



July 27, 2020

Registered Plans Directorate
Canada Revenue Agency
Ottawa, ON K1A 0L5
Via email to RPD.LPRA2@cra-arc.gc.ca

To Whom It May Concern:

Re: Response to *Actuarial Bulletin No. 4* from the Association of Canadian Pension Management (ACPM)

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.

On behalf of the Association of Canadian Pension Management (ACPM), we thank the Registered Plans Directorate (RPD) of the Canada Revenue Agency (CRA) for the opportunity to comment on the draft *Actuarial Bulletin No. 4* (the "Bulletin") regarding apportioning assets and actuarial liabilities in actuarial valuation reports for the purpose of funding the defined benefit (DB) provisions of a registered pension plan (RPP) that has more than one participating employer.

While we recognize the RPD's efforts in providing guidance on this matter, defined benefit pension plans in Canada have long been administered without guidance on apportioning assets and liabilities among participating employers. And while we appreciate the Bulletin's stated purpose is to outline reasonable methods of apportioning assets and actuarial liabilities which ensure that "any unfunded liability associated with a participating employer (and related participating employer contributions) is not excessive", this concern is only one that attaches to smaller pension plans wherein inappropriate tax deductions or movement of funds between employers or connected persons may arise. Accordingly, and to avoid undue and unnecessary burden and cost, we submit that the Bulletin be limited only to those plans wherein such a concern may arise. As a result, larger employer-sponsored pension plans, trade- and union-based multi-employer pension plans (MEPP) and jointly sponsored pension plans (JSPPs) should not be subject to this Bulletin.

1) Issues associated with the application of the Bulletin from a SEPP perspective.

The Bulletin outlines different methods of apportioning assets and liabilities among participating employers but does not address the policy and administrative differences among SEPPs. When considering the administration of a SEPP in the context of a large group of related companies, it is often the case that one company may essentially act as a guarantor of the pension plan. This can result in one company paying more into the plan compared to the other participating employers. Accounting for the plan, however, is done on a consolidated basis.

The participating employers in such situations, including the guarantor company, understand their responsibilities and do not necessarily find such a funding approach to be problematic in light of the fact that the employers are all related.

When considering a conglomerate of employers, the assets and liabilities of a plan may not be reflective of the obligations of each participating employer. Furthermore, consideration needs to be given to the fact that staff often move between employers which are part of a conglomerate as employers are subsidiaries. As such, applying the methods outlined in the Bulletin will result in a considerable amount of burden on participating employers to account for their assets and liabilities which may inadvertently illustrate a bias towards a company that is the guarantor company and we anticipate the application of such methods will have varying outcomes depending on the circumstances of the participating employers vis-à-vis the SEPP.

A way of distinguishing the above noted plans and excluding them from the application of the Bulletin would be to limit the Bulletin's application to pension plans that either qualify as individual pension plans or whose participation include connected persons.

2) Issues associated with the application of the Bulletin from a MEPP or JSPP perspective.

The Bulletin appears to ignore MEPP and JSPP policy implications and administrative realities that will result. The underlying policy assumption of each apportionment method detailed in the Bulletin – namely, that assets and/or liabilities should be apportioned separately, per participating employer – contradicts the fundamental nature of MEPPs and JSPPs – which are collectively funded arrangements among many participating employers with no employer liability beyond fixed required contributions while the plan remains ongoing and no terminal funding obligations if the MEPP and JSPP were to ever wind-up. Apportioning assets and liabilities among participating employers of a JSPP calls into question this central tenet of MEPPs and JSPPs.

Employers participate in MEPPs and JSPPs on the basis of fixed and negotiated costs that are a set percentage of payroll and that financial risk will be shared among all employers and members – and further, that there are no funding liability obligations were the MEPP or JSPP to ever wind-up. Apportioning assets and liabilities to each employer contradicts the fundamentals of the JSPP funding model and suggests that employers have individual liability to the plan beyond their ongoing contribution obligations which is not the case.

Requiring employers to apportion assets and liabilities as outlined in the Bulletin will also create administrative challenges. MEPP and JSPP administrative costs will increase as apportioning assets among participating employers will be an onerous task that will require a significant amount of time and resources as it would require apportionment in many cases among hundreds of participating employers. Incurring such costs does nothing to improve the administration of MEPPs or JSPPs or, in any way, change the allocation of funding (which is only as a percentage of payroll) and, instead, would distract from, and not serve, the common objective of MEPPs and JSPPs as shared benefit security plans.

ACPM recommends against the Bulletin being implemented in its current form as matters such as apportioning participating employer's assets and liabilities should be limited to plans which are either in relation to individuals or connected persons.

Given the commentary noted above, ACPM recommends the RPD reconsider implementing the Bulletin. We recognize the intention of the Bulletin which is to ensure any unfunded liability associated with a participating employer and related employer contributions are not excessive. While the apportionment methods in the Bulletin seek to ensure that there is no unequal cost-sharing among employers, we note that the Bulletin, in its current form, will place a considerable burden on employers to ensure their compliance with its requirements. However, where employers are related and whose balance sheets are consolidated, there is no net gain from such an additional requirement. The use of generally accepted accounting principles (GAAP) and existing tax laws on the flow of funds between related employers, is more than ample to address any concerns in this area.

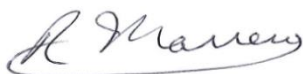
However individual pension plans and those involving connected persons may not have such safeguards and, as such, the application of the Bulletin should be limited to such plans and not other larger defined benefit pension plans.

From the perspective of a SEPP with a group of related employers, applying the apportionment methods outlined in the Bulletin means that employers' obligations will be consolidated on one financial balance sheet. Apportioning assets and liabilities according to the Bulletin may undermine the existing structures between companies and organizations which already define the funding of pension benefits. In our view, an alternative approach to applying the Bulletin would be to explicitly limit its application to pension plans wherein applying generally accepted accounting principles (GAAP) perspective cannot be assured.

Furthermore, the intention of the Bulletin does not apply to MEPPs and JSPPs since their funding model is primarily based on the notion of equal cost-sharing among all – and given the MEPP and JSPP funding methodology, this is fully achieved without apportioning assets and liabilities among participating employers which, in most cases, are unrelated employers.

ACPM would like to thank the Registered Plans Directorate for the opportunity to comment on the draft Bulletin and appreciate the consideration afforded to our submission. Members of the ACPM National Policy Committee would be pleased to speak with RPD staff to discuss this submission in further detail should such a request be received.

Sincerely,



Ric Marrero
Chief Executive Officer
ACPM