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

July 13, 2020

Finance and Treasury Board
Government of New Brunswick
Chancery Place
675 King St.
P.O. Box 6000
Fredericton, NB E3B 5H1
Email: consultation@fcnb.ca

To Whom It May Concern:

Re: Amendments to the General Regulation under the Pension Benefits Act

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 welcome the opportunity to comment on proposed changes to the general regulation under the *Pension Benefits Act.* In particular, we welcome many of the proposed changes to rules on going-concern and the funding of solvency liabilities. The proposed changes align fairly closely to the model we featured in our paper "DB Pension Plan Funding: Sustainability Requires a New Model", the recommendations from CAPSA "Funding of Benefits for Plans Other than Defined Contribution Plans" published on February 14, 2019, as well as recent changes to other pension funding standards in Nova Scotia and Ontario.

That being said, there are a few additional aspects, which we think could improve the regulation.

- **Reserve accounts**: In line with our recommendations and the approach taken in the Nova Scotia regulations, we think it would be quite beneficial to introduce the concept of a reserve account in which future solvency special payments and any payments to fund the PfAD would be deposited and accumulated with the net fund return reported in actuarial reports filed with FCNB. The reserve account would remain part of the total fund assets to support the plan's liabilities, but in the event of a termination of the plan, the portion of assets in the reserve account after the provision of all outstanding liabilities would be returnable to the pension plan sponsor.

- **Transition Rules**: While in many cases the initial funding requirements under the new model may be less than under the existing model, in some cases the new model may impose an increase in the annual funding requirement. This may happen, for example, for a plan which has a going-concern deficit with a remaining amortization period that exceeds the new 10-year period. Given the potential financial pressures imposed by the COVID-19 situation on plan sponsors, a significant increase in pension funding requirements will not be welcome. In most other regimes which have adopted this new funding model, a transition period was introduced. For example, in Nova Scotia, a 5-year transition period was provided upon the introduction of the new model.

- **Impact of new valuation**: In many other jurisdictions (like Nova Scotia), increases in contribution requirements only become effective 12 months after the valuation date. This feature is extremely helpful to jointly funded plans, which are prevalent in the municipal sector.

- **PfAD on the portion of liabilities covered by a buy-in annuity contract**: Given a buy-in annuity contract perfectly covers both investment risk and mortality risk, we believe there should be no PfAD applied to the portion of liabilities covered by a buy-in annuity contract. For example, in the extreme, for a pension plan in which 100% of liabilities are covered by a buy-in annuity contract, the requirement of a 5% PfAD on the liabilities would be excessive and serve no valid purpose.

- **Discharge on the purchase of a buy-out annuity contract**: Many jurisdictions across the country have introduced legislation to clarify the discharge of obligations upon the purchase of a buy-out annuity contract, provided they meet the requirements of the legislation. It would be beneficial to clarify this discharge in the legislation.

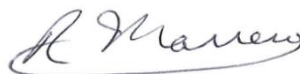
- **Letters of Credit**: Letters of Credit (LOCs) provide additional flexibility to plan sponsors on cash funding while providing security to participants. That being said, we are questioning the rationale for the limitation of 15% of solvency liabilities. A number of other pension regulators have reviewed their policy on LOC limits and in a number of cases (e.g. BC, Alberta, Nova Scotia) have decided to eliminate any such limitations. Allowing a letter of credit of more than 15% of solvency liabilities would provide more flexibility and still maintain the desired (or, in theory, even greater) security to participants. For example, a plan with a solvency ratio of 69% might decide to negotiate a 20% letter of credit to provide a margin above the new 85% limit, thereby limiting the frequency of changing the amount of coverage.

We would be pleased to discuss any of these above points at your convenience.

Thank you for taking the time to consider our comments.

Sincerely,

Todd Saulnier
Chair, National Policy Committee
ACPM



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