Pension Investment Association of Canada

Association canadienne des gestionnaires de fonds de retraite

June 29, 2005

Secretariat
Canadian Institute of Actuaries
800-150 Metcalfe
Ottawa, Ontario
K2P 1P1
Attention: Mr. Serge Charbonneau
Chairperson, Committee on Pension Plan Financial Reporting

Via e-mail to: scharbonneau@morneausobeco.com

Re: Statement of Principles on Revised Actuarial Standards of Practice for Reporting on Pension Plan Funding

Dear Mr. Charbonneau:

The Pension Investment Association of Canada (PIAC) is the representative association for pension funds in Canada in pension investment and related matters. The Member funds of PIAC collectively manage over $500 billion in assets on behalf of more than six million beneficiaries. This letter is in response to your invitation to PIAC to comment on the above referenced Statement of Principles on Revised Actuarial Standards of Practice for Reporting on Pension Plan Funding ("Reporting Principles"). We would like to thank the Committee on Pension Plan Financial Reporting ("PPFRC" or Committee) for the invitation to comment.

PIAC appreciates the efforts of the PPFRC directed at improving the clarity of actuarial funding reports and ensuring accepted actuarial practice continues to meet the needs of pension plan stakeholders. Although some of the principles articulated by the Committee may help in this regard, PIAC has several fundamental concerns with the principles, and with the Committee's definition of roles and responsibilities.

We believe that the Committee has taken a somewhat narrow view of the role of the actuary in producing funding valuations, by failing to acknowledge the interaction of the actuary's professional judgement as expressed in valuation reports, with the development of minimum and maximum contribution levels. The current practice of providing point estimate actuarial funding recommendations serves the simultaneous objectives of beneficiaries, funders, and pension and tax regulators.

Our concern is that the decomposition of the actuary's recommendation into the as yet undefined components of an unbiased estimate, PfADs and AtUMs may create the spectre of numerical cherry picking by each stakeholder, and ultimately a more uncertain pension plan funding environment. Further, all measures have their biases, and can only be understood in the context of those biases. We are sceptical that the enumeration of PfADs and AtUMs will add to the understanding of the financial position of a plan. They may denote a level of precision that does not exist, rather than one possible answer with some degree of probability attached to it.

We believe that all stakeholders are best served by obtaining a clear, considered opinion as to the minimum and maximum level of contributions. The proposed approach risks reduced accountability, more divergent views as to the funded status of pension plans (e.g., definition of surplus), and potentially higher cost.

We do not disagree that issues have been identified with the band of permitted contribution levels as defined by pension and tax regulations: it has perhaps been proven to be too narrow. However, an appropriate widening of the band does not necessarily dictate the calculation of a myriad of intermediate points within the band.

PIAC supports the development of well-articulated funding policies for pension plans solely as a means for the funder to provide context, not to prescribe a set of binding constraints on the management of the pension plan, or to add to current regulatory requirements. The broadest of scope must be provided, since a funding policy does not lend itself to definite, precise formulae. To be overly prescriptive ignores the reality that funding policy, like capital markets, exists as part of a dynamic process and cannot be captured in a static framework. Changes in the financial position and risk preferences of the funder are two examples of factors that will affect funding policies. If the actuarial profession chooses to develop funding policy guidelines, such guidelines should embody the flexibility to accommodate a broad range of funding objectives, and approaches to the measurement and management of funding risks.

Another consideration PIAC would like to bring forward to the Committee relates to the two key objectives highlighted in the Committee's report: benefit security under a pension plan wind-up, and stability of contributions in the long term. The point should not be lost that for many pension plan funders, the economic cost of pension benefits is at least as important if not more important than contribution stability. Cost considerations factor into investment decisions and the assumption of risk, and the utilization of surplus. Moreover, we would emphasize that, contrary to the Committee's view, a focus on surplus utilization can be an element of risk management, particularly post-Monsanto.

PIAC encourages the CIA to work with all stakeholders in developing acceptable funding principles, guidance notes and standards, and to work towards their acceptance by pension regulatory authorities. Any changes to current practice should be developed to accommodate flexible, yet consistent application. Any change should be evaluated in terms of its impact on cost and complexity. Funders of defined benefit pension plans cannot absorb more of either.

We would be pleased to provide ongoing input into this process.

Respectfully submitted on behalf of the Members of the Pension Investment Association of Canada.

Gretchen Van Riesen
Chair

cc. Diane Lafleur, Financial Sector Policy Branch, Department of Finance
Davin Hall, Policy Manager, CAPSA Secretariat
Stephen Bigsby, Executive Director, ACPM

39 River Street, Toronto, Ontario M5A 3P1
Tel 1-416-640-0264 Fax 1-416-646-9460 Email info@piacweb.org Web www.piacweb.org