



[UNOFFICIAL ENGLISH VERSION]

Montréal, August 25, 2017

Mr. Michel Després,
President and Chief Executive Officer
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Via e-mail: michel.despres@retraitequebec.gouv.qc.ca

Subject: Comments on the draft Regulation to amend the Regulation respecting supplemental pension plans (the "Draft Regulation")

Dear Mr. President and Chief Executive Officer,

We are writing on behalf of The Association of Canadian Pension Management ("ACPM") to provide comments on the Draft Regulation released on July 12th.

ACPM is a national not-for-profit organization that acts as an informed voice for plan sponsors, administrators and their related service providers to advocate for improvements to the retirement income system in Canada. Our members represent over 400 organizations and pension plans that cover over three million members.

In general, ACPM welcomes the measures contained in the Draft Regulation. That being said, we believe that the changes described below are necessary to avoid certain ambiguities and administrative difficulties for pension committees.

Rights sharing rules

In reading the proposed amendments to section 55 of the Supplemental Pension Plan Regulation (the "SPP Regulation"), we understand that the negative pension determined under section 54 of the SPP Regulation will have to be adjusted to take into account any change in the normal pension (or ancillary benefits associated with the normal pension) if the change occurred after the valuation date and would have affected the valuation of the member's entitlements as at that date.

We understand that this negative pension adjustment is intended to address an administrative issue experienced by municipal agency plan administrators when the normal pension, or its value, is reduced as part of a restructuring. However, paragraph 5 of section 29 of the Draft Regulation suggests that an improvement in the normal pension will automatically result in an upward adjustment of the negative pension calculated under section 54 of the SPP Regulation. This deprives the affected member of a portion of that improvement.

ACPM believes that, in the event of an improvement to the normal pension or its ancillary benefits, the regulatory provisions should allow a pension plan to provide for an adjustment to the negative pension rather than imposing it automatically.

Funding Policy



We are generally satisfied with the mandatory elements that will be included in the funding policy under new section 60.12 of the SPP Regulation. We recommend, however, that the requirement to describe "market trends in the industry in which the employer operates" in the second paragraph of section 60.12 be removed. This requirement is far too vague and it will be difficult for the drafter to determine whether the requirement is met. In addition, the descriptions may be so broadly written that they will be of no practical use.

We also recommend that you include the selection of actuarial assumptions in the list of items that may be included in the funding policy in accordance with new section 60.13 of the SPP Regulation.

Annuity purchase policy

The purchase of annuities from an insurance company is an important risk management tool. We are therefore pleased that the Draft Regulation includes the necessary provisions to complete section 182.1 of the Supplemental Pension Plans Act and thus allow for a final settlement of the rights of members and beneficiaries affected by an annuity purchase. We are also very pleased with the inclusion of an option to convert existing policies in order to benefit from a final settlement.

That said, we note that the procedure proposed in the Draft Regulation for annuity purchases is still quite cumbersome and will discourage periodic annuity purchases. It is unlikely, for example, that an administrator would purchase annuities on an annual basis given the requirement to file an actuarial valuation at the date of purchase even if another valuation or notice has recently been filed. We therefore urge the Government to simplify the requirements for actuarial valuations for pension purchases as much as possible.

The procedure for obtaining the member's consent in cases where his or her annuity is not available on the market because of its nature or characteristics is also too cumbersome and will make the purchase of annuities in these cases quite complex. In this respect, the wording provided for in the third paragraph of section 237 of the Supplemental Pension Plans Act, which provides for the replacement of characteristics by the pension committee, seems to us to be more appropriate.

As for the content of the annuity purchase policy, we generally agree with the proposed orientation. In paragraph 3 of new section 61.0.10, we believe that the words "frequency and" should be removed since the frequency of purchases will not necessarily be known at the time the policy is adopted. This requirement may force the administrator to amend the purchasing policy prior to each purchase to specify the expected date of that purchase. Some would argue that it is sufficient to state that purchases will be made on an ad hoc basis, but it is not clear that such a description would satisfy the requirement to describe "frequency".

Annual Meetings



It is our view that the administrator of a pension plan should not be required to discuss the matters set out in the third paragraph of new section 61.0.11 at the annual meeting unless there has been an annuity purchase since the last meeting. Many sponsors will adopt an annuity purchase policy in anticipation of one-time annuity purchases and this policy may not be used for several years. It would be unnecessary for the administrator to be required to report to members on annuity purchases in these circumstances. It may also create confusion among members as to why the administrator would mention an annuity purchase if there was no such purchase.

We would also like to take this opportunity to mention that ACPM would like to see an optional annual meeting in certain circumstances and we will be prepared to provide you with our recommendations in this regard in the coming months.

We would be pleased to discuss our comments and suggestions at your convenience.

Yours sincerely,

A handwritten signature in cursive script, appearing to read "Ric Marrero".

Ric Marrero
Interim Chief Executive Officer

cc : patrick.provost@retraitequebec.gouv.qc.ca