Pension Investment Association of Canada

Association canadienne des gestionnaires de caisses de retraite

August 26, 2015

Mr. Sam Hadad
Ministère du Travail, de l'Emploi et de la Solidarité sociale
200, chemin Sainte-Foy
6e étage
Québec (Quebec) G1R 5S1
Via email ministre@mess.gouv.qc.ca

Re: Bill 57 - An Act to amend the Supplemental Pension Plans Act mainly with respect to the funding of defined benefit pension plans

Dear Minister,

The Pension Investment Association of Canada (PIAC) is pleased to provide its input on Bill 57. We congratulate the Québec government for leading the way in Canada by introducing this bill to reform the funding regime in Québec. If this reform can be emulated in other Canadian jurisdictions, it would fix a model which has been clearly broken for many years.

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.

<u>General Observations</u>:

PIAC supports the elimination of solvency funding, and recognizes the need for protection of members in the manner proposed in the bill.

Specific Comments:

1. **Level of the reserve**: At our meeting in Québec City on April 22, 2015 with the RRQ, PIAC recommended that regulators use a two step process to set the level of the reserve (PS="provision de stabilisation"). First, use a simple approach where all variable income investment (stocks, real estate, infrastructure, etc.) is treated as

   equity to fix the PS. Second, offer pension plans the possibility to use a more detailed asset allocation model ("complex" approach) in order to justify a lower PS if it can be demonstrated that the risk of the portfolio is lower.

   As Bill 57 stated that the PS calculation will be set up in the "règlement" (rules) to be published by the government and written by the RRQ, we would be happy to help the RRQ to come up with a process to determine this risk level, given the increasing number of plans with a "complex" asset allocation.

2. **Assumptions**: We are interested in confirming that the new PS replaces all the different margins that pension plans have been using in doing their actuarial valuations on a going concern basis. It is our understanding that the going-concern valuation assumptions can all be "best-estimate" under the new approach. We believe it is important that this new PS is not added on top of another reserve.

3. **Bankers Clause**: The current version allows the plan sponsor to account separately for the contribution that is made to create part of the PS (PS-5%) and the deficit if any.
   - Bill 57 states that the current service cost contribution is based on the current liability + PS (ex:115%). PIAC believes that the excess service cost calculated on the PS should also be part of the banker's clause and be available for a withdrawal by the plan sponsor as is the case for the contribution for the deficit of the PS.
   - Bill 57 is silent on the current surplus of a plan ("initial" surplus). PIAC believes that this "initial" surplus should also be available for a withdrawal by the plan sponsor as, otherwise, in the long term, plans with the same financial situation won't have the same possibility to withdraw their surplus. Indeed, a fund that would have created its surplus with recent contribution will be advantaged compare to a plan that was "better" managed and had an "older" surplus.

4. **Annuity Buy-Outs:** We strongly support the inclusion of annuity buy-outs with full discharge of liability in the Bill. PIAC has been advocating for this in all jurisdictions in Canada to recognize that by shifting the risk of default of payments from a single corporate sponsor to an organization like an insurance company, risks are being assumed by a highly regulated, highly rated and heavily capitalized part of the financial system. This ensures ongoing security for plan members and regulatory oversight.

Again, we congratulate the Quebec government on this progressive legislative move regarding pension funding reform.

Thank you for this opportunity to comment on Bill 57. Please do not hesitate to contact Pierre Drolet of the Investment Practices Committee (514-394-7511, pierre.drolet@bnc.ca), if you wish to discuss any aspect of this letter in further detail.

Yours sincerely,

Dan Goguen
Chair

cc. Michel Montour, Directeur des régimes de retraite, Régie des rentes du Québec
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