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

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Nancy A. Estey, CPA, CA
Principal
Accounting Standards
Canadian Accounting Standards Board
277 Wellington St. West, Toronto ON M5V 3H2

Via e-mail: nestey@cpacanada.ca

Re: Research on Hybrid Pension Plans

Dear Madam,

We are aware that the Accounting Standards Board (AcSB) has recently circulated some documents about a research on hybrid pension plans. The Association of Canadian Pension Management (ACPM) is very much interested in potential changes to accounting rules regarding target benefit pension plans and would like to offer you our comments.

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 organizations and retirement income plans that cover more than 3 million plan members.

For several years now, the market conditions and applicable legislation and regulations have placed substantial pressure on employers that sponsor traditional Defined Benefit (DB) pension plans. This pressure has led many sponsors to amend their plan in order to offer Defined Contribution (DC) plan provisions instead. ACPM believes that applicable legislation and regulations should be revised to allow alternatives in plan design so that interested parties might implement plan provisions that combine certain features of both DB and DC traditional design. To this effect, the ACPM has published a detailed paper in 2012 (ACPM Target Benefit Plan Paper) that describes desirable rules for Target Benefit (TB) pension plans, and a supplementary paper in 2014 (ACPM Target Benefit Plan Supplemental Paper) that provides additional suggestions on transition from DB to TB plans.

You will note that ACPM had previously recommended in its 2012 paper that accounting rules should accommodate TB plans by allowing sponsors to report an expense for accounting purposes that is equal to their actual contributions (see page 16-17). In our opinion, this would be justified because the sponsor's obligation is limited to predetermined contributions. This amount of sponsor contributions could be increased in the future but only if the plan is amended to that effect. This would reflect the fact that in a TB plan, the sponsor has no obligation to fund additional sums even if the plan's financial situation were to make it unsustainable to continue paying the benefit levels previously determined; instead, it would be those benefit levels that would be revised if necessary so that the plan's financial situation remains sustainable.

In some cases, a TB plan might provide that sponsor contributions could be adjusted automatically within a certain range depending on the plan's financial situation. For example, the provisions might state that sponsor contributions are equal to 8% of pay but could increase automatically to as much as 10% of pay based on the results of an actuarial valuation, without the need to amend the plan provisions. In such a case, it may be appropriate for accounting rules to state that the actuary performing the accounting valuation could include an assumption as to whether it can be expected that the sponsor contribution for the coming year can be expected to be between 8% and 10%.

We hope that your research group will find our above comments useful in developing new accounting rules in the near future. If you would like to discuss this matter in greater detail, do not hesitate to contact us at your earliest convenience.

Best regards,

Bryan D. Hocking
Chief Executive Officer
ACPM