TRANSLATION

March 27, 2020

BY EMAIL

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Subject: Pension Considerations in the Context of the COVID-19 Pandemic

Gentlemen,

While it is still early to gauge its full extent, the impact of the COVID-19 pandemic will be significant for a majority of pension plan sponsors, as well as their employees and retirees. To the extent that the situation continues, the interruption or slowdown of businesses at large will result in numerous job losses and even the termination of operations and the wind-up of some plans. In addition, with the decline in the stock markets and the extremely low level of interest rates, the resulting increase in costs will slow down or jeopardize the recovery of businesses if no form of easing is introduced. This is why we encourage you to rapidly deploy **emergency measures** to mitigate the impacts of this health crisis, which has now become an economic crisis.

The Association of Canadian Pension Management (ACPM) is a national not-for-profit organization which acts as an informed voice for plan sponsors and administrators, as well as their related service providers, to advocate for improvements to the retirement income system in Quebec and Canada. Our members represent more than 400 organizations and pension plans with more than three million members.

Plan Funding

In terms of plan funding, the prevailing situation is characterized by sharply depreciated stock markets and falling interest rates, approaching zero: a perfect storm scenario, as was the financial crisis of 2008. Thus, just as then, it would be beneficial for the economy if, in the short term, as much cash as possible remained available to employers, even if it means requiring increased funding for pension plans later on.

Your attention could focus on the following measures:

1. Ease funding requirements

Relief measures should be enacted to cushion the impact of the crisis on stakeholders, including:

- the temporary reduction of the stabilization provision;
- the temporary suspension of amortization payments to a plan, or spreading them out over a longer period;
- extending the time limits for paying current service contributions; and
- relaxation of the rules for the use of letters of credit.

Furthermore, by allowing plan administrators to defer an actuarial valuation that would otherwise be required as at December 31, 2020, they could deal with more stable contribution rates and avoid crystallizing an abnormal situation.

Such a measure would also reduce the costs associated with a potential off-cycle valuation, as at December 31, 2019, for example, for the many plan administrators considering this possibility. For those who would still like to perform a valuation as at December 31, 2019, Retraite Québec should accept this valuation and allow additional time for its filing. In addition, the use of asset smoothing should be permitted for municipal and university plans.

2. Adjusting transfer values

In the current environment, if left unchecked, the payment of transfer values by pension plans to members who have or will cease employment may exacerbate accumulated deficits. Many plans adjust these payments to the funded ratio of the plan, but the annual solvency certifications do not reflect the current status of the plans. Plans should be quickly allowed to reassess their solvency position at a date later than December 31, 2019, to reduce the negative impact on remaining members, including retirees.[1]

Also, it could be useful to allow early recognition of the new Canadian Institute of Actuaries Standard 3500, which would have the effect, among other things, of better recognizing credit spreads in the market, which would have the short-term effect of increasing discount rates and decreasing transfer values, but would also increase the solvency ratio.

Finally, we understand that it can be difficult for an administrator to limit the outflow of funds from a plan, but Retraite Québec and the government could consider extraordinary measures to protect pension plans in the current, equally extraordinary, context.

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[1] Such a measure already exists in Ontario, requiring plan administrators to take certain steps before being permitted to transfer value payments when the solvency ratio of the plan has been reduced by more than 10% since the last actuarial valuation.

Plan Administration

The economic downturn is affecting pension plan sponsors who are also facing special tasks created by the situation (reallocation of resources, layoffs, coordination of government benefits, etc.) as well as restricted access to the workplace. It is imperative that they be given respite to focus on the most important areas.

3. Extend deadlines

Allow an additional few months, and eliminate any financial penalties that may apply in 2020, for filing statements and reports, including:

- benefit calculations and statements in the event of termination of employment;
- the Annual Information Return (AIR);
- annual statements;
- audited financial statements; and
- actuarial valuation reports.

4. Reduce requirements for annual meetings

In the current context, it is impossible to hold an in-person annual meeting of plan members. We have proposed changes to this requirement on a number of occasions given the low participation of plan members at these meetings and the costs involved. We recognize, however, that these are unprecedented times and that the need to inform members is heightened.

Retraite Québec can help ease the burden on administrators by increasing its publication of general information, as well as by allowing pension plan administrators to use alternative means to provide relevant information to all members (e-mail, telephone hot-line, website, annual report, blog, webinars).

Other Measures

Other issues relating to pension plan administration that deserve your attention include:

5. Plan wind-ups

In cases where this crisis will lead to the wind-up of a plan, retirees (current and new) could be at a particular disadvantage. We recommend extending the rules governing the assumption of benefits by Retraite Québec for retirees and members eligible for immediate retirement in order to limit the losses that the affected members would otherwise suffer.

6. Disparity clauses

We understand that the government has mandated the Labour and Manpower Advisory Committee to make recommendations for the elimination of disparity clauses in pension plans. In the current context, we do not believe that the stakeholders will have the financial and human resources to undertake such a project. A moratorium on this issue would therefore be desirable in order to allow stakeholders to focus on new priorities.

As always, we offer our assistance to the government in participating in future pension plan initiatives.

Yours truly,

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ACPM

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