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

May 4, 2018

Target Benefit Funding Framework
Pension Policy Branch
Ministry of Finance
5th Floor, Frost Bldg S.
7 Queen's Park Crescent
Toronto, ON M7A 1Y7

Dear Sir/Madam:

Re: Proposed Regulations Relating to the Funding Framework for Target Benefit Plan MEPPs

We are pleased to provide the ACPM's comments on the Consultation Paper that was released by the Ministry of Finance on April 4, 2018, concerning proposed funding rules for target benefit multi-employer pension plans ("MEPPs").

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.

In 2015, ACPM provided comments on Ontario's Target Benefit Framework. As noted in our earlier submissions, ACPM believes the target benefit plans are a viable model for providing adequate retirement income to members and we therefore support and are encouraged by Ontario's efforts to provide specific funding rules for plans, such as MEPPs, that provide target benefits.

There are many elements in Ontario's most recent Consultation Paper which ACPM supports. ACPM supports the Consultation Paper's proposed permanent exemption from solvency funding for MEPPs as well as the proposed extension of the going-concern unfunded liability amortization period to 15 years. ACPM also supports the proposed revised basis for termination commuted values as this will promote greater equity between MEPP members and those individuals that transfer their entitlements out of the MEPP. The requirement to adopt funding policies and improve member communications both align with ACPM's focus on plan governance.

Despite these positive elements in the Consultation Paper, ACPM is concerned that the proposed PfADs will overly restrict the ability of MEPP Trustees to manage the plan and properly balance the interests of active members and pensioners.

While ACPM supports the use of a PfAD in a target benefit plan environment, as we have previously indicated, it is the trustees of a MEPP that are in the best position to determine a MEPP's required PfAD. The PfADs proposed are set at such levels that they severely restrict the ability of a board of trustees to manage the MEPP, and may not promote plan sustainability.

Flexibility

Managing a MEPP's target benefits is always a balance between benefit adequacy and benefit security as well as ensuring, to the extent possible, intergenerational equity. The adoption of the PfAD's as proposed would severely offset this balance. A mandatory PfAD may improve the benefit security for members but at the cost of benefit adequacy.

MEPP trustees require greater flexibility to properly manage the plan and its benefits. A high regulatory PfAD simply becomes a fixed liability on the plan that can never be used to either enhance benefits or offset unfavourable market conditions. The ACPM does believe that all MEPPs should adopt prudent margins to ensure a high probability of paying the promised target benefit. However, what may be a prudent margin or PfAD for each MEPP will differ based on a number of plan specific factors, including plan demographics, economic conditions and the nature of the covered industry.

If Ontario does consider it important to adopt regulatory PfADs, the regulations should only set out the criteria that trustees should consider in setting a PfAD, for example, the duration mismatch between assets and liabilities. The regulations should allow each MEPP to manage its funding levels, benefits and determine its own PfAD.

The rules proposed in the Consultation Paper produce figures that would be more in the nature of target PfADs that may be achieved during favourable economic periods, but then with no flexibility to use the PfADs during less favourable economic periods.

Setting the regulatory minimum PfAD in a manner that restricts flexibility may also create intergenerational inequity. As accrued benefits cannot be increased until the MEPP's liabilities and PfAD are fully funded, it will be highly unlikely that MEPPs could ever provide any ad hoc or discretionary increases to pensions. This is a serious concern for most MEPP pensioners as MEPPs do not provide annual indexation benefits. However, if there is sufficient margin in the contributions, benefits could be increased going forward. This could potentially advantage younger active members, to the disadvantage of pensioners living on a fixed income. Once again, these types of intergenerational concerns are best managed by a MEPP board of trustees that owes a fiduciary duty to treat all classes of plan members even-handedly.

Unit Credit Method Not Appropriate

The framework in the Consultation Paper is based on the unit credit funding method. Given that target benefit plans as proposed must have fixed contributions set out in collective agreements, having a funding framework based on a method where the normal cost gets increasingly higher as the member ages is misaligned.

ACPM suggests referring to the paper “An Actuarial Balance Sheet Approach to Assessing Sustainability of Target Benefit Plans” by Chun-Ming Ma[1] for details on the inequities of a unit credit method with target benefit plans which are based on fixed contributions. An Aggregate funding method or Entry Age Normal method would be more suitable for MEPPs where contributions are fixed and negotiated.

Summary

ACPM believes that a minimum PfAD should not be set out in the regulations, but any PfAD should be determined by the plan actuary as per the policies / demographics of the plan.

Flexibility is needed for the Trustees, in consultation with their professional advisers, to set each MEPP's own target PfAD based on the individual plan's own competing objectives of balancing benefit adequacy (level), security and affordability. MEPPs need to operate within a flexible regulatory environment, with, at most, regulations establishing only a minimum level of PfAD.

In order for a MEPP to be sustainable and equitable to all generations, particularly if the funding framework is a unit credit method, the MEPP should be sufficiently large with new members continually joining the plan. Absent some prescribed criteria in the Regulations as per PBA s. 39.2 (1) 10 and s. 81.0.2 (2) 7, this could be the detriment to many MEPPs in the future.

Accordingly, ACPM submits that the basis for determining PfADs and the use of the unit credit funding method outlined in the Consultation Paper are inappropriate and, by not affording MEPP trustees sufficient flexibility to address plan funding requirements, do not promote plan sustainability.

If you have any questions or would like to discuss this matter, please do not hesitate to contact us at your earliest convenience.

Sincerely,

R Marrero

Ric Marrero
Interim CEO
ACPM

1) https://www.cia-ica.ca/docs/default-source/2017/217045.pdf