



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

June 23, 2010

Pensions Review
Policy, Planning and Professional Services Branch
Nova Scotia Labour and Workforce Development
PO Box 697, 5151 Terminal Road
Halifax, Nova Scotia
B3J 2T8

Dear Sir/Madam:

Re: Discussion Paper on Pensions, March 2010

PIAC has been the national voice for Canadian pension funds since 1977. Senior investment professionals employed by PIAC's member funds are responsible for the oversight and management of over \$940 billion 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.

In line with PIAC's mission, we will comment on the following investment, governance, and funding issues.

6. Allow Target Benefit Plans under the Act (Page 13):

PIAC agrees that Target Benefit Pension Plans should be permitted in the Pension Benefits Act. Further, we recommend that flexibility be given to the plan sponsor or joint sponsors to establish a pension plan of their choice.

8. Adopt an Accrued Benefit Measurement to test pension strength under the Pension Benefits Act (Page 15):

PIAC does not agree with the new funding model recommended by the Nova Scotia Pension Review Panel. The proposed model is not tested and is a significant departure from the largely harmonized national funding standards used by other jurisdictions in Canada.

PIAC recommends that solvency valuations still be completed alongside going concern valuations and that the funded status on both measures be disclosed to pension plan members. We also support the Ontario Expert Commission on Pensions' recommendation to exempt solvency funding for those plans that are jointly governed. With respect to other pension plans, PIAC recommends that the amortization period for funding solvency deficits be increased from five years to the proposed ten years.

PIAC does not agree with the requirement to file actuarial valuation reports for interim years within the required three year cycle. More frequent filing requirements would significantly increase contribution volatility and increase administration costs. In addition, the regulator has the right to demand the filing of an interim report if it has a specific concern.

9. Adopt Minimum Funding Requirements For All Plans (Page 16):

As indicated in 8 above, PIAC recommends that the solvency amortization period be extended from five years to the proposed ten years. Funded status based on solvency is significantly impacted by the assumed interest rate used and these rates are currently at historically low levels, which inflate the value of the related liabilities. The going concern funded status is the best indicator of the long-term sustainability of a pension plan.

The 5% collar is not likely to encourage employers to make additional funding payments because of current asymmetrical risk sharing arrangements. For example, employers bear the full risk of funding deficits but they do not fully benefit from surpluses. Until the surplus ownership issue is resolved, there is no incentive for employers to fund their pension plans beyond 100%.

10. Surplus Rules (Page 17):

Refer to response under 9 above. The Government should align surplus ownership with deficit ownership. PIAC supports the use of "side accounts" for future sponsor contributions that would be included in the valuation of pension assets, but would revert back to the plan sponsor when not required. The Government should not establish explicit rules regarding the use of surplus because each pension plan has unique circumstances.

11. Ancillary Benefits (Page 18):

PIAC recommends that conditional benefits, such as indexation based on a certain funded status, be excluded from funding requirements.

12. Funding Transition Rules (Page 18):

PIAC recommends that a minimum ten year transition period be provided to plan sponsors to facilitate long-term planning. New requirements may cause contribution

rates to significantly increase or benefits to be significantly reduced. Clear rules are required in this regard.

13. Partial Wind-ups (Page 19):

PIAC agrees with the Nova Scotia Pension Review Panel's recommendation to eliminate partial wind-ups. Partial wind-ups are based on valuation of a pension plan's funded status at a certain point in time, which includes many assumptions that might not materialize. Surpluses that exist on paper can easily disappear due to movements in long-term interest rates and equity market volatility.

14. Governance (Page 19):

Sponsors of defined contribution plans should be encouraged to adhere to the guidelines published by the Canadian Association of Pension Supervisory Authorities, subject to the granting of a safe harbour.

PIAC strongly agrees that the quantitative rules set out in Schedule III to the Regulations be removed. The Regulations should focus on prudence rather than establish arbitrary limits that are flawed. For example, it is not prudent to hold ten stocks in the portfolio where each stock meets the 10% single issuer rule as laid out in the Schedule III. There is merit in including a restriction on related party transactions unless they are entered into by an independent external investment manager with full discretion over security selection decisions.

Other Comments:

Response to Recommendation # 5 (Page 13):

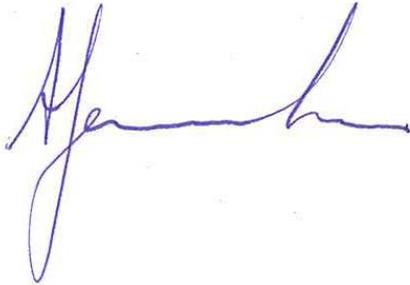
PIAC seeks clarity on the definition of Jointly Sponsored Pension Plans ("JSPP"). In particular, clarification is required as to whether or not a single employer pension plan is considered jointly sponsored if unions or non-union associations are involved in its governance. Further, PIAC recommends that JSPP be defined as Jointly Governed and/or Jointly Funded.

Response to Recommendation # 30 New Pension Plan (Page 26):

PIAC encourages the Government to continue to work with the Federal and other provincial governments to harmonize pension regulations.

PIAC is appreciative of the opportunity to provide input and would welcome the opportunity to discuss this submission prior to the Government establishing new pension regulations.

Respectfully submitted on behalf of the members of PIAC.

A handwritten signature in blue ink, appearing to read 'Algis Janusauskas', with a stylized, cursive script.

Algis Janusauskas
Chair