Pension Investment Association of Canada
Association canadienne des gestionnaires de caisses de retraite

September 17, 2019

Financial and Corporate Sector Policy Branch
Ministry of Finance
PO Box 9418 Stn Prov Govt
Victoria BC V8W 9V1

Delivered Via Email**:** PBSA.SolvencyReview@gov.bc.ca

Re: A Review of the Solvency Funding Framework under the *Pension Benefits Standards Act*: Report on Stakeholder Committee Process

The purpose of this letter is to provide comments from the Pension Investment Association of Canada (PIAC) on the BC government report on the Solvency Funding Framework released in August 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 $2 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 BC government for moving forward on solvency funding reform, something which PIAC has sought for many years. The introduction of an 85% solvency standard and a "going concern plus" standard is a critical change which further builds on national momentum in this direction and will improve sustainability of defined benefit plans going forward, while maintaining a strong level of benefit security.

PIAC is generally supportive of the technical changes proposed, including rules around funding requirements, contribution holidays, letter of credit usage, amortization periods, and the integration with reserve accounts.

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However, PIAC believes that the PfAD determination should have a tighter link to plan asset allocation as is done in Ontario and Quebec. While we appreciate the committee's desire to have the PfAD adjust with interest rates as a stabilizing mechanism, we do not believe that the regulatory funding requirements should be neutral to asset allocation. A standardized PfAD based mainly on long-term bond yields at the valuation date may prove be too conservative for substantially de-risked plans in some scenarios (e.g. in higher interest rate environments) and conversely less conservative for plans with a higher allocation to "risky assets" in other scenarios (e.g. very low interest rate environments). While the proposed PfAD determination may work well for the average plan in a normal rate environment, a tighter link to asset allocation will make the regime more robust to plans with a broader range of asset allocations and may make it more robust to extremely low interest rate scenarios, which have developed in a number of advanced economies in recent years. This approach would moreover be consistent with the general approach to regulatory capital in the broader financial sector which typically discriminates based on overall balance sheet risk. In the context of your proposals, a tighter link could potentially be achieved by adjusting the scalar factor on non-fixed income securities across a broader range of allocations, or linking the PfAD to a plan's going-concern discount rate which implicitly incorporates asset allocation as well as interest rate levels.

Finally, we agree with the proposed approach to move ahead immediately with the changes that can be implemented through regulation and follow through at the earliest opportunity to implement those provisions which require legislative changes. The decline in the long-term bond yields this year may well lead to greater pressure on solvency funding requirements for plan sponsors in the near-term so timely implementation is critical.

PIAC thanks the BC government for this opportunity to share our thoughts on the reform proposals, and would be happy to discuss any questions on our comments further at your convenience.

Yours sincerely,

Deanne Allen
Chair