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

June 23, 2023

Pension Policy Branch
Ministry of Finance, 5th Floor Frost South
7 Queen's Park Crescent
Toronto, ON M7A 1Y7

RE: Ontario Consultation Document: A Permanent Framework for Target Benefits (Proposal No 23-MOF003)

We are pleased to provide the ACPM's comments on the Consultation Paper that was released by the Ministry of Finance on March 15, 2023, concerning proposed rules for target benefit multi-employer pension plans ("MEPPs").

ACPM is the leading advocacy organization for plan sponsors and administrators in the pursuit of a balanced, effective and sustainable retirement income system in Canada. We are the voice of retirement plan sponsors, administrators and trustees in the private and public sector and our membership represents retirement income plans that cover millions of plan members.

In 2015 and 2018, ACPM provided comments on the Target Benefit Framework that was then being proposed for Ontario. As noted in our earlier submissions, ACPM believes that target benefit plans are a viable model for providing adequate retirement income to members and we therefore support and are encouraged by Ontario's efforts to provide specific and permanent funding rules for plans, such as MEPPs, that provide target benefits. At the same time, target benefit plans provide cost certainty for plan sponsors, thereby creating incentives for employers to create and maintain workplace pension plans. It is critical that those incentives are not undermined by an unduly burdensome regulatory framework.

There are elements in Ontario's most recent Consultation Paper on a Permanent Framework for Target Benefits which ACPM supports. ACPM supports the Framework's proposed permanent exemption from solvency funding for MEPPs, as well as the use of going concern assumptions for the calculation of commuted values paid from MEPPs. The requirements to adopt governance and funding policies align with ACPM's focus on plan governance.

Despite these positive elements in the Framework, ACPM is concerned with several aspects of the proposed Framework, including:

- the provision for adverse deviation ("PfAD") will overly restrict the ability of MEPP Trustees to manage their plans and properly balance the interests of active members and pensioners;
- the prohibition of commuted values from being adjusted by the plan's funded status;
- the restrictions for multi-jurisdictional plans are difficult to monitor and administer;

- the rules for “conversion” to a TBP for existing MEPPs are too onerous and do not reflect the fact that these plans already provide target benefits;
- the proposed requirements for communication to plan members are too onerous and paint MEPPs in a negative light; and
- the Framework seems to imply that there will be restrictions on trustees' ability to prudently manage their plans.

Our comments will focus on the first four, which the ACPM feels are most critical.

PFADs

The Framework includes a requirement for a PfAD that is based on the plan’s asset allocation and a variable component based on Government of Canada long bond rates. This last component introduces short-term market volatility resulting in a highly variable and potentially excessive PfAD. As seen in other jurisdictions (e.g., British Columbia, Alberta), this type of formula causes highly volatile funding requirements which may cause benefits to be adjusted (up or down) regularly unless the benefit formula is set very low. Setting a low benefit level will cause intergenerational inequities by requiring a significant portion of contributions be allocated to the PfAD.

We note that British Columbia has eliminated the volatile PfAD formula, and Alberta is in the process of doing so. Similar to the new funding rules in British Columbia, ACPM believes the Framework’s PfAD should be a fixed minimal amount with no variable components, plus a supplemental PfAD determined by plan trustees. Trustees in their fiduciary capacity can assess their plan’s risks including whether a larger PfAD would be prudent for their plan.

Commuted values

We support the Framework for adopting the CIA’s professional standards for commuted values for target benefit plans. However, the Framework does not fully adopt the commuted value standards because it does not allow the trustees to apply the plan’s funded ratio to terminating members’ commuted values. This creates inequities with terminating members receiving a windfall at the expense of members, including deferred members and pensioners, whose benefits remain in the plan.

The Proposal should permit trustees to apply the funded ratio to commuted values so that all classes of members are treated equitably.

Multi-jurisdictional plans

The Framework stipulates that plans are only allowed to provide target benefits if no more than 10% of their membership is in a jurisdiction that does not allow reductions in benefits. This provision will be very difficult to administer given that a plan’s membership can be highly mobile, resulting in frequent changes in a plan’s status. The administrative burden to monitor this situation could be significant. The current multi-jurisdictional agreement, to which Ontario is a signatory, addresses this issue and should not be overridden by the Framework.

Conversion to a Target Benefit plan

The Framework requires that MEPPs that have been operating as target benefit plans in Ontario for many years formally convert to a "target benefit plan" even though the pension promise to plan members hasn't changed. This adds unnecessary and confusing member communications, which increase the plan's administrative burden and incurs unnecessary costs that are borne by plan members. Further, under the current Framework, the conversion is dependent on the timing of the consent of the CEO of FSRA to the conversion. If consent is not provided in a timely manner, a MEPP may be required to start funding on a solvency basis which would be devastating to its members. At the very least, the solvency funding exemption should be extended for a MEPP that has applied to convert to a target benefit plan.

However, we suggest that any "conversion" to a target benefit plan required by the Framework should be simplified to avoid unnecessary cost and confusion to plan members.

Summary

ACPM believes that:

- similar to the British Columbia PfAD rules, a fixed minimal PfAD should be set out in the regulations, and any additional PfAD should be determined by the plan's trustees as per the policies / demographics of the plan;
- as permitted under CIA Standards, commuted values should be allowed to be reduced to reflect the plan's funded status;
- the restrictions for multi-jurisdictional plans should be removed from the Framework; and
- the conversion to a target benefit plan should be simplified for existing MEPPs to avoid member confusion and unnecessary costs.

If you have any questions or would like to discuss this matter, please do not hesitate to contact us at your earliest convenience.

Sincerely,

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