August 10, 2018

Chair of the CAPSA Funding Review Committee
Canadian Association of Pension Supervisory Authorities
5160 Yonge Street, 16th Floor
Toronto ON, M2N 6L9

**To Whom It May Concern:**

**Re: CAPSA Funding Review Committee Recommendations Collated dated 13 July 2018**

We appreciate the opportunity to comment on the recommendations that have been collated since the IWG meeting this past spring. While the ACPM is generally supportive of the recommendations that have been compiled, we have a few specific comments and suggestions.

**Proposal #1 regarding a solvency funding target:** It should be acknowledged that some jurisdictions have elected to use a larger PfAD approach (Québec) or have created a new shared risk plan model (New Brunswick) in lieu of any specific solvency funding requirements. In our view, however, Ontario's smaller PfAD and 85% solvency funding target is preferable to Québec's larger PfAD and no specific solvency funding target. In all cases, we think it is important to continue to report on the solvency ratio so that stakeholders can reasonably assess the potential implications of a plan termination. Finally, we appreciate the initial discussion in the Purpose Section on the Pension Guarantee Fund and agree that the focus should be on funding rules and that the pursuit of a national Pension Guarantee Fund does not fall into the scope of this exercise.

**Proposal #3 Regarding Provision for Adverse Deviation:** The recent trend in funding reform has been to employ explicit provisions rather than implicit ones (i.e. value liabilities using best estimate assumptions and target a plan-specific funded ratio based on relevant factors). This has the benefit of greater transparency and makes it easier to craft rules and regulations regarding a plan's specific PfAD. We note that the list of factors that may be considered is quite long and some regulators (Ontario, Québec, British Columbia and Alberta) have already done considerable work on this front. We would anticipate that the two most important factors are investment risk associated with the target asset allocation and the interest rate risk associated with the difference in the duration of plan assets and plan liabilities. While this long list may be helpful to policymakers in considering the potential relevant factors, we strongly encourage the actual construction of the PfAD be relatively simple to calculate and verify. This approach may also facilitate negotiations on the multijurisdictional agreement on funding.

**Proposals #6 and #7 on Contribution Holidays and Refunds to the Employer from the Side-Car Fund:** We wonder if the reference to 105% target funding ratio should be modified to reflect the target funded ratio applicable to that Plan. In addition, the contribution holiday should not result in the funded ratio from dropping below the target funding ratio (rather than a deficit). We would also suggest removing the restriction of limiting the use from this fund to 20% in a given plan year. For greater clarity, while contribution holidays could reduce the amounts held in the side-car fund, they are not limited by the side-car fund itself. Other jurisdictions have already agreed to a similar approach and we see no valid reason for this limitation provided that the funded ratio does not fall below the Plan's specific target funded ratio. We also noted what appears to be a typo in Proposal #7: the second and third bullets seem to be repeated as the final bullet in that section.

In addition to these specific comments, while we appreciate the inclusion of the Section on Encouraging New Plan Designs, additional details may be needed for policymakers to actively pursue such changes in their legislation. That being said, we are happy to see the changes that allow for target benefit plans in Alberta, British Columbia, and New Brunswick and jointly-sponsored or cost-shared plans in a number of jurisdictions. In thinking this through though, we believe additional work may be needed on the multi-jurisdictional agreement for such plans registered in a province that supports that plan type, but that may have some participants employed in other jurisdictions. Perhaps the new funding model will provide a way to bridge that gap.

For your convenience, we have made a few suggested changes to the recommendations document in tracking mode (second attachment). We look forward to continuing these discussions at the next meeting in September.

Sincerely,

R Marrero

Ric Marrero
Chief Executive Officer
ACPM