December 14, 2016

The Honourable Bill Morneau
Minister of Finance
Department of Finance
90 Elgin Street
Ottawa, Ontario
K1A 0G5
Via email: Bill.Morneau@parl.gc.ca

Dear Minister,

Re: Bill C-27

The purpose of this letter is to provide comments from the Pension Investment Association of Canada (“PIAC”) on Bill C-27: An Act to amend the Pension Benefits Standards Act, 1985 (“PBSA”). We wish to thank the Department of Finance Canada for including PIAC in the consultation process.

PIAC has been the national voice for Canadian private and public pension funds since 1977 in matters related to pension investment and governance. Senior investment professionals employed by PIAC’s member funds are responsible for the oversight and management of over $1.5 trillion in assets on behalf of millions of Canadians. PIAC’s mission is to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries. PIAC’s positions on public policy reflect the fiduciary framework in which member funds operate and its commitment to work in the best interests of plan members.

Pension Funding Reform

We would start by re-emphasizing the urgent need to reform pension funding rules at the federal and provincial levels. PIAC has sought regulatory solutions to the problems with solvency funding rules for defined benefit plans for many years now. As we have indicated in the past, the current solvency framework is just not working. It is eroding the viability of private sector defined benefit plans and has led to repeated calls on federal and provincial governments for temporary relief measures. PIAC strongly urges the Department of Finance to join with other jurisdictions across Canada (such as Ontario) who are looking at funding reform changes similar to those adopted in Quebec which set
out a single going-concern funding regime with appropriate margins for adverse deviations.

While PIAC strongly supports legislation to facilitate the creation of Target Benefit Plans (TBPs) as an option for employers and employees to design sustainable pension plans to meet their collective needs, TBPs will not on their own resolve the problems with solvency funding rules for defined benefit pension plans. They are not an option, for example, for plan sponsors managing closed plans and may not be the preferred design option for companies with open plans for a variety of legitimate management reasons. We are concerned that the federal government seems to view TBPs as the only solution to long-term funding reform rather than just one option.

Target Benefit Plans

As mentioned, PIAC is strongly supportive of the introduction of TBPs as a design option for federal plan sponsors and we recognize that many of the details of the federal regime will be covered in regulations. In terms of Bill C-27 in its current form, our main comment is that the requirement for individual member consent to transfer a benefit from an existing plan will effectively render TBPs a “go forward” option for plan sponsors with little chance of transfer of existing liabilities. This will likely substantially limit the uptake of the TBP model and require sponsors going this route to continue to manage the existing defined benefit plan under the current regime.

PIAC is supportive of the requirements for a board of trustees to oversee the plan, a governance policy as well as a funding policy that includes plans for dealing with deficits and surpluses as they arise over time. As you consider the regulations further to the funding policy, we encourage you to not require funding of excess reserves for adverse plan experience. Excessive funding levels will discourage the implementation of TBPs.

As we noted in our letter of June, 2014, it is very important to confirm accounting treatment of TBP’s with the standards of the Chartered Professional Accountants of Canada. If these plans are not able to be accounted for as defined contribution arrangements, it is less likely that employers will consider moving to such arrangements.

Finally, PIAC has long advocated for harmonization of pension legislation and regulation across Canada. This would ease the burden that pension design and administration places on national plan sponsors, and for employees moving between jurisdictions. We would strongly encourage the Department of Finance to adopt appropriate TBP regulations of other jurisdictions that have implemented TBP rules to advance harmonizations objectives.

Annuity Buy-Outs

We strongly support the inclusion of Section 17.1 on Life Annuity in Lieu of Pension Benefit. PIAC has advocated for this change for full discharge of liability on annuity buy-out for many years and are very pleased to see recognition of this important change in Bill C-27. Thank you for hearing us on this issue. We look forward to seeing the regulations on this provision.
Solvency Reserve Accounts

Finally, PIAC encourages the federal government to take advantage of this re-opening of the PBSA to permit Solvency Reserve Accounts (“SRAs” or “sidecar” funds) for federal defined benefit plans. SRAs are a potentially powerful tool to encourage funding of defined benefit plans by reducing the risk of trapped surplus and mitigating the inherent procyclical challenges that plan sponsors face in terms of pension funding requirements. This is an especially important consideration in the current period of extraordinarily low interest rates where plan sponsors may be concerned about funding in amounts that prove to be excessive in a normalized interest rate environment. SRAs are permitted in Alberta, British Columbia and Quebec and can be effectively designed such that there is no downside to plan members in terms of benefit security. We see no policy reasons for the federal government not to implement such a change and we would encourage you to act now in the context of Bill C-27.

We would be pleased to meet with the Department of Finance to discuss our comments further.

Yours sincerely,

Lisa Jankov
Chair