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

May 14, 2004

The Honourable Michael Baker, Q.C.
Chair, Law Amendments Committee
Province of Nova Scotia

Sent By Fax Only 902.424.0547

Re: Financial Measures Act – Proposed Amendment to Nova Scotia Pension Benefits Act

The Association of Canadian Pension Management (ACPM) read with interest the provisions of the Financial Measures Act that your government introduced on April 26, 2004. As part of that Act you proposed an amendment to the Nova Scotia Pension Benefits Act to eliminate “grow-in” benefits. We are disappointed that the Committee is not going forward with this amendment at this time.

The ACPM supports this initiative as a step towards uniform legislation across Canada and the continued health of defined benefit pension plans.

About the ACPM

The ACPM was founded in 1976 to promote the growth and health of Canada's retirement income system. As a national advocacy organization, the Association represents private and public pension plan sponsors, administrators and related stakeholders across Canada. Its 750 members represent 400 pension plans with total assets of \$300 billion. The Association has earned a reputation for advocating sensible pension policy, basing its advocacy efforts on the following principles: clarity in pension legislation, regulation and arrangements; good governance and administration; and balanced consideration of stakeholder interests.

Our Submission

The ACPM supports the elimination of prescribed grow-in entitlements for three reasons:

- Eliminating grow-in is a step towards uniform pension standards legislation across Canada.
- Eliminating grow-in may encourage the establishment of defined benefit pension plans, as it removes an unnecessary financial obligation on employers.
- Grow-in entitlements discourage employers from providing early retirement benefits.

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Uniform Pension Legislation

Eliminating grow-in requirements, and the associated concept of partial wind-ups, is a step towards harmonized pension standards legislation across Canada. We note that the CAPSA Model Law principles do not provide grow-in. At this time only two jurisdictions prescribe grow-in entitlements on partial wind-up – Nova Scotia and Ontario.

It appears that grow-in benefits are arbitrary (age plus service equals 55 points), and inequitable. If the intention is to protect older workers, it may not do so. If the intention is to protect those who lose their jobs in a group termination, it does not do so equitably. It also does not provide any protection for those members of a pension plan who do not have 55 points at the date of wind-up. In Nova Scotia, the government has exempted certain plans from the application of grow-in. Specifically, multi-employer plans, the Nova Scotia public service plan and the Teachers' plan are not subject to the grow-in requirements of the Nova Scotia Pension Benefits Act.

Financial Impact

The ACPM also submits that grow-in requirements impose financial burdens on plan sponsors that ultimately act as a disincentive to the growth of defined benefit pension plans. Furthermore, although placing considerable financial obligations on the employers/plan sponsors who give early retirement benefits in their pension plans, the grow-in requirements benefit few employees. First, the plan must offer early retirement benefits. Secondly, the members must have 55 points. Thirdly, there has to be an actual wind up or partial wind up for the benefits to be given. The result is that one group of terminated members may have an advantage over other terminated members, or for that matter, an advantage over current active and retired members.

Employers in Nova Scotia (and Ontario) must incorporate grow-in into their solvency valuations, forcing pension plans to be funded at a higher level than would be necessary without the grow-in requirement. This places a considerable financial burden on employers, yet will only benefit plan members if the plan winds up. We are concerned that mandatory grow-in provisions are anti-competitive and discourage employers in non-bargained plans from offering early retirement benefits. We suggest that grow-in can be negotiated in bargained plans, if members consider it to be essential.

Conclusion

The ACPM believes that Nova Scotia government's step towards elimination of mandated grow-in is a move in the right direction. Retaining the concept of grow-in would probably result in the retention of the concept of partial wind-up with all its inherent problems.

We look forward to meeting with the Minister to discuss this issue in more detail. If you have any questions, please contact Stephen Bigsby, ACPM Executive Director, at (416) 964-1260 or the undersigned.

Sincerely,

A handwritten signature in black ink that reads "Michael Beswick". The signature is written in a cursive style with a long, sweeping underline that extends to the left.

Michael Beswick
Chair, Advocacy and Government Relations
ACPM
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