is no a priori need for a regulatory cap on such rates. A single cap would not be appropriate for all plans as it would not distinguish among different investment policies. Moreover, a cap based on fixed income returns as proposed could undo many of the benefits of moving to an enhanced going-concern regime. The regulator could always reserve the right to impose a cap, either for any individual plan sponsor or for all sponsors, if it became concerned about the reasonableness of assumptions in the future.

D. Solvency 'Trigger' for Enhanced Funding: use a plan's solvency position to determine whether additional funding is needed or if the plan would be allowed to take an action that would weaken its funded position. For example, if a plan fell below a certain threshold of solvency funding (for example, 85%), then a requirement to pay an additional lump sum could be triggered.

PIAC Response: We find this provision reasonable and acceptable.

Target Benefit Plans

PIAC believes a regulatory framework for target benefit plans (TBPs) will support long-term pension sustainability and we support Nova Scotia in moving in that direction. However, we do not believe TBP's are a substitute for fundamental funding reform as they will not be appropriate for all employment situations and business environments. We see no reason to restrict TBP's to union environments and we believe conversions to a target benefit model will be less likely for private sector plans if past service cannot be converted.

Annuity Discharge

PIAC strongly supports statutory discharge of liability for pension plans where annuity buy-outs occur. We believe there are a small number of reasonable conditions to achieve full discharge – e.g. annuities should be purchased from a qualified provider (i.e. regulated insurance company); the funded position of the plan should be no worse off after the buy-out than before; the purchased annuities should substantially replicate the terms of the pensions being discharged.

Permitted Investment Rules

PIAC has long urged regulators to seek opportunities for harmonization of regulation. We believe alignment of investment rules with the federal jurisdiction, as other jurisdictions have done, does not compromise investment quality.

Thank you for the opportunity to share our views on your consultation paper. We would also very much like to take this opportunity to meet with your office to enhance our relationship with the Department of Finance and Treasury as well as to discuss our specific perspectives set out in the letter. We will follow up shortly with you to set up an appropriate and convenient time for this meeting.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Kevin Fahey". The signature is written in a cursive style with a large, stylized initial "K".

Kevin Fahey
Chair

encl. Dec. 19, 2014 letter to Canadian Pension Regulators re: solvency funding reform
June 16, 2015 letter to CAPSA re: annuity discharge for pension liabilities