Pension Investment Association of Canada

Association canadienne des gestionnaires de caisses de retraite

November 25, 2010

The Honourable Dwight Duncan
Minister of Finance and Chair of Management Board of Cabinet
Government of Ontario
Attention: Comments on Report of the Expert Commission on Pensions
c/o Pension and Income Security Policy Branch
5th Floor, Frost Building South
7 Queen's Park Crescent
Toronto, Ontario
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Pension.Feedback@ontario.ca

Dear Minister,

The purpose of this letter is to provide the Pension Investment Association of Canada's ("PIAC") comments on Bill 120, Securing Pension Benefits Now and for the Future Act, 2010.

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 $940 billion 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 is pleased that the Ministry is continuing to take steps to address the issue of pension reform in Ontario. We note that the changes introduced in Bill 120, along with those contained in Bill 236, are largely in line with the recommendations in the Report of the Expert Commission on Pensions ("the Commission"). In particular, we are pleased to see that the Ministry intends to eliminate most of the quantitative investment limits in line with the Federal Pension Benefits Standards Act regulatory changes effective in July 2010. PIAC is also pleased that the proposals in Bill 120 include permitting employers to provide (within limits) a letter of credit instead of making payments into the pension fund with respect to solvency deficiency. However, as noted in PIAC's comments in response to the Commission's report, PIAC's impression is that the overall thrust of the report is to encourage jointly sponsored plans, multi-employer pension plans, and target benefit plans. While we support and are pleased to see the solvency funding exemption for Jointly Sponsored Pension Plans (JSPP's), we are concerned that Single-Employer Pension Plans (SEPP's) appear to be particularly disadvantaged. The proposals in Bill 120 do not do much to encourage sponsors of SEPP's to continue them, or to otherwise address the sustainability of the SEPP model.

Specifically, we have the following comments in relation to the proposals in Bill 120:

1. PIAC is concerned that SEPP's are disadvantaged under the proposals in being required to maintain an additional 5% funding cushion while Multi-Employer Pension Plans (MEPP's) and Jointly Sponsored Pension Plans (JSPP's) are not required to do so.

2. We note that while the proposals provide for relief to existing JSPP's, the exemptions from funding solvency deficits may not apply to future JSPP's. This may not motivate the formation of more JSPP's, as originally envisioned by the Commission's report.

3. In its response to the Commission's report, PIAC had recommended that the Pension Benefit Guarantee Fund (PBGF) should be eliminated on the basis that such insurance could result in moral hazard and may encourage some plans to take excessive risks. PIAC is disappointed that Bill 120 proposes increasing the maximum assessment by three times, and eliminating the overall maximum of $4 million. This will add unnecessary costs to Ontario plan sponsors and put them at a competitive disadvantage against Canadian and international corporations who are not subject to this significant additional cost. We ask that this proposal be reconsidered.

4. While we appreciate the government's intent to move forward with removing quantitative investment limits, we are disappointed that more progress has not been made on moving away from the 30% limit. Retaining this limit continues to place Canadian pension plans at a cost disadvantage relative to private equity firms. We understand the government continues to review this limit for appropriateness and we would urge you to proceed with this analysis as soon as possible. As in the past, PIAC would be happy to provide ample evidence as to why this rule should be removed. We look forward to the release of draft regulations in line with the recently modernized federal regime.

We would encourage the Minister to take note of the recommendation in the report of the Joint Expert Panel on Pension Standards of Alberta and British Columbia that pension plan sponsors be allowed to contribute funds in excess of those required on a going-concern basis to a separate fund (a "pension security fund") from which amounts in excess of the calculated "wind-up basis" plus reasonable margin, could be withdrawn by the sponsor.

In past submissions, PIAC has emphasized the need to consider the harmonization of legislation and enhancing private sector pension coverage. Regrettably, we do not see any significant progress on either of these issues imbedded in Bills 236 or 120. We have a voluntary pension system and without recognition of these issues, coverage will continue to deteriorate.

We trust you will give our submission due consideration before the Bill is enacted. We would be pleased to discuss our views with you at your convenience.

Sincerely,

Algis Janusauskas
Chair

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