



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

August 19, 2013

The Honourable Charles Sousa
Minister of Finance
7 Queen's Park Crescent, 7th floor
Toronto, Ontario M7A 1Y7
Via email: csousa.mpp@liberal.ola.org

Dear Minister:

Re: Solvency Funding for Private Pension Plans

We are writing this letter in follow up to our previous letter to the Ministry of Finance on April 11, 2012 urging the Ontario government to address an issue of significant concern to our association as well as many other small and medium size pension plans in Canada, including many Ontario regulated plans.

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 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. We acknowledge and appreciate the Ontario government's introduction of temporary solvency relief provisions in 2009 and subsequent extension in 2012. However, as defined benefit pension plans mature in a low interest rate environment, plan sponsors are still struggling with the large financial burden solvency funding creates. This burden has been made worse by the unanticipated economic circumstances. Clearly, the repeated temporary relief measures that have been implemented by several jurisdictions

over the last several years 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.

It is our view that the methodology for the valuation of the obligation itself should be reconsidered. We note that many other pension jurisdictions in Canada, such as Quebec (D'Amours Report), New Brunswick, Alberta and B.C., are engaging in research and discussion to come up with a new and more effective valuation and funding methodology.

PIAC is convinced that now is the time for the reform of long-term, minimum funding rules. We further believe Ontario, as well as other pension jurisdictions in Canada, 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 to meet the needs of beneficiaries and plan sponsors to balance the need for benefit security and plan sustainability. It is our hope that new rules can be developed with jurisdictions across Canada to promote the efficiencies of harmonization. We would be pleased to discuss this matter with you at your convenience.

Yours sincerely,

A handwritten signature in cursive script, appearing to read "Brenda McInnes".

Brenda McInnes
Chair