



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

February 26, 2018

Office of the Superintendent – Pension Commission
Room 1004 – 4012 York Avenue
Winnipeg, MB
R3C 0P8

Via email: pensions@gov.mb.ca

Re: Recommendations for Reforms to the Pension Benefits Act (PBA)

We are pleased to provide comments on the *Recommendations for Reforms to the Pension Benefits Act* released on January 10, 2018.

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 \$1.8 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's positions on public policy reflect the fiduciary framework in which member funds operate and its commitment to work in the best interests of plan members.

PIAC commends the Manitoba government for tackling issues related to plan design flexibility and solvency funding reform, and we will limit our comments to these issues. There is important momentum across Canadian jurisdictions to find a more durable balance between defined benefit plan sustainability and security and your proposals support that direction.

Target Benefit / Shared Risk Plans

PIAC fully supports the introduction of target benefit / shared risk plans as a plan design option. Regarding your proposals, we agree with a jointly trusted approach and

exemption from solvency funding and believes such plans are appropriate in a single and multi-employer context, as well as in a public sector or private sector context.

We note, however, that limiting application to future benefit accruals could limit the potential take-up as it requires plan sponsors to continue to manage existing defined benefit plans under the current regime. While we appreciate the challenges around conversion of past liabilities, we believe there are merits, in terms of plan sustainability, to facilitate plan sponsors and members working toward mutually acceptable solutions. We believe member consent is critical but do not think individual member consent is a practical solution. We therefore recommend some form of super-majority threshold for affected members.

Proposed Funding Rules

PIAC also strongly supports your proposals to move to enhanced going concern funding combined with modified solvency funding around an 85% threshold. Shortening amortization to 10 years, the introduction of Provisions for Adverse Deviations and the consolidation of deficiencies are all reasonable design elements to create an appropriately robust going concern regime. We believe this approach would provide a more durable framework for sponsors with appropriate protection for plan members, which is consistent with the approach Quebec has taken and is being developed for Ontario plans.

We also agree with the introduction of solvency reserve accounts (SRA's) for Manitoba plans. PIAC has advocated in favour of SRA's for a number of years as we believe they are useful to manage the inherent procyclical nature of pension funding obligations by encouraging plan sponsors to fund beyond statutory minimums during periods of good economic growth through mitigation of the asymmetries related to trapped surplus.

Our final comment regarding funding is to encourage Manitoba to recognize the legal discharge of plan liabilities in instances where a plan sponsor purchases an annuity for retired or former plan members. An annuity purchase effectively represents an improvement in ongoing security for most plan members given the transfer of the risk from a single corporate sponsor to a regulated insurer. As annuitization is an expensive option, we believe companies will be less likely to pursue it if they retain legal exposure following the annuitization. Alberta, British Columbia and Quebec already permit full discharge of liability and Ontario is also moving in this direction so this regulatory model is well developed.

As you consider the details of your proposals around plan design and funding, we encourage you to harmonize to the extent possible with other Canadian jurisdictions to ease the administrative challenges for national plan sponsors.

We would be pleased to clarify your comments at your convenience, or provide any assistance with the development of detailed proposals.

Yours sincerely,

A handwritten signature in blue ink that reads "Brenda King". The signature is written in a cursive, flowing style.

Brenda King
Chair