Pension Investment Association of Canada

Association canadienne des gestionnaires de caisses de retraite

January 15, 2016

Andrew Schrumm
Policy Manager, CAPSA Secretariat
5160 Yonge Street, Box 85
Toronto, Ontario
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Via email: capsa - acor@fsco.gov.on.ca

Dear Mr. Schrumm:

Re: CAPSA Strategic Plan 2016-2019

The Pension Investment Association of Canada (PIAC) is pleased to provide its input on CAPSA's strategic plan for 2016 to 2019.

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.

We would first wish to congratulate CAPSA on its policy achievements over the past four years. In particular, the CAPSA DC Guidelines, focus on consistent good pension governance, and seeking best practices for front-line compliance officers.

Our key concerns which we would encourage CAPSA to highlight in the upcoming strategic plan include:

- **Funding Reform**: There continues to be much work to be done in developing and implementing across Canada a uniform and sustainable regulatory framework for funding of pension plans. This work should build on the proposals of some provinces, such as Quebec. It is imperative that we not only have a new funding framework, but that this framework is applied uniformly across Canada, and CAPSA needs to take a lead in this effort. Key considerations on this issue include:

    - Current minimum funding rules utilized across Canada are simply not working. In particular, minimum solvency funding rules are having an ongoing detrimental effect on the viability of defined benefit pension plans and on any expansion of defined benefit plan coverage rates
    - Sponsors of plans not being wound up are struggling with their commitment to sustain their pension plans, necessitating repeated rounds of temporary regulatory solvency funding relief
    - Solvency funding standards should be dropped. Revised, going-concern funding standards should be implemented that will balance the benefit security needs of plan beneficiaries with pragmatic funding by plan sponsors
    - Going-concern funding would be supplemented with requirements for an adequate Provision for Adverse Deviation or assumptions with higher margins as appropriate based on the risk profile of the plan
    - Funding Reserve Accounts (or "sidecar" funds) should be permitted

- **Commuted Value (CV)/Transfer Values**: Related to the Funding Reform initiative, there is a significant issue with the assumption basis for pension values for terminating plan members and members transferring to another plan. It is imperative that there is a uniform solution to the range of possible assumptions. CAPSA could support the work of the CIA through the responses to their Position Paper released in November 2015 and promote a harmonized solution with regulators. Key considerations on this issue include:
    - Current commuted transfer rules are having significant financial impacts on plans and the benefit security of remaining plan members in the prolonged low-interest rate era
    - Elimination of solvency funding standards and implementation of revised going-concern funding standards requires a revision to the current regulations for determining the commuted value for transfer on termination of defined benefit plan membership
    - Transfer values should be based on the funded position of the plan using the revised going-concern funding standards
    - Plan members would retain the option of leaving their benefit in the plan for a pension at retirement

- **Environment, Social, Governance (ESG) Factors**: There has been considerable discussion on the inclusion of ESG in investment practices for pension funds across Canada. We believe that CAPSA should have a role in fostering harmonization across Canada in the way ESG is recognized and communicated to plan members.

- **Legal Discharge of Benefit Guarantee:** A plan administrator/sponsor cannot fully discharge the plan's obligation to its retirees through a "buy-out" annuity. However, buy-outs transfer the pension risk to a highly regulated and heavily capitalized part of the financial system which ensures ongoing security for plan members and regulatory oversight. We continue to encourage CAPSA to promote permission for the discharge of a plan's obligation through a "buy-out" annuity in all Canadian pension jurisdictions;

noting that it is already recognized in B.C. and Alberta, and will be recognized in Quebec with the passage of Bill 57.

- **Electronic Disclosure:** Only a few jurisdictions in Canada allow electronic communications with members only upon consent (e.g. Ontario, Federal). We urge CAPSA to support the proliferation of electronic communications to pension plan members across Canada. Key considerations on this issue include:
  - Regulations requiring paper copies of disclosure requirements were enacted at a time when electronic communication systems were not widely used
  - Today, electronic communication is the predominant mode of communication in the workplace and in personal financial planning
  - The requirements for the provision of regulatory disclosure requirements should be revised to reflect that the electronic form of a document is the default through the plan administrator's website
  - Only if the plan member or beneficiary objects in writing, or if internet access is not available, would personal regulatory disclosure statements be provided to the individual in paper form

- **Pooled Retirement Pension Plans (PRPP's)**: As PIAC emphasized in the last strategic plan, we encourage CAPSA to ensure that PRPP regulations are fully uniform across Canada and encourage a competitive environment to deliver low cost services while promoting effective governance and administrator practices. For multi-jurisdictional plan sponsors, this will ensure that administrative costs are kept as low as possible, and thus promote more use of PRPP's by companies that do not already have a pension plan.

- **Regulatory Harmonization**: We strongly urge CAPSA to continue to use its influence on the pension jurisdictions to strengthen its focus on harmonization/uniformity of any new pension legislation or regulations introduced in the future; for example, as enabling legislation and regulations are rolled out for target benefit plans. We are at a critical time in the life of pension plans – particularly private sector plans – and as such any changes that discourage the continuance or creation of pension plans should be assiduously avoided.

Thank you for the opportunity to provide input towards CAPSA's 2016-2019 strategic plan. PIAC would be most pleased to work closely with CAPSA in implementing elements of their strategic plan.

Yours sincerely,

Lisa Jankov
Chair