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

May 29, 2017

Ms. Lisa Pezzack
Director
Financial Systems Division
Department of Finance Canada
90 Elgin Street, 13th Floor
Ottawa, Ontario
K1A 0G5

Re: Proposed Regulations Amending the Pension Benefits Standards Regulations, 1985 and the Pooled Registered Pension Plans Regulations

The Association of Canadian Pension Management (ACPM) is a national, non-profit organization acting as the informed voice of plan sponsors, administrators and their service providers in advocating for improvement to the Canadian retirement income system. Our membership represents over 400 companies and retirement income plans that cover more than 3 million plan members.

This letter is in response to the **Proposed Regulations Amending the Pension Benefits Standards Regulations, 1985 and the Pooled Registered Pension Plans Regulations** published on April 29th, 2017, in the *Canada Gazette* (vol. 151, No. 17). ACPM strongly supports the proposed amendment to the PBSR that would change the maximum letter of credit and solvency payment reductions provisions from 15% of pension plan assets to 15% of a pension plan's solvency liabilities. In addition to making the funding relief measures more consistent with some other jurisdictions across Canada, the amendment will provide certain defined benefit pension plans with a small amount of additional capacity on the letter of credit provisions.

If the 15% limit is retained, we would encourage you to consider addressing the inequity that currently exists between agent Crown corporations and other plan sponsors using letters of credit. Other sponsors can count the LC face amount in the plan's assets. While agent Crown corporations cannot use the same type of LC for this purpose, provision was made in the regulations to provide a comparable level of relief to agent Crowns. However, due to subtle but important differences in wording, the effective relief available to agent Crowns is significantly lower. This inequity can cause material differences in special payment requirements. We believe this can be remedied easily with only small changes to the regulations.

However, we would encourage you to make a more significant change and remove that limit entirely, as has been done in three provinces. We believe that Letters of Credit provide a high degree of member benefit security in the case of a plan wind-up, so we do not see the need to impose any arbitrary limit on their use. Removing the 15% limit would not mean that plans could end up with very high percentages in LCs since other assets would continue to be accumulated to cover the going concern liabilities. Even though we recognize that Letters of Credit

do not represent an investment that can generate investment returns, we believe that this feature could be remedied very simply by requiring that additional Letters of Credit be secured each year to compensate for the interest produced by the solvency discount rate assumption.

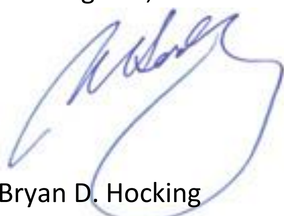
Due to the extended period of extremely low interest rates, many defined benefit pension plans have used up a significant amount of the funding relief that was introduced in 2010. This impact on defined benefit pension plan sponsors that exhaust the funding relief measures cannot be understated. We congratulate the Department of Finance for identifying this need and introducing this amendment.

Since the 2008 financial crisis, the sponsors of defined benefit pension plans have struggled to cope with the unprecedented decline in interest rates. These rates, which in some cases are still negative in "real" terms, have massively increased the cost of defined benefit pension plans and placed a huge burden on plan sponsors. Plan sponsors have had to divert financial resources away from investing in their underlying businesses to fund their defined benefit pension plans. This was despite the fact that some plans had surpluses on a going concern basis.

While ACPM feels that this measure will provide some short-term relief for pension plans that have almost exhausted the letter of credit provisions, it is our assessment that a longer-term solution is also needed. As discussed previously, we urge the Department of Finance to explore a substantial revision of the solvency funding requirements. We believe one of the priorities would be to exempt completely Crown corporations, since their plan members face virtually zero risk of insolvency. And with both Quebec and Ontario having made or considering changes in solvency funding requirements, previously for public sector or jointly-sponsored plans and recently including private sector plans, it is an appropriate time for the federal government to also look at this issue. It is our belief that a revision of the solvency funding requirements is critical if we are going to have a sustainable retirement system in Canada that includes defined benefit pension plans.

We appreciate the opportunity to provide input on this issue. Please do not hesitate to contact us if you have any questions.

Best regards,



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