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Dear Mr. Jaffri:

Re: CAPSA Consultation on Proposed Changes to Funding and Asset Allocation Rules Under a Future Agreement Respecting Multi-jurisdictional Pension Plans

Thank you for the opportunity to participate in this CAPSA consultation. Below you will find our responses and we are available if you would like to have any further discussion in respect to this topic.

ACPM is the leading advocate for plan sponsors and administrators in the pursuit of a balanced, effective and sustainable retirement income system in Canada. Our membership represents over 400 organizations and retirement income plans that cover more than 3 million plan members.

Question 1

Is one option described in this Consultation Paper preferable to the other? If so, which one and why?

ACPM has a marked preference for Option 1 over Option 2.

It is very clear that Option 1 is simpler and less costly for multi-jurisdictional pension plans in Canada to implement and administer. Although simplicity is not the only goal, Option 1 is also consistent with harmonization of pension benefits standards across Canada. Further, Option 1 broadly reflects the current rules under the 2016 agreement, which is familiar to the pension industry.

ACPM acknowledges that where a pension plan is registered with a major authority that does not require defined benefits to be funded on a solvency basis, plan members outside the major authority's jurisdiction would have their defined benefits funded at a potentially much different level than would occur if the plan were subject to their own jurisdictions' funding rules. In catastrophic circumstances when the plan does not have sufficient assets to fully fund its benefits upon wind-up and the employer is insolvent, plan members outside the major authority's jurisdictions could fare "worse" than if the plan were subject to their own jurisdictions' funding rules. In our view, as a general principle, treating all plan members, regardless of jurisdiction, in an equal manner is desirable and defensible.

In general, our view is that a member should not benefit "more" because of the jurisdiction under which their pension benefits are governed in such catastrophic circumstances. In our view, the situations under which members' benefits differ based on their jurisdiction of employment should be reduced, rather than expanded, given the complexity such differences impose.

ACPM also notes that some jurisdictions are moving away from solvency funding. ACPM has advocated for the elimination of solvency funding. Although Option 1 would not eliminate solvency funding, Option 2 could require solvency funding, to a certain degree, to be implemented in those jurisdictions that have moved away from solvency funding. Aside from potentially not being palatable for such jurisdictions to sign onto an agreement implementing Option 2, implementation of Option 2 may be problematic unless legislative changes are made. This could create more complexity and more delay.

ACPM also acknowledges that there may be concerns that existing defined benefit plans may engage in "jurisdiction shopping" to register their plans in the "most favourable" jurisdictions in terms of funding requirements. To shift the plurality of members in an existing plan would likely not be easy, in part due to the existing requirement to delay any transfer by at least two years.

Question 2

Are there advantages and disadvantages to either option that have not been described in this Consultation Paper? If so, what are they?

The agreement will only be as effective as the number of authorities that sign onto the agreement. ACPM is of the view that all authorities should sign onto the agreement. From this perspective, Option 1 could be more palatable to the authorities which are more often the major authorities, i.e., Ontario and Québec, while Option 2 could be more palatable to the authorities that are more often the minor authorities.

As ACPM has consistently advocated for the elimination of solvency funding, ACPM is of the view that the clock should not be turned back in regards to the gradual march toward elimination of solvency funding and all jurisdictions should join on that march. Other reasons why Option 2 should be avoided would be that national DB plans should not be discouraged, that national plans which implement sound risk management practices such as liability driven investments would face additional difficulties, and that national plans which have (now or in future years) a significant surplus would have difficulty applying various restrictions on contribution holidays or utilization of surplus for benefit improvements.

Question 3

Is one method described in this Consultation Paper for addressing defined benefits that generate significant funding costs when valued and funded on a solvency basis, but lower funding costs when valued and funded on a going concern basis, preferable to the other? If so, which one and why?

The Consultation Paper identifies certain types of defined benefits, e.g., consent benefits, plant closure benefits etc., that could potentially generate significant funding costs when valued and funded on a solvency basis but which may have lower funding costs (or not be funded at all) on a going concern basis (referred to herein as "**Ancillary Benefits**").

It is the position of ACPM that the method described in the second bullet point on page 8 of the Consultation Paper ("**Method Two**") is unquestionably the preferred approach to addressing Ancillary Benefits in the context of the Agreement.

For the reasons set out above in our responses to Questions 1 and 2, it is ACPM's view that the funding rules under the agreement should be straightforward and equitable, and that Option 1 best achieves those objectives. Complicating those funding rules by incorporating adjustments to deal with Ancillary Benefits is not desirable, appropriate or equitable. It is much more appropriate to deal with Ancillary Benefits by adjusting the asset allocation rules.

Under Method Two, the funding rules remain unchanged but the asset allocation rules are adjusted so that, in the event of plan wind-up, to the extent that Ancillary Benefits have not been pre-funded, other benefits under the plan are to be provided in priority to such Ancillary Benefits. As such, to the extent a plan is underfunded on wind-up and the employer is unable to fund the deficiency (for example, due to its insolvency), any Ancillary Benefits which had not been pre-funded would be the first benefits to be reduced or eliminated. This is an appropriate and measured approach to dealing with Ancillary Benefits – to the extent they are not pre-funded under the funding rules of the Major Authority, they are last to be provided if benefits need to be reduced.

The alternative method, as described in the first bullet point on page 8 of the Consultation Paper ("**Method One**"), would require changes to the proposed funding rules. It is the position of ACPM that such changes would unduly complicate the funding rules and could result in an inequitable allocation of assets on plan wind-up. For example, under Method One it is possible that, to the extent that the Major Authority's legislation does not require solvency funding but the legislation of a Minor Authority does require solvency funding, the plan members employed in the jurisdiction of the Minor Authority could, on plan wind-up, receive their Ancillary Benefits (since they would have been pre-funded) in priority to members employed in the jurisdiction of the Major Authority. As explained above, ACPM does not believe that such a result is appropriate or equitable.

Further, it appears from the explanation of Method One (although we assume that this was <u>not</u> in fact CAPSA's intention) that under that approach, the agreement would incorporate an obligation to pre-fund Ancillary Benefits in <u>all</u> cases where the Major Authority's pension legislation does not require those benefits to be funded on a solvency basis, i.e., not just an obligation to fund those benefits in respect of members employed in a Minor Authority with pension legislation that requires solvency funding. For example, even if the pension legislation of the Major Authority and all applicable Minor Authorities does not require solvency funding and the plan includes Ancillary Benefits, it appears that Method One would require such benefits to be pre-funded even though such benefits would not have to be pre-funded in any of the applicable jurisdictions if the plan was not a multi-jurisdictional plan. Such an approach would essentially override the existing funding requirements of the applicable legislation and is clearly not an appropriate requirement to include in the agreement.

Even if the intent under Method One is to only require the funding of such benefits in respect of members employed in a Minor Authority with pension legislation that requires solvency funding, such an approach should <u>not</u> be adopted for the reasons noted above.

Question 4

Are there other options and methods that CAPSA should consider for the multi-jurisdictional pension plan funding and asset allocation rules under the Future Agreement?

We have other related comments and suggestions, as follows:

As explained above, ACPM has a strong preference for Option 1. However, if Option 2 is selected for the Future Agreement, we believe it would be helpful to plan sponsors if any additional employer contributions arising from the application of the Option 2 rules for minor-authority liabilities could be tracked in a notionally separate account and that such additional contributions could be replaced by letters of credit with minimal restrictions, including the removal of any limit such as 15% of solvency liabilities. The balance of such an account could then be used later by the employer, e.g. for contribution holiday, at the employer's discretion, when and if the need for such additional contributions disappears in the future.

The Consultation Paper does not discuss issues that may arise in making the transition to the new agreement. There are many such transition issues, which may be difficult to foresee without knowing the details of that agreement. At this early stage, for simplicity, we suggest that it would be preferable that the adoption of the new agreement not have any retroactive effect on valuations before the effective date. Furthermore, in general, it would be helpful for plan administrators to have as much advance notice as possible of the changes and their effective dates.

Thank you once again for consideration of our submission and we are available if you have any further questions or require additional assistance.

Sincerely,

R Marrero

Ric Marrero
Interim CEO
ACPM