Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

April 11, 2012

The Honourable Dwight Duncan
Minister of Finance
7 Queen's Park Crescent, 7th floor
Toronto, Ontario M7A 1Y7
Via email: dduncan.mpp@liberal.ola.org

Dear Minister:

Re: Solvency Funding for Private Pension Plans

We are writing this letter to congratulate the government on the announcements in the March 27th budget regarding solvency relief for pension plans in Ontario. We urge the Ontario government to act quickly to implement these provisions to ensure the sustainability of pension plans which are under significant financial pressure today.

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 defined benefit plans in Ontario 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, such as Multi-Employer Pension Plans and Jointly Sponsored Pension Plans.

PIAC supports the recently announced extension of the solvency relief measures for Québec 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.

In the Ontario budget released on March 27th, we were pleased to see recognition of the need for and extension of the 2009 solvency relief measures. We are supportive of all the relief measures in the budget including consolidation of solvency payment schedules, extending new solvency deficiency amortization to a maximum of 10 years, introducing use of Letters of Credit, and permitting solvency and going-concern special payments to be amortized beginning one year after a plan valuation date.

However, consistent with Québec's solvency relief measures, we recommend that plan sponsors be able to adopt the 10 year amortization without member consent. Member notification of solvency relief measures should be sufficient to ensure transparency of funding decisions.

Further to the temporary measures being implemented through the 2012 budget, we encourage the Minister of Finance to embark on an in-depth analysis of longer term pension funding reform that will enable SEPP's to have confidence in their continued viability into the future. Some of the measures above may need to be made permanent or new options may need to be developed to provide the kind of funding flexibility required in volatile financial times, and eliminate the need for repeated requests for solvency relief. We would be pleased to engage in discussions with the Minister of Finance on such potential options for the future, as well as any other issues raised in this letter.

Yours sincerely,

Julie Cays

Julie Cays
Chair