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

February 29, 2012

The Honourable Dwight Duncan
Minister of Finance
7 Queen's Park Crescent, 7th floor
Toronto, Ontario
M7A 1Y7

Dear Minister:

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 Ontario Government enact further temporary solvency relief measures, similar to those recently passed by governments in other provinces (in particular, Québec and Manitoba).

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. Accordingly, solvency funding relief is now critical for many DB pension plan sponsors in Ontario who are not able to avail themselves of

[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.

the exceptions to solvency funding rules available to certain types of plans (e.g. MEPPs and JSPPs).

In response to the last economic downturn in 2008, Ontario (like many other Canadian jurisdictions) offered temporary funding relief for private defined benefit pension plans for valuation reports with a valuation date on or after September 30, 2008 and before September 30, 2011. Those relief measures included: (i) deferring the start of special payments required to liquidate any new going concern unfunded liability or new solvency deficiency determined in the solvency relief report for up to 12 months; (ii) consolidating special payments for pre-existing solvency deficiencies into a new five-year payment schedule that starts on the valuation date of the solvency relief report; and (iii) with the consent of members and former members, extending the period for liquidating the new solvency deficiency from five years to a maximum of 10 years.

Since these funding relief measures were last offered, plan sponsors in Ontario as well as in other Canadian jurisdictions have been anticipating an increase in solvency interest rates before their next triennial actuarial valuation is due (i.e., after September, 2011). Unfortunately, the economic conditions that drove the need for solvency relief measures in 2008 have persisted, which will cause many plan sponsors to have to make material contributions towards solvency deficits.

Solvency Relief in Other Provinces

In response to these current economic conditions, Québec has issued a draft regulation that will provide funding relief to private sector defined benefit pension plans registered in that province. Under the draft regulation, the funding relief measures will apply starting with the first complete actuarial valuation having an effective date after December 30, 2011, and generally ending at the end of a plan's first fiscal year beginning after December 31, 2012. It includes three funding relief measures applicable to the solvency valuation – plan asset smoothing over a maximum period of five years; at the time of the first valuation covered under the relief measures, consolidation of solvency deficiencies, other than those related to an amendment made after December 30, 2008; and extension of the amortization period from five to 10 years for the new solvency deficiency.

Funding relief measures such as those proposed by Québec will help private plan sponsors deal with the impact the current economic environment has had on their registered pension plans.

We note that other provinces such as New Brunswick, Newfoundland and Manitoba have also taken prompt action to implement solvency funding relief measures under their pension legislation in 2012. It is notable that member consent is not a prerequisite to solvency relief measures in Quebec and New Brunswick.

Further Solvency Relief in Ontario

The ACPM strongly urges the Minister of Finance to take prompt action to offer temporary solvency relief measures for Ontario plan sponsors (to take effect in 2012), that are similar to those adopted by the Province of Québec. In particular, extending the amortization period from 5 to 10 years should be permitted without member consent. Member consent can be difficult to obtain, particularly in plans for non-unionized employees, and adds a cost to the process. Member notification of solvency relief measures should be sufficient to ensure transparency of funding decisions. Again, we note that other jurisdictions (Québec) has seen fit to allow extending the solvency amortization period without any member consent requirements.

In addition, long term reform of the funding rules for single employer pension plans is essential if defined benefit plans are to survive. Longer solvency amortization periods and smoothing also need to be considered as permanent solvency funding measures. We would urge the Minister of Finance to consider separately studying the feasibility of longer term reforms to the solvency funding rules under the PBA 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.

Sincerely,

Bryan D. Hocking
Chief Executive Officer

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