ACPM/ACARR
The Association of Canadian Pension Management
L'Association canadienne des administrateurs de régimes de retraite

March 13, 2012

Mr. Tim Wiles
Deputy Minister
Alberta Finance
Room 426, Terrace Building
9515 - 107 Street
Edmonton, Alberta, T5K 2C3

Dear Mr. Wiles:

Re: Need for Private Pension Plan Funding Relief Measures in 2012

We are writing to you with respect to an issue of significant concern for many of ACPM's members—the solvency funding rules for defined benefit (DB) pension plans. We are requesting that the Alberta Government enact further temporary solvency relief measures, similar to those recently passed by governments in other provinces (in particular, Québec and Manitoba), while studying long term reforms to the funding rules.

Who we are

The Association of Canadian Pension Management (ACPM) is the informed voice of Canadian pension plan sponsors, administrators and their allied service providers. Established in 1976, ACPM advocates for an effective and sustainable Canadian retirement income system. Our members are drawn from all aspects of this industry from one side of this country to the other. They represent over 400 pension plans consisting of more than 3 million plan members, with assets under management in excess of $330 billion.

ACPM promotes its vision for the development of a world-leading retirement income system in Canada by championing the following Guiding Principles:

- Clarity in legislation, regulations and retirement income arrangements;
- Balanced consideration of other stakeholders' views; and
- Excellence in governance and administration.

The Need for Solvency Relief

According to recent studies, the median solvency funded ratio of Canadian registered pension plans is down significantly in 2012 from one year ago,[1] largely due to declining long-term interest rates and poor equity market returns. For many sponsors, the current solvency funded ratios are lower than they were at December 2008. Accordingly, significant solvency funding contributions will be required of many DB plan sponsors.

In response to the last economic downturn in 2008, Alberta (like many other Canadian jurisdictions) offered temporary funding relief for single employer DB pension plans for

[1] For example, according to a recent study published by Aon Hewitt, the median pension solvency ratio in Canada has dropped from 83 per cent at the beginning of 2011 to 68 per cent at the beginning of 2012. According to that report, sponsors of defined benefit (DB) pension plans may have to double their contributions in 2012 in order to maintain plan solvency.

valuation reports with a valuation date on or after September 1, 2008 and before December 31, 2009. Those relief measures included: (i) extending the period for liquidating the new solvency deficiency from five years to a maximum of 10 years (ii) a three-year solvency funding moratorium, in conjunction with a shortening of going concern amortization periods from 15 years to 10 years.

Unfortunately, the economic conditions that drove the need for solvency relief measures in 2008 have persisted and even worsened in some respects, as interest rates have been driven lower in part due to governments' reactions to the weak economic conditions. While many sponsors have been working diligently towards creating sustainable plans longer term, the result is that many plan sponsors will have to make material contributions towards solvency deficits, even though the plans remain well funded on a going concern basis. This inconsistency requires longer-term reform to the current funding rules supported by continued temporary relief until such reform can be brought about.

Although letters of credit may be used as an alternative to solvency funding in Alberta, many plan sponsors, such as not-for-profit organizations, cannot access letters of credit.

Solvency Relief in Other Provinces

We note that other provinces such as New Brunswick, Newfoundland and Labrador, Quebec and Manitoba are offering solvency funding relief under their pension legislation in 2012. ACPM strongly urges the Government of Alberta to offer similar measures for Alberta plan sponsors in 2012.

Further Funding Relief in Alberta

Long term reform of the funding rules for single employer pension plans is essential if defined benefit plans are to survive. We urge the Ministry of Finance to study the feasibility of longer term reforms to the funding rules under the Employment Pension Plans Act which would obviate the need for repeat requests for temporary solvency relief measures. However, recognizing that this may take some time, we suggest that the Government consider adopting one further round of temporary solvency relief measures, while studying in more detail potential options for longer term reforms to the funding rules.

We make ourselves available for further discussion should further clarification or information be required.

Sincerely,

Bryan D. Hocking
Chief Executive Officer

cc: Mark Prefontaine, ADM Financial Sector Regulation and Policy
Paul Owens, Deputy Supt. of Pensions
Ellen Nygaard, Exec. Director Pension Policy
Dave Mulyk, Senior Manager, Mgr. Risk Management