



October 4, 2018

Honourable Don Morgan, Q.C.
Minister of Justice and Attorney General
Room 355, Legislative Building
2405 Legislative Drive
Regina, SK S4S 0B3
Via email: jus.minister@gov.sk.ca

Dear Mr. Morgan,

RE: SOLVENCY FUNDING IN SASKATCHEWAN

The Association of Canadian Pension Management (ACPM) is the leading advocate for plan sponsors and administrators in the pursuit of a balanced, effective and sustainable retirement income system in Canada. We represent plan sponsors, administrators, trustees and service providers and our membership represents over 400 companies and retirement income plans that cover more than 3 million plan members.

We are writing to you to express our concerns regarding solvency funding requirements for defined benefit pension plans registered in Saskatchewan and the stringent burden they place on the plan sponsors of these pension plans. ACPM strongly believes that solvency funding reform is necessary, with the reasons and possible solutions laid out in detail in our paper "[DB Pension Plan Funding: Sustainability Requires a New Model](#)". The paper has been a useful guide to other provinces as they have changed their solvency pension regime, and through this letter we urge the Saskatchewan government to consider the same.

BACKGROUND

Solvency funding was introduced in Saskatchewan in the early 1990s with the purpose of ensuring adequate pension plan funding levels in cases of wind-up or termination of defined benefit pension plans. As part of the Saskatchewan pension regulatory landscape, for the first 10 to 15 years, it has largely served its intended purpose. During the last ten years, however, during times of heightened financial market volatility and significant decreases in bond yields, solvency funding requirements have unintentionally become a significant financial issue for defined benefit plan sponsors, in particular their volatility and size. In fact, many plan sponsors have elected to curtail their defined benefit plans, in one fashion or another, in order to reduce their contribution risk. It is our belief that solvency funding requirements have played a significant role in the reduction of defined benefit pension coverage across Canada and in Saskatchewan.

As solvency funding requirements dramatically increased across Canada, various jurisdictions introduced diverse forms of solvency funding relief or outright solvency funding reform. Saskatchewan itself has offered temporary solvency funding relief moratoriums and, more recently, has introduced special funding rules for certain types of plans, including specified plans and limited liability plans. While we commend the Saskatchewan regulators for introducing these much needed relief measures, it is ACPM's belief that a reform of the permanent solvency laws are required. Such reform would put Saskatchewan on par with other jurisdictions.

SPECIFIED PLANS

The recently introduced specified plan rules allow those plans that are subject to these rules to fund solely on an enhanced going-concern basis. Solvency, or hypothetical plan wind-up, funding is not required for these plans. However, these plans remain subject to solvency related rules that simply do not make sense in the context of going-concern only funding. As a result, we are proposing the following be considered for specified plans:

- 1) Payment of commuted values based on going-concern assumptions. It is our position that payment of commuted values based on the assumptions prescribed by the Canadian Institute of Actuaries' Standard is not representative of a basis that reflects the long-term nature and management of these specified plans.
- 2) Elimination of the transfer deficiency holdback rule. This rule was introduced as a consequence of amortizing solvency deficiencies over five years, on the premise that the transfer deficiency payment could be made once this deficiency was theoretically fully funded. Now that specified plans are no longer funding solvency deficiencies it is clearly inconsistent to not allow them to pay out full commuted values at the time of the event.
- 3) Elimination of the need to have a solvency ratio at or above 90% in order to improve plan benefits. It is our position that it is inconsistent to apply an arbitrary ratio determined on a solvency basis to a plan that is funded on a going-concern basis for the purpose of determining plan improvement eligibility. While we do not necessarily agree with the application of any such limits on plan improvements, if there needs to be such criteria, it should reflect the nature of the plan's going-concern funding.

PRIVATE SECTOR PLANS

Saskatchewan is one of the only provinces left in Canada without some form of solvency funding relief or wholesale reform for private sector pension plans. We believe it is very important that permanent reform be seriously considered if defined benefit plan coverage is to continue to be a part of the Saskatchewan private sector landscape.

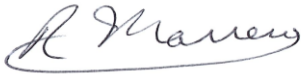
We are proposing that the following options be considered, from both a shorter term and longer term implementation perspective:

- Solvency reform with a shorter term implementation window:
 - Allow plans to use letters of credit in place of solvency deficiency amortization payments, giving plans much needed funding flexibility while not sacrificing funding levels and risks. Such a measure would also serve to balance the existing contribution asymmetry by lowering the actual cash contribution requirements to plans. The letter of credit option is currently allowed in a number of other jurisdictions including Alberta, Manitoba, British Columbia and federally.
 - Allow plans to set up a secondary solvency trust fund where the plan sponsor's share of solvency funding contributions would be deposited, giving plan sponsors the option to have access to contribution refunds in years where solvency surpluses are generated. Like the above option, this would serve to balance the existing contribution asymmetry. This option has been allowed by federally regulated plans in the past.
 - Permit the use of alternative settlement methods as allowed by the Canadian Institute of Actuaries' when determining solvency liabilities so as to avoid the artificial inflation of liabilities inherent in some of the solvency assumptions used. A number of these settlement methods are allowed in other jurisdictions. For example, Alberta allows assumed fixed indexing and federal guidelines allow the use of replicating portfolios.
- Longer term implementation of solvency reform would involve a comprehensive review of the existing solvency funding rules and structure for private sector plans. Similar activities have, or are taking place, in other jurisdictions such as Quebec and Ontario where sweeping changes to solvency funding rules have been introduced and in Manitoba and Nova Scotia where changes to the solvency funding rules are currently being reviewed.

- Given that significant changes have not been made to *The Pension Benefits Act* for private sector plans in over 25 years, now is the time to consider a thorough review as part of greater solvency reform. While we are considering such a review in the context of private sector solvency funding reform, we understand that, by necessity, any changes would need to integrate the existing relief for specified plans and limited liability plans.

Thank you very much for considering our submission. We would welcome the opportunity to further discuss these issues with you.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ric Marrero".

Ric Marrero
ACPM Chief Executive Officer