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

February 7, 2020

Hon. Ernie Steeves
Minister of Finance and Treasury Board
Government of New Brunswick
Chancery Place
675 King St. P. O. Box 6000
Fredericton, NB E3B 5H1
Via email

Re: Our Comments on Improving the Funding Framework for Defined Benefit Plans under the Pension Benefits Act

Dear Minister Steeves,

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 millions of plan members.

We understand that the Government of New Brunswick is considering making changes to solvency funding requirements and thereby improving the funding framework for defined benefit pension plans registered in the province.

We are supportive of this review of solvency funding and would suggest that the goals of such a review should be both sustainability (with a focus on contribution stability) and benefit security (as measured by the funded status on a wind-up basis). Previous funding frameworks across Canada have focused primarily on the latter measure which we believe has led to a decline in the number of defined benefit pension plans across Canada.

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 regimes.

We also note that the Canadian Association of Pension Supervisory Authorities released recommendations for the funding of plans other than DC plans on February 14, 2019 (https://www.capsa-acor.org/; Publications, CAPSA guidelines). This paper provides an overview of options for reform including:

- Modification of solvency funding to create a threshold;
- More robust going concern funding rules to ensure sustainability and benefit security;
- Use of provisions for adverse deviation to protect against the impact of market fluctuations;
- Changes to the amortization period;
- Creation of a stabilization/reserve or “side-car” fund; and
- Use of Letters of Credit for funding purposes.

To date, Quebec, Ontario, and British Columbia have modernized their pension funding rules. Manitoba and Nova Scotia have announced an intention to do so in the near term, with the exact details of these changes not yet determined.

In other provinces where solvency funding reforms have been considered, ACPM has supported a model with the following combination of features:

1. An elimination of solvency funding requirements (as in Québec's funding regime) or alternatively, a lower solvency funding threshold in exchange for a smaller explicit funding margin for the going-concern valuation. For example, in more recent funding reforms, we have seen deliberate trade-offs between the going-concern funding margins (meant to stabilize funding requirements and improve sustainability of DB plans) and solvency funding thresholds (meant to pursue a floor in the event of simultaneous insolvency of the plan and employer). British Columbia and Ontario, in particular, have both elected a smaller funding margin (in comparison with Québec's funding regime) in exchange for an 85% solvency funding threshold. ACPM feels this represents a reasonable trade-off between these two important objectives;

2. An explicit going-concern funding margin or a provision for adverse deviation ("PfAD") for going-concern funding;

3. A shorter going concern amortization period of 10 years;

4. Consolidation of total unfunded liabilities at each valuation, rather than having to track multiple amortization schedules;

5. Additional funding requirements in the event of benefit improvements;

6. Restrictions or prohibitions on contribution holidays unless the plan is fully funded on a going concern basis (including the PfAD) and has a solvency ratio above 105%; and

7. The ability to establish a reserve account for contributions once the PfAD is funded and the plan has a 100% solvency ratio.

It is our recommendation that the solvency funding rules in New Brunswick be modernized, consistent with the approach in other Canadian jurisdictions. Experience demonstrates that creating a model of this nature provides greater stability for pension plan members and retirees while also allowing private sector sponsors to continue to support such plans (without impinging on their ability to engage in the marketplace in a sustainable way).

We would be pleased to provide any support and assistance to the Government of New Brunswick in the development of a new solvency funding reform model for Defined Benefit Plans registered within the province.

Thank you for taking the time to consider our comments.

Sincerely,

R Marrero

Ric Marrero
Chief Executive Officer
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cc. Cheryl Hansen
Deputy Minister
Finance and Treasury Board