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

December 6, 2012

Honorable Mike deJong
Minister of Finance
BC Ministry of Finance
PO Box 9048 STN Prov Govt
Victoria, BC
V8W 9E2

Dear Minister de Jong:

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 BC Government enact temporary solvency relief measures, similar to those recently passed by governments in other provinces (in particular, Alberta, Ontario, Québec and Manitoba), while studying long term reforms to the funding rules.

The Need for Solvency Relief

According to recent studies, the median solvency funded ratio of Canadian registered pension plans is down significantly 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, other jurisdictions in Canada introduced temporary funding relief measures for single employer DB pension plans including: (i) extending the period for liquidating the new solvency deficiency from five years to 10 years (ii) one- to three-year solvency funding moratoriums, and (iii) the ability to "smooth" solvency assets and/or liabilities. BC has not historically provided specific funding relief under the regulations or on an ad hoc basis, instead relying on the Superintendent's embedded discretion to extend time periods which has been applied to grant solvency deficiency amortization period extensions.

[1] According to a study published by Aon Hewitt, the median pension solvency ratio in Canada dropped from 83% at the beginning of 2011 to 68% at the beginning of 2012. According to that report, sponsors of DB pension plans may have to double their contributions in 2012 in order to maintain plan solvency. The median solvency ratio dropped further in June to 66% but has since shown some small recovery and returned to 68% at the end of the third quarter.

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. Other jurisdictions in Canada have extended previous solvency relief provisions or introduced new mechanisms to recognize the impact of the ongoing financial market conditions on employers who sponsor defined benefit pension plans.

Although letters of credit may be used as an alternative to solvency funding in British Columbia, 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 Alberta, 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 British Columbia to offer similar measures for BC plan sponsors in 2012, or longer depending on the date of implementation of the new Act and Regulations and the continuation of the current economic conditions.

Further Funding Relief in BC

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 Pension Benefits Standards 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.

Who we are

The Association of Canadian Pension Management is the informed voice of Canadian retirement income plan sponsors, administrators and their allied service providers. We are a non-profit organization and our objective is to advocate for an effective and sustainable Canadian retirement income system. Our membership represents over 400 retirement income 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' interests; and
- Excellence in governance and administration

ACPM regularly advocates and participates in public dialogue on pension issues.

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

Sincerely,

Bryan D. Hocking

Chief Executive Office

cc: Mary Tkachyk, Executive Director, Financial and Corporate Sector Policy Branch
Marcus Gill, Director Financial Services, Financial and Corporate Sector Policy Branch
Carolyn Rogers, Superintendent of Pensions, FICOM BC
Michael Peters, Deputy Superintendent of Pensions, FICOM BC