



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

April 11, 2012

The Honorable James M. Flaherty
Minister of Finance
House of Commons Centre Block Building - Room 435-S
Ottawa, Ontario K1A 0A6
E-mail: flaherty.j@parl.gc.ca

Dear Minister:

Re: Solvency Funding for Private Pension Plans

We are writing this letter to urge the Federal government to act quickly to address an issue of significant concern to our association as well as many other small and medium size pension plans in Canada, including many federally regulated plans. Federally regulated private pension plans in Canada are in urgent need of temporary solvency relief measures, similar to those recently passed by governments in a number of provinces, in particular, Québec and Manitoba.

PIAC has been the national voice for Canadian pension funds since 1977. Senior investment professionals employed by PIAC's member funds are responsible for the oversight and management of over \$1 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.

While most federally regulated defined benefit plans are fully funded on a going concern basis, solvency funded ratios are dropping at an alarming rate, largely due to the combined impact of declining long-term interest rates and poor equity market returns. We believe that many of these plans may not be sustainable in this low interest rate environment. As a result, solvency funding relief is needed urgently for many defined benefit plan sponsors, particularly single employer pension plans (SEPP's). SEPP's are particularly vulnerable as they are not able to avail themselves of the exceptions to solvency funding rules available to certain types of plans.

Since previous funding relief measures were last offered by the Federal Government, federally regulated plan sponsors have been anticipating an increase in solvency interest rates. Unfortunately, the economic conditions that drove the need for solvency relief measures in 2008 have persisted, which has caused solvency deficiencies to soar, and many plan sponsors to question the ongoing viability of their pension plans. We recognize the efforts of the government in 2011 to finalize the amendments to the PBSA regulations to allow for the use of Letters of Credit. However, Letters of Credit as a relief measure are not sufficient in our current economic environment.

PIAC supports the recently announced extension of the solvency relief measures for Québec and Ontario pension plans. In particular, allowing flexibility to sponsors in setting deficit amortization periods is a prudent step in a challenging environment for plan sponsors, which in the long run may allow for the recovery of pension plan funded ratios without putting unnecessary financial strain on the plan sponsor.

PIAC recommends that the federal government consider offering two types of solvency relief to federally regulated plans:

1. 10 year amortization of solvency deficiencies; or
2. The exemption from filing an actuarial valuation for year-end 2011 and 2012. This means that the year-end 2010 valuation would be used for solvency funding until the year-end 2013 valuation is filed.

These funding relief measures, like those proposed by Québec and Ontario will help private plan sponsors deal with the impact the current economic environment has had on their registered pension plans. Consistent with the

measures in Québec, we recommend that plan sponsors be able to adopt these provisions without member consent. Member notification of solvency relief measures should be sufficient to ensure transparency of funding decisions.

We draw your attention to the fact that other provinces such as New Brunswick, Newfoundland and Labrador and Manitoba have also taken action to implement solvency funding relief measures under their pension legislation in 2012.

PIAC strongly urges the Minister of Finance to take prompt action to offer one or more of these temporary solvency relief measures for federally regulated plan sponsors, which would take effect in 2012.

We would be pleased to engage in discussions with the Minister of Finance on any of the issues raised in this letter.

Yours sincerely,



Julie Cays
Chair

cc. Judy Cameron, Managing Director, Private Pension Plans Division,
Office of the Superintendent of Financial Institutions Canada