February 27, 2013

Dave Pelletier  
Chair of the Actuarial Standards Board  
1740-360 Albert Street  
Ottawa, Ontario  
K1R 7X7  
Via email secretariat@asb-cna.ca

Dear Mr. Pelletier:

**Re: Minimum Funding Rules**

The Pension Investment Association of Canada (PIAC) requests that the Actuarial Standards Board review the actuarial standards of practice related to funding of pension plans to ensure that the public interest of all stakeholders of pension plans is appropriately being met. In particular, we believe it is essential that these actuarial standards of practice should provide guidance to regulators in setting pragmatic, long-term, minimum funding rules.

PIAC has been the national voice for Canadian pension funds since 1977. Senior investment professionals employed by PIAC’s member funds are responsible for the oversight and management of over $1 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.

It is clear to PIAC that the current minimum funding rules utilized across Canada are simply not working. Of greatest concern are the minimum solvency funding rules and their ongoing detrimental effect on the viability of defined benefit pension plans. Sponsors of plans not being wound up are struggling with their commitment to their business and pension plan sustainability, necessitating repeated rounds of temporary regulatory solvency relief. As defined benefit pension plans mature in a low interest rate environment, these repeated exemptions “as and when needed” are becoming the only way of coping with unanticipated economic circumstances. Clearly, repeated temporary relief measures represent an acknowledgement that the minimum solvency funding requirements are not working.
PIAC believes Canada needs a long-term solution to defined benefit pension plan funding rather than periodic “relief programs”. We need to seek a better long-term funding model.

We believe that the Actuarial Standards Board is the logical and most appropriate body of professionals to take on this task. Rather than simply focusing on provisions for adverse deviations, smoothing and amortization periods, it is our view that the methodology for the valuation of the obligation itself should be reconsidered. For example, we question whether it continues to be appropriate to base prescribed solvency valuation discount rates on Government of Canada (GOC) bond yields plus spreads that are set periodically by the Canadian Institute of Actuaries (CIA) in reference to a representative cost of purchasing a non-indexed annuity as well as the use of Real Return Bond yields as a base to calculate the discount rate for indexed annuities.

The current solvency assumptions are driven by GOC interest rates. We believe it is important to consider the implications of today's market realities of limited supply and high demand for Long Term Bonds and Real Return Bonds, generational low levels of these reference interest rates and the fact that much of the decline during this period is encouraged by monetary policy actions being taken by central banks (e.g. “quantitative easing” and accommodative rate policy). Similar trends in interest rates are seen across most of the major economies of the world. These factors have been significant drivers in the ballooning of solvency liabilities for Canadian pension plans resulting in the need for repeated temporary relief measures. We believe today's market realities and the repeated temporary relief measures warrant a review of how solvency assumptions are determined including the direct link to GOC interest rates to ensure it remains appropriate.

PIAC is convinced that now is the time for the reform of long-term, minimum funding rules. We further believe that a pension plan needs one funding rule, as opposed to one going-concern funding rule and one plan termination funding rule. This one funding rule can be properly designed for the pension plan to meet the needs of beneficiaries and plan sponsors to balance the need for benefit security and plan sustainability. We would be pleased to discuss this matter with you at your convenience.

Yours Truly,

Brenda McInnes
Chair