



Pension Investment  
Association of Canada  
Association canadienne des  
gestionnaires de caisses de retraite

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Angela Mazerolle  
Chair  
CAPSA  
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Via email: [capsa-acor@fSCO.gov.on.ca](mailto:capsa-acor@fSCO.gov.on.ca)

Dear Ms. Mazerolle,

**Re: Annuity Buy-Out Discharge of Liability in Pension Plans**

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 \$1.3 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.

This submission is made by the Pension Investment Association of Canada (PIAC) in response to a request of CAPSA voiced at the March 23, 2015 Stakeholder Consultation meetings in Toronto. PIAC was asked to provide supporting arguments for jurisdictional pension regulators in Canada to recommend to their governments that a full discharge of liability be granted upon a pension plan's purchase of annuity buy-outs in an ongoing plan.

We set out below the key reasons for your consideration:

- Annuity buy-outs are not an investment decision as suggested by some regulators, but rather a risk management strategy as a part of a decision to move away from a defined benefit pension plan design or to reduce pension risk in an on-going plan by reducing the size of the pension liabilities.

- This is a very common approach to risk management, not just in Canada, but in the US and other parts of the world. Other countries, including the US and the UK permit full discharge of liabilities.
- By shifting the risk of default of payments from a single corporate sponsor to an organization like an insurance company, risks are being assumed by a highly regulated, highly rated and heavily capitalized part of the financial system. For members of most corporate defined benefit plans, this would represent an improvement in ongoing security, an increase in regulatory oversight, and a reduction in the probability of a loss of pension benefits.
- If regulations are not changed to allow (or even encourage) companies to purchase annuities for retirees' benefits without recourse, it is our view that companies will be less inclined to move in this direction. An annuitization is an expensive option and companies will be unlikely to pursue it if they retain a concentrated residual economic exposure.

Alberta and British Columbia already permit full discharge of liability upon the purchase of annuities so Canadian jurisdictions are already moving in this direction. We would also note that the D'Amours report on pension reform in Quebec recommended a similar approach and we understand that Quebec policymakers are studying this recommendation. It is therefore evident that CAPSA is well positioned to analyze this issue with a view to establishing a harmonized national approach.

In an environment where plan sponsors are struggling with the funding requirements of defined benefit plans, the annuity buy-out offers a potential "exit" for companies which have made the difficult decision to close their plans. Importantly, it does so in a manner which improves benefit security for plan members by transferring risk to a highly regulated financial institution with a long-term commitment to the annuity business. From a policy perspective, this is preferable to the retention of that risk in a corporate setting with no ongoing strategic attachment to the plan.

We very much appreciate the opportunity to share these thoughts with CAPSA and would appreciate gaining a better understanding of the challenges CAPSA members face in considering this regulatory change and/or to elaborate further on these points at CAPSA's or any jurisdiction's convenience.

Yours sincerely,



Dan Goguen  
Chair