



Pension Investment  
Association of Canada

Association canadienne des  
gestionnaires de caisses de retraite

February 14, 2014

Strategic Pension Reform Secretariat  
Ministry of Finance  
5th Floor, Frost Building South  
7 Queen's Park Crescent  
Toronto ON M7A 1Y7

Via email: [pension.feedback@ontario.ca](mailto:pension.feedback@ontario.ca)

To Whom It May Concern:

**Re: Pension Benefits Act - Amending Reg. 909 of R.R.O. 1990**

We are writing this letter to respond to the Ontario Ministry of Finance's proposed Amendment to Regulation 909 under the Pension Benefits Act to provide for an exemption for U.S. government securities from the 10 per cent quantitative limit. We have attached PIAC's earlier submission to the Alberta - British Columbia Joint Expert Panel on Pension Standards dated February 28, 2008 that outlines our concerns with these types of limits.

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.

PIAC supports holding pension investments to the standard of a prudent person and the elimination of all quantitative limits on investing. As such, we see this amendment as a positive step and would encourage the Ministry to broaden the exemption.

PIAC believes that the current wording (in particular the inclusion of "fully guaranteed") technically excludes US Treasuries and US Treasury Inflation Protected Securities (TIPS). As nominal and inflation protected bonds are attractive for many pension plans to manage their risk, it would be desirable to change the current wording from "Securities

issued and fully guaranteed by the Government of the United States of America" to "Securities issued by the Government of the United States of America".

We would be pleased to discuss this matter with you at your convenience.

Yours sincerely,

A handwritten signature in cursive script, appearing to read "Michael Keenan".

Michael Keenan  
Chair

Enc. PIAC Submission to Alberta - British Columbia Joint Expert Panel on Pension Standards, February 28, 2008



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February 28, 2008

Christopher Brown, Alberta Co-chair and  
Scott Sweatman, British Columbia Co-chair  
Alberta and British Columbia Joint Expert Panel on Pension Standards  
ab-bc-pensionreview@gov.ab.ca  
ab-bc-pensionreview@gov.bc.ca

Dear Mr. Brown and Mr. Sweatman,

The Pension Investment Association of Canada (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 \$910 billion 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.

We applaud the B.C. and Alberta governments for establishing this timely review of Pension Standards and enclose here our submission in response to the issues raised in your discussion paper.

We would value an opportunity to meet with the Panel to answer any questions on our recommendations. In addition, we would be most pleased to provide the Panel with assistance as you undertake your work in the months ahead.

Sincerely,

Roger Robineau  
Chair

Enc.

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# **PIAC Submission to Alberta - British Columbia Joint Expert Panel on Pension Standards**

**February 28, 2008**

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## **Executive Summary**

The Pension Investment Association of Canada (PIAC) is pleased to have the opportunity to contribute to the review of the standards for private-sector pension plans in Alberta and British Columbia by the Joint Expert Panel on Pension Standards (the Panel).

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 \$910 billion 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.

The governments of Alberta and British Columbia have asked the Panel to make recommendations that are practical, affordable and feasible for sustaining and improving the private sector pension system. The Panel has noted that its challenge will be to make recommendations that achieve a balance and that would facilitate implementation from the political perspective while positively affecting the private sector pension system.

PIAC applauds the initiative of the Alberta and British Columbia governments in establishing the Panel and undertaking a broad review of pension standards. The management of pension plans has fundamentally changed in the two decades since the last major review of pension standards. Capital markets have changed dramatically with the introduction of more sophisticated investment tools such as derivatives and hedge funds, the increased pace and use of technology/electronic trading, and the impact of globalization and increased economic competition. The pension system today is facing enormous challenges arising from an aging population, low interest rates, market volatility, rising stakeholder expectations, regulatory burdens and the evolution of case law.

PIAC shares the Panel's concern that the number of defined benefit plans may significantly decline. In general, defined benefit ("DB") pension plans deliver the most cost-effective pensions to retirees. DB pension plans pool both longevity and investment risk and address inflation risk if indexed. Yet, DB pension plans are becoming less and less a feature of the private-sector pension system. Overall coverage of paid workers in Canada by registered pension plans declined from 46.2% in 1977 to 39.3% in 2003. The decline in DB pension plans was more pronounced, with the percentage of plan members in a DB pension plan declining from 92.7% to 81.5% over the same period while for private-sector workers alone the decline was even greater, from 90.6% to 74.2%<sup>1</sup>

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<sup>1</sup> B. Baldwin, "Determinants of the Evolution of Workplace Pension Plans in Canada", March 2007.

PIAC believes that the fundamental reason the number of DB pension plans are declining is due to funding and regulatory challenges. Plan sponsors are experiencing increasing financial pressures from the volatility of pension expense due to ever changing equity markets and interest rates, and changes in accounting standards. Recent court decisions regarding partial windups, expenses, asset transfers and surplus (Stelco, Kerry, Transamerica and Monsanto) have created an uncertain and negative legal environment for plan sponsors. The pivotal Supreme Court ruling in the Monsanto case exacerbated the asymmetrical sharing of pension risk between employer and employee groups. Adding to this burden are the onerous requirements for funding solvency deficits. Plans operating in multiple jurisdictions must also contend with the labyrinth of pension law and regulators across the country. This makes plan administration more difficult and costly. Finally, employees, especially younger ones, are not always aware of the benefits and risks of their pension plans. All of the above mentioned points encourage plan sponsors to freeze or terminate their existing DB pension plans, and do not encourage plan sponsors to create new defined benefit plans.

PIAC agrees with the following key issue relating to pension plan design and understanding identified in the Panel's discussion paper:

*A critical step in the process is ensuring that all parties to a pension plan agree on answers to the following basic questions:*

- *What is the pension deal for each type of pension plan?*
- *What is promised?*
- *Who pays for it?*
- *Who bears the risk, and what kind of risk?*

While the situation may appear dire to some, solutions are at hand. Governments have the ability to alter the policy underpinnings of the private-sector pension system and thereby alleviate some of the funding and regulatory challenges that plan sponsors and administrators are facing. In this submission, PIAC proposes that the Panel recommend that the governments of Alberta and British Columbia:

1. Take steps to ease solvency funding requirements and to address risk asymmetry in the rules regarding surplus entitlement by:
  - (a) providing plan sponsors the flexibility to use Letters of Credit, which already exists on a permanent basis in Alberta;
  - (b) permitting plan sponsors to establish special purpose accounts ("solvency accounts") that are independent from the main pension trust; and
  - (c) researching the feasibility of allowing pension plans to have reduced solvency funding requirements based on the credit worthiness of the plan sponsor.
2. Facilitate the opportunity for plan sponsors to enhance the funded position of the plans when plan sponsors are able to do so by:
  - (a) encouraging the Federal Government to amend the *Income Tax Act* to allow plan sponsors to make contributions beyond the current 110% limit; and

- (b) allowing plan sponsors to earmark contingency reserves to fund pension plans, where plan sponsors would have the clear entitlement to reclaim funds not required to fund pension benefits.
- 3. Hold pension investments to the standard of a prudent person and eliminate all quantitative limits on investing.
- 4. Harmonize pension law across Canada and establish one regulatory system for pensions with one set of rules.

It is time for the governments of Alberta and British Columbia to revamp private-sector pension plan standards. DB pension plan coverage is declining but has not declined as much in Canada as in other nations such as the U.S., U.K. and Australia. Before the trend accelerates, the policy approach to funding rules and other regulatory issues needs to change significantly. The changes that PIAC is recommending will create a more conducive environment for creation and maintenance of DB pension plans and the growth of defined contribution pension plans. The Panel and the governments of Alberta and British Columbia have an opportunity to demonstrate leadership in this area.

## **Response to Selected Questions Posed by the Alberta-British Columbia Expert Panel on Pension Standards**

***2a What role, if any, should occupational pension plans play in the Alberta and British Columbia retirement income system?***

***2e Is it important to promote expanded pension coverage? If so, should the establishment of or participation in a pension plan be mandatory and, if so, what is the best model? If not mandatory, what could be done to increase coverage?***

***3d Should the goals of the legislation include promoting expansion of the system in Alberta, British Columbia and throughout Canada? If so, in what way?***

DB and DC private-sector pension plans must continue to carry out their valued role in securing retirement income for employees, in addition to government pension schemes (e.g. CPP/OAS), and personal savings. Declining private-sector pension plan coverage is a concern and policy initiatives should be undertaken to reverse this trend and to enhance growth of this important tier in the provision of retirement income to employees. Governments should not mandate private-sector pension plans. Governments should remove barriers and irritants to the establishment of plans, and work with plan sponsors and industry groups to encourage formation of new plans, including the establishment of larger, more sophisticated sectoral, multi-employer, jointly sponsored or cooperative plans for small to medium-sized employers.

***3c To what extent should pension legislation be an instrument for social policy or labour market planning (e.g. socially responsible investing)?***

Any considerations of whether pension legislation should be used as an instrument for social policy should be made in the context that the purpose of a pension plan; that of providing a safe and sound income for people in their retirement years; is already an important social policy objective with both a financial and ethical component. In this context, and without judging them to be illegitimate, considerations of social policy or market planning must be subordinate to the ultimate goal of ensuring that the pension needs of plan members are met. This necessarily requires an emphasis on the financial interests of the pension plan.

In the debate about whether a pension plan should be focused solely on providing a pension; “best financial interests”, or including other considerations; there are two sides. Pension plan sponsors generally take the position that they should be able to invest without constraints to maximize investment returns. On the other side, some pension plan members have been vocal in demanding that their assets be invested in a socially responsible manner or with additional objectives in mind. Resolution of this issue could well depend on which party bears the responsibility for delivering the pension.

Where the plan sponsor has the responsibility for investing the pension fund assets in such a manner as to ensure that the pension plan can deliver the promised benefits upon retirement, it is the pension plan sponsor that bears the responsibility for making up any shortfall. In this context it seems reasonable for the plan sponsor to decide how the assets should be invested.

In other cases, the plan sponsor's sole responsibility is to make a contribution to the pension fund with investment decisions largely out of the sponsor's hands. In this context, plan recipients would perhaps be justified in making investment decisions according to their own objectives and bearing the costs and benefits of those decisions.

Seen in this context, it would be a mistake for government to require private-sector pension plans to include social policy objectives in their investment programs unless governments themselves would be willing to provide financial guarantees for any shortfalls that are incurred as a result.

There is no conclusive evidence of the impact of social policy considerations on investment returns. However, it is clear that including additional considerations into management of the pension fund adds another layer of complexity, increasing the costs and difficulty of the process. These can be significant, cannot be ignored, and must be factored into any decision about whether to include these considerations into the pension fund investment program. To be more specific, the more complicated, costly and difficult pension plan management becomes; the more incentives plan sponsors have to curtail plans or simply not provide them.

As an example of the complexity inherent in these factors consider that there are a multitude of social goals that different parties may want advanced – no tobacco, no alcohol, no weapons, no abortion providers, prohibitions against donations to political parties, divestment from particular countries; the list of considerations could well be endless.

It is the position of PIAC that:

- Providing financially sound retirement income should be seen as the ultimate priority of a pension plan;
- There is no conclusive evidence as to the impacts of including social policy considerations in the pension plan's investment policy;
- What is clear is that including additional considerations into the fund management will increase the complexity, raise costs, and this will negatively impact plan investment returns and perhaps the willingness of companies to provide such plans; and
- Any considerations of including social policy objectives should ensure that there is a link between the responsibility for decision making and the burden of plan funding. This includes the responsibility of government to assume responsibility where there is a related shortfall due to the imposition of additional, non-financial objectives.

**4a How important is harmonization of pension standards between Alberta and BC?**  
**4b Should harmonization of pension standards be addressed more broadly across the country and, if so, how should the harmonization goal be addressed?**

Multi-jurisdictional employers face huge administrative complexities under the current system. Full harmonization in Canada is long overdue and we believe it is time for Canada to consider one regulatory system with one set of rules. Alberta and BC can show the rest of Canada the way by taking steps to achieve full harmonization between the two provinces with one set of rules.

In addition, harmonization should also address rules related to the valuation and division of pensions on marriage breakdown. Different valuation and division rules between Alberta, BC and the other provinces exasperate the administration and related costs for multi-jurisdictional plan sponsors.

**4d Should the governments set standards for good governance? If so, what would those standards consist of? How should they be monitored and enforced?**

Governance best practices are continually evolving. What used to be best practice or leading-edge practice is becoming minimum standard. Prescribing a governance framework at a point in time would not be appropriate and would not assist in the necessary evolution of governance of pension plans or of the plan sponsor's corporate governance matters relating to the pension plan.

**4e Various parties participate in the pension system and regulatory resources are costly. Who should pay for the cost of regulating the pension system?**

PIAC does not generally object to a "user pay" system provided users are covering the costs of only regulatory resources that directly impact the regulation of pension plans in Alberta and BC. There should be transparent accountability by the regulators for the efficient use of these resources.

We would object to the subsidization by plan members or sponsors of any costs associated with the governments' efforts to promote issues such as social pension coverage and financial literacy agendas.

***5b Should the minimum funding rules take into account the financial health of the employer sponsoring a DB plan, and if so, how?***

The current 5-year amortization period for funding solvency deficits is too harsh for financially strong companies. These companies have a very low risk of having an insolvent pension plan and should be allowed to fund solvency deficits over a longer period. The financial health of an employer could be measured through one of the debt rating agencies and not by the regulator. For example, a longer amortization period might be granted to a company that is investment-grade. We suggest that the amortization period for ‘financially stronger’ companies be extended to 10 years, while the amortization for companies that are not ‘financially stronger’ would remain at 5 years. We also note that Alberta and other governments have eliminated solvency funding requirements for public-sector pension plans.

***5c Should minimum funding rules take into account the risk profile (asset / liability mismatch and asset mix) of the plan and, if so, how?***

It would be impractical to implement minimum funding rules related to each plan’s specific risk profiles. There are many ways to measure risk and no single method could be constructed that would apply fairly to each different plan and its unique situation. Risk measurement is not a simple process. Also, the investment policies of large plans are complex and industry is evolving towards more complex investment structures. In addition, such a regulatory provision would be very difficult for regulators to administer.

***5d Should each DB plan be required to have a funding policy? If so, should it be a regulatory filing requirement?***

The pension regulatory environment already has effectively given plan sponsors a funding policy. The pension benefits standards legislation provides a minimum funding requirement and the Income Tax Act (Federal) provides a maximum funding requirement. The reason most plan sponsors do not have a formal funding policy is because there is no need to have one, when the regulations already provide a minimum and a maximum funding level. Formalized funding policies will have no impact unless the issue of the existing asymmetry in DB pension plans is addressed.

If the asymmetry issue is effectively addressed, PIAC would support formal funding policies by plan sponsors. We do not believe that funding policies should be treated in the same manner as plans’ Statement of Investment Policies and Procedures. They should neither be mandated nor regulated. Guidelines for funding policies could be developed by the regulators to help sponsors develop and maintain their funding policies.

**5f Are there compromise solutions to the conflict between risk-reward asymmetry and benefit security in DB plans?**

**5g How can the conflict between short-term benefit security and long-term contribution predictability for DB plans be best addressed?**

PIAC believes that the risk/reward asymmetry that currently exists, whereby plan sponsors are generally responsible for funding shortfalls but are severely constrained from accessing surpluses, is the major impediment to not only the funding of private-sector DB pension plans but to their continued existence. Consequently, it is imperative that governments introduce some meaningful, permanent solutions to deal with the risk/reward asymmetry.

At PIAC's presentation to the Ontario Expert Commission on Pensions, the Commission was interested in knowing which plan sponsors have or will be taking steps to decrease benefits or close DB pension plans. The Commission was also interested in the extent to which DB pension plans are trying to "de-risk" their investments.

To aid the Commission in its work, PIAC decided to conduct further research on these issues. In November 2007, PIAC surveyed its membership, which consists of 140 plan sponsors across Canada. The survey results are attached as Addendum A in order to aid the Panel in its work.

The imbalance in the current DB funding model arises almost exclusively from solvency valuations. Solvency valuations have increasingly gained in importance over the years creating significant contribution requirements for plan sponsors (many of which are not at risk of failure), and leading to unnecessary over funding for the majority of plans. We recommend two methods that will address this issue directly while balancing the interests of sponsors and beneficiaries. The first one is the use of letters of credit (LoCs), which already exists on a permanent basis in Alberta. The second is permitting plan sponsors to set up special purpose accounts ("solvency accounts") that are independent from the main pension trust.

LoCs are a secure option for plan sponsors to deal with the volatility of solvency valuation results. They are also an effective way to secure plan benefits and possibly avoid the growth of excessive surplus in the future. However, LoCs are expensive and not available to all plan sponsors and, because the costs are not refundable or available to pay benefits, they are a direct significant cost to the plan sponsor. While LoCs provide welcome flexibility to existing plan sponsors, they do not address the risk/reward imbalance directly enough to encourage the establishment of new plans in the future, or even stem the flow of DB plan terminations.

We believe that providing plan sponsors with the ability to set up solvency accounts offers a more permanent solution and addresses some of the drawbacks associated with LoCs. Under this method, contributions required under the going concern valuation would be paid to the main pension fund as is the case under the current DB funding model. Where the employer is the sole contributor to the pension plan, or where the employee contributions are fixed, further employer contributions required under the solvency valuation would be paid to solvency account. In order to avoid the current problems associated with beneficial trusts, the side account must not be treated as a trust. However, similar to the pension fund, the solvency account would be segregated from the employer's assets, invested in accordance with the plan's Statement of Investment Policies and Procedures, tax-sheltered, and protected from non-pension creditors. Upon full or partial plan windup, any assets in the solvency account that are not required to satisfy benefit entitlements would revert back to the employer. In an ongoing situation, assets in the solvency account could also be accessed by the employer provided the sum of the assets in the pension fund and the solvency account exceed the plan's solvency valuation obligation.

Employers should also have the ability to make additional contributions above the minimums required by the going concern valuation to the solvency account. The tax authorities will need to be encouraged to increase the maximum employer contribution funded ratio to at least 120%. The ability to make these additional voluntary contributions will provide employers with greater flexibility to manage their cash requirements within their own business cycles and would lead to enhanced benefit security for plan members.

We know this is not a perfect solution as the asymmetry issue will continue to exist in the main pension fund. Nevertheless, we believe that the use of solvency accounts will cause employers to re-examine DB pension plans as a viable option when establishing new plans and increase the likelihood that they will fund more rapidly than the minimum required thereby enhancing benefit security.

***5h What changes, if any, in investment standards are required to allow enough investment flexibility while continuing to protect benefit security?***

Pension investments should be held to the standard of a prudent person and all quantitative limits on investing should be eliminated.

Capital markets do not have just a provincial dimension – they are global. Canadian dollar denominated assets can readily be substituted for any other asset in a global pool of liquidity. A greater opportunity set of investments leads to a higher probability of increased risk-adjusted returns. The greater range of investment options and strategies that are available, the more diversification can reduce risk, and the greater the opportunity pension funds have to ensure that the sum of diversified returns are greater than would be available from a more restrictive opportunity set.

Governments have influenced these strategies in the past by, for example, limiting the foreign content in pension plans. PIAC believes that the industry has evolved to the point that pension funds should be governed by the prudent person rule, which enables pension plan administrators to make the best investment choices for their plan. Canada is the only developed country that uses quantitative limits, instead of the more universally applied prudent person standards for investing. Studies have consistently shown that such restrictions, by limiting the pool of available assets, have a negative impact on pension fund performance.

For example, the elimination of the 30% foreign content rule now allows Canadian pension plan sponsors to better manage the risk of their investment portfolios by allowing increased diversification of assets outside of Canada. However, the 10% single issuer rule restricts investments in such liquid assets as U.S. Treasury bonds and other similar bonds of U.S. government agencies. While PIAC believes that all quantitative limits should be eliminated, an immediate exemption should be made from the 10% issuer rule for investment grade sovereign bonds, similar to the exemption currently provided for Canadian bonds issued by Canadian government issuers.

Another example of a quantitative-related limit that was covered recently by the media was the restriction a pension plan to electing no more than 30% of the directors of a company, even though it may own more than 30% of the equity. PIAC also recommends the immediate elimination of this rule.

Any change in pension legislation should reflect the principle that share ownership means ownership of the company and provisions that derogate from this principle detract from the efficient allocation of capital in the Canadian marketplace. Pension plans, in both the public and private spheres, have been at the forefront of good corporate governance and protecting the rights of shareholders and artificial limits on exercising their rights of ownership should be eliminated.

***6a To what extent are legal issues beyond provincial jurisdiction creating problems in the pension system and what role, if any, should the provincial governments have in addressing them?***

The one key issue that creates unintended problems in the funding of private-sector pension plans is the rule in the Income Tax Act that limits employer contributions when plans are in surplus. These maximum pension contribution limits are too low to permit adequate funding buffers to develop.

The tax authorities need to be encouraged to increase the maximum employer contribution funded ratio to at least 120%. The ability to make these additional voluntary contributions will provide employers with greater flexibility to manage their cash requirements within their own business cycles and would lead to enhanced benefit security for plan members.



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## Pension Plan Funding Challenges: 2007 PIAC Survey

December, 2007

### Introduction

On October 17, 2007, the Pension Investment Association of Canada (“PIAC”) presented a submission to the Ontario Expert Commission on Pensions (the “Commission”). The Commission was interested in knowing which plan sponsors have or will be taking steps to decrease benefits or close Defined Benefit (DB) plans. There was also some discussion about the extent to which plans are trying to “de-risk” their investments.

To aid the Commission in its work, PIAC decided to conduct further research on these issues. In November 2007, PIAC surveyed its membership, which consists of 140 plan sponsors across Canada. The survey instrument is attached as Appendix I. The total assets of PIAC’s member plans as of December 31, 2006 was \$910 billion. PIAC plan sponsors represent an estimated 80% of Canada’s pension industry (excluding RRSPs), by asset size. Results are being reported for Ontario as well as Canada, in order to aid the Commission in its work.

### Findings

#### Response Rate

79 plan sponsors responded to the survey. This represents 60% of PIAC’s membership, by number. Asset size of respondents ranged from less than \$500 million (11.4%) to more than \$5 billion (22.8%). Of the 79 plan sponsors, 45.6% were in the public or not-for-profit sector and 54.4% were in the private sector. The majority of plan sponsors (88.6%) provide DB plans, 32.9% provide Defined Contribution (DC) plans, 15.2% provide group RRSPs and 13.9% provide Hybrid plans. (Note: some plan sponsors provide more than one type of plan to employees.)

In Ontario, 39 plans responded, representing virtually all of PIAC's membership in Ontario. Of these, 35.9% were in the public or not-for-profit sector, and 64.1% were in the private sector. The majority of plan sponsors in Ontario (87.2%) provide DB plans, 41.0% provide DC plans, 20.5% provide group RRSPs and 20.5% provide Hybrid plans. (Note: some plan sponsors provide more than one type of plan to employees.)

### Plan Closure and Benefit Changes

A significant portion of plan sponsors have already closed or converted their DB plans or are in the process of doing so. The trend towards closure or conversion is stronger in Ontario than in the rest of Canada (See Table 1). (Note numbers add to greater than 100% as some plan sponsors are considering more than one option.)

Table 1: DB Plan Closure/Changes, Canada and Ontario

Have you in the past, or are you now in the process of, seriously considering one or more of the following:	Canada	Ontario
Closing your DB plan	17.8%	30.6%
Moving from your DB plan to a defined contribution plan	24.7%	33.3%
Moving to a hybrid DB/DC plan	4.1%	8.3%
Moving to a Group RRSP	2.7%	2.8%
Reducing future benefit accruals (e.g. elimination of early retirement benefits, making indexation conditional on funding)	20.5%	19.4%
Considering some other form of DB plan closure/wind up without a successor pension plan	2.7%	5.6%
No change is being considered	53.4%	44.4%

Of the Ontario respondents, 50% of private sector plan sponsors are considering closing their defined benefit plans, and 0% of public sector plan sponsors are. Only 27.3% of private sector plan sponsors are not considering any change to their DB plan. In the Ontario public sector, 66.7% of plan sponsors are not considering any change, while 13.3% are considering moving to a DC plan and 33.3% are considering reductions in future benefits. (See Table 2)

Table 2: DB Plan Closure/Changes, Ontario, Private Sector vs. Public Sector

Have you in the past, or are you now in the process of, seriously considering one or more of the following:	Private	Public
Closing your DB plan	50.00%	0.00%
Moving from your DB plan to a defined contribution plan	50.00%	13.30%
Moving to a hybrid DB/DC plan	13.60%	6.70%
Moving to a Group RRSP	4.50%	0.00%
Reducing future benefit accruals (e.g. elimination of early retirement benefits, making indexation conditional on funding)	13.60%	33.30%
Considering some other form of DB plan closure/wind up without a successor pension plan	9.10%	0.00%
No change is being considered	27.30%	66.70%

Of those who are seriously considering changes, 52.9% of Canadian plan sponsors and 65.0% of Ontario plan sponsors have already made the decision, while the remainder see it being made in the next one to three years. (See Table 3)

Table 3: Timing of Decision to Close/Change DB Plan, Canada and Ontario

	Canada	Ontario
Have you already made this decision (even if you still are in the "notice to employees" period),	52.9%	65.0%
Do you see this decision being made in the next year,	11.8%	15.0%
Do you see this decision being made in the next 2 years, or	17.6%	5.0%
Do you see this decision being made more than 3 years from now?	17.6%	15.0%

### Investment Strategy

Plan sponsors are divided on the question of whether to adopt an investment strategy which would de-risk investments to the maximum extent possible (e.g. using bonds or other assets to match better the characteristics of liabilities). In Canada, 73.2% of plan sponsors have discussed the issue, and 54.9% of these would seriously consider implementing such a strategy. For these plans, slightly more than half (54.8%) would do so whether or not they had a surplus or are fully-funded. In Ontario, 62.9% of plan sponsors have discussed the issue, and 72.7% of these would seriously consider implementing such a strategy. For these plans, exactly half would do so whether or not they had a surplus or are fully-funded.

Plan sponsors who are seriously considering implementing a de-risking strategy differ on the amount by which they would increase their bond exposure, but the majority (85.1% of Canadian and 80% of Ontario plans) would not go beyond 60% bonds in their asset allocation. (See Table 4)

Table 4: Proposed Bond exposure, Canada, Ontario

	Canada	Ontario
less than or equal to 40%	25.9%	13.3%
41-50%	25.9%	20.0%
51-60%,	33.3%	46.7%
61-70%	0.0%	0.0%
71-80%	7.4%	6.7%
81-90%	3.7%	6.7%
91-100%	3.7%	6.7%

Real estate and infrastructure were most commonly mentioned as assets that were being used to minimize risk and stabilize returns over the long-term (15 out of 27 respondents across Canada). Other assets being used to minimize risk include: interest rate overlays/swaps, delayed settlement bonds, repos, private debt, hedge funds, real return bonds, high dividend yield equities and income trusts.

85.7% of Canadian and 80.0% of Ontario plan sponsors who are considering a de-risking strategy have assessed the funding implications of de-risking, with varying estimates on the extent to which funding will increase. Most of the plan sponsors who are able to assess the increase in funding costs estimate the increase to be less than 10%. (See Table 5)

Table 5: Estimated increase in funding costs due to de-risking, Canada and Ontario

	Canada	Ontario
0-10%	46.2%	53.8%
11-25%	7.7%	0.0%
26-50%	7.7%	0.0%
51-75%	0.0%	0.0%
over 76%	7.7%	0.0%
don't know	30.8%	46.2%

35.7% of Canadian plans and 40% of Ontario plan sponsors have already made the decision to de-risk investments. (See Table 6)

Table 6: Timing of Decision to De-risk Investments, Canada and Ontario

	Canada	Ontario
You have already made this decision, (even if you are still in the process of implementing the strategy)	35.7%	40.0%
This will happen in the next year	17.9%	13.3%
This will happen in the next 2 years	39.3%	40.0%
This will happen more than 3 years from now	7.1%	6.7%

**Conclusion**

The clear trend among PIAC plan sponsors is towards closure or conversion of DB pension plans. The trend is stronger in Ontario than in Canada. Note that there may be a selection bias in the results for Canada, as not all of PIAC’s Canadian members responded. Most of the plan sponsors who are considering this direction have already made the decision, and a significant portion of the remaining DB plan sponsors anticipate making the decision to close or convert in the next one to three years. De-risking investments is also being discussed broadly within the industry, with a variety of asset mixes and asset classes being considered. While a large majority of plan sponsors have assessed the funding implications of de-risking, a significant portion of them do not know what the funding implications are. It is difficult to estimate future funding costs when so many uncertainties exist, such as interest rates and market conditions. Changes to investment strategy have not been implemented to as great an extent as have those regarding plan design; however, the majority of plan sponsors who are considering de-risking think that it will unfold over the next one to two years.

## 1. Introduction

Memo to PIAC Members:

On October 17, 2007 PIAC made its presentation to the Ontario Expert Commission on Pensions. The Commission was very interested in PIAC's submission and has asked us to provide follow up on a number of points.

The Commission is interested in knowing who has or will be taking steps to decrease benefits or close DB plans versus those who are thinking about it.

Although this is an Ontario Commission, we have decided it would be most useful to canvass PIAC's entire membership as we will need this information for responding to the question when it is raised in other jurisdictions (i.e. the recently announced BC/Alberta review).

Please note that your response to the following questions will be in strictest confidence, will be aggregated, and will not be ascribed to any responding company/pension fund.

This survey is being sent to all PIAC member pension funds. As some funds have more than one member, we would ask that you internally decide who will respond and that we be sent only one response per member organization.

We expect that this survey will take 3 - 5 minutes of your time to complete. Please note that an asterisk (\*) indicates that a response is required.

Please respond by 5:00 pm EST on November 20, 2007.

## 2. SECTION A: Respondent Profile

### \* 1. Total Assets (select one)

Less than \$500 Million

\$500 Million - \$2 Billion

\$2 Billion - \$5 Billion

More than \$5 Billion

### \* 2. Does your fund organization represent (select one)

\* 3. Please identify the jurisdiction(s) in which your pension fund(s) is/are registered:

- Federal
- British Columbia
- Alberta
- Saskatchewan
- Manitoba
- Ontario
- Quebec
- New Brunswick
- Nova Scotia
- Prince Edward Island
- Newfoundland & Labrador
- Northwest Territories
- Nunavut
- Yukon

\* 4. Please select all of the following which apply to your plan:

- DB
- DC
- Group RRSP
- Hybrid DB/DC

### 3. SECTION B- Survey

5. Have you in the past, or are you now in the process of, seriously considering one or more of the following:

- Closing your DB plan
- Moving from your DB plan to a defined contribution plan
- Moving to a hybrid DB/DC plan
- Moving to a Group RRSP
- Reducing future benefit accruals (e.g. elimination of early retirement benefits, making indexation conditional on funding)
- Considering some other form of DB plan closure/wind up without a successor pension plan
- No change is being considered

6. If you selected any answer in question #5 except the last option:

- Have you already made this decision (even if you still are in the "notice to employees" period),
- Do you see this decision being made in the next year,
- Do you see this decision being made in the next 2 years, or
- Do you see this decision being made more than 3 years from now?

7. Have you discussed an investment strategy which would de-risk your investments to the maximum extent possible (e.g. using bonds or other assets to match better the characteristics of your liabilities)?

Yes

No

8. If you answered Yes to question #7, will you seriously consider implementing such a strategy?

Yes

No

9. If you answered Yes to question #8, does this depend on whether or not you have a surplus or are fully-funded?

Yes

No

10. If you answered Yes to question #8, would you or have you increased your bond exposure to:

less than or equal to 40%

41-50%

51-60%,

61-70%

71-80%

81-90%

91-100%

11. If you answered Yes to question #8, have you assessed the funding implications related to such "de-risking"?

Yes

No

12. If you answered Yes to question #11, how much do you estimate your funding costs to increase?

0-10%

11-25%

26-50%

51-75%

over 76%

don't know

### 13. If you answered Yes to question #8:

You have already made this decision, (even if you are still in the process of implementing the strategy)

This will happen in the next year

This will happen in the next 2 years

This will happen more than 3 years from now

14. What other assets might you use to minimize risk other than bonds? Please specify.

## 4. Conclusion

Thank you for helping PIAC continue being relevant to your needs. Your cooperation is appreciated. Please feel free to contact the PIAC office at (416) 640-0264 or by email to [info@piacweb.org](mailto:info@piacweb.org) if you have any questions.