



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

**Presentation to the
House of Commons Standing
Committee on Finance
Re: Study on Measures to Enhance
Credit Availability and the Stability of
the Canadian Financial System**

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Introduction

The Pension Investment Association of Canada (PIAC) has been the national voice for Canadian pension funds since 1977. PIAC's mission is to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries.

Background

The stability of defined benefit (DB) pension plans in Canada is integral to the overall stability of the Canadian financial system. PIAC's member funds are large players in the financial markets with responsibility for oversight and management of over \$940 billion in assets. Further, DB pensions have a significant impact on the economic well being of millions of Canadians.

DB pension plan coverage is shrinking in Canada and the decline is more pronounced for private sector workers. The fundamental reasons for the decline are funding challenges, risk/reward asymmetry, and a complex regulatory regime.

PIAC's Proposal

PIAC proposes that the Government of Canada take steps to alleviate some of the funding and regulatory challenges that pension plan sponsors are facing.

1. Ease solvency funding requirements and address risk/reward asymmetry in the rules regarding surplus entitlement by:
 - a. unconditionally extending the amortization period for solvency funding from five years to ten years for financially strong companies;
 - b. providing plan sponsors the flexibility to use Letters of Credit, which already exists on a permanent basis in Alberta and British Columbia; and
 - c. permitting plan sponsors to establish special purpose accounts ("solvency accounts") that are independent from the main pension trust.
2. Facilitate the opportunity for plan sponsors to enhance the funded position of the plans when able to do so by amending the Income Tax Act to allow plan sponsors to make contributions beyond the current 110% limit to at least 125%.
3. Hold pension investments to the standard of a prudent person and eliminate all quantitative limits on investing.

Additional details are in the PIAC Submission to the Financial Sector Division of the Department of Finance in Response to the Consultation Paper on Private Pensions dated March 13, 2009.

Conclusion

Funding flexibility and regulatory relief will safeguard the long-term viability of DB pension plans thereby contributing to the overall stability of the Canadian financial system.