



Communications, Energy and Paperworkers Union of Canada

April 30, 2012

Saskatchewan Financial Services Commission – Pensions Division
Attention: Leah Fichter, Director
Suite 601 - 1919 Saskatchewan Drive
Regina, SK S4P 4H2

Dear Ms. Fichter:

Re: Consultation Paper - New Funding Regime for Public Sector Plans

I am writing to you on behalf of the CEP-TPAS Joint Saskatchewan Telecommunications Pension Plan Council (herein referred to as the “Joint Council”), regarding the proposed New Funding Regime For Public Sector Plans.

The Joint Council is a collaborative body consisting of representatives of the Communications, Energy and Paperworkers Union of Canada (CEP) and the Telephone Defined Benefit Pension Members Association (TPAS), representing approximately 2,170 members of the Saskatchewan Telecommunications Pension Plan.

The Joint Council submits that the SaskTel Pension Plan should not be subject to any new funding regime, and should continue to be governed by existing regulations.

The SaskTel Pension Plan is a mature closed plan and as such, it is important to ensure that members' benefits are fully funded. The Plan was closed on September 30, 1977. As of September 30, 2012, all members of the Plan are eligible for full retirement - there are currently approximately 80 active members remaining. As of October 1, 2012, all employee (and matching employer) contributions will cease, meaning that future funding will consist only of employer payments towards any liability and/or solvency deficiencies. We believe that differences in funding requirements necessitate that mature closed plans, such as the SaskTel Pension Plan, should not be treated the same as open, on-going plans.

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The elimination or extended amortization of solvency deficiency payments would adversely affect the funding of the SaskTel Pension Plan. The December 31, 2011 extrapolated solvency deficiency of the plan stands at \$348 million, more than double the December 31, 2010 actuarial deficiency of \$162 million. This equates to a solvency ratio of 0.72. In the absence of any solvency payments, the Plan would have to rely solely on the recovery and growth of existing assets and the increase in long term interest rates to eliminate the deficiency. Considering the current state of global financial markets, and the fact that SaskTel currently has a three-year relief from solvency payments (ending December 31, 2013), it may take many years for the plan to recover and become solvent

Solvency valuations were introduced to protect pension plans, and plan members, in the case of the sale or bankruptcy of the company, or the termination of a plan. Solvency funding helps to ensure that member' benefits can be maintained without reductions, and improves the stability of plans by offsetting investment losses. It does not seem to make sense that solvency funding would be reduced or eliminated at a time when it is most needed.

The Joint Council submits that the SaskTel Pension Plan should be removed from the List of Public Sector Plans, as detailed in Appendix "A" of the document.

The employer (SaskTel) is solely responsible for funding any deficiencies in the STPP as opposed to some other public sector plans that are guaranteed by provincial government. SaskTel operates in a competitive capital intensive and technology-driven environment that, at times, may be subject to financial difficulties. We are concerned that should SaskTel incur difficulty, the STPP could be at significant risk if not adequately funded.

The Joint Council submits that proposed changes to solvency funding regulations should be accompanied by the requirement, included in legislation, for full terminal funding of pension plans.

Considering the mature status of the SaskTel Pension Plan, the eventual termination of the plan is a real threat to retirees and beneficiaries. This concern is greatly emphasized by the fact that no legislation currently exists in the Province of Saskatchewan requiring terminal funding for pension plans.

As you know, the telecommunications industry in Canada is under Federal jurisdiction and is governed by Federal labour and pension legislation and the CRTC. As such, we believe that the administrative rules for the SaskTel Pension Plan should not vary a great deal from those of other telecommunications companies in regards to solvency funding. It is our understanding that Federal legislation requires solvency funding, as well as full terminal funding, for defined benefit plans. In our view, these requirements should be implemented in Saskatchewan also.

It is interesting to note that telecommunications companies BCE and Telus, which fall under federal jurisdiction, have recently made significant additional *voluntary* contributions to their defined benefit pension plans to improve their solvency positions. In the case of BCE, a combined total of \$2.0 billion was contributed from 2009 to 2011. Telus has contributed a combined total of \$300 million for 2011 and 2012. Clearly, these Companies are concerned about maintaining proper funding of their plans, in an effort to ensure that members' benefits are not compromised in the future.

Similarly, in Saskatchewan, employers should be accountable for decisions that affect a pension plan's funding. In the case of the SaskTel Pension Plan, the employer unilaterally implemented numerous Early Retirement Programs (ERP's) from 1982 to 2009. The ERP's cost the Plan millions of dollars by reducing ongoing funding due to the loss of active members and by the early drawing of benefits. This was a contributing factor to the existing solvency deficiency.

In summary, the Joint Council requests that the SaskTel Pension Plan is removed from the list of plans that would be affected by the proposed new funding rules. Any change to the existing rules would only benefit the employer, while placing an unacceptable level of risk on members' pensions.

Thank you for your consideration in this matter.

Yours truly,



Susan Saunders
National Representative

COMMUNICATIONS, ENERGY AND PAPERWORKERS UNION OF CANADA



Communications, Energy and Paperworkers Union of Canada

April 30, 2012

Saskatchewan Financial Services Commission – Pensions Division
Attention: Leah Fichter, Director
Suite 601 – 1919 Saskatchewan Drive
Regina, SK S4P 4H2

Via Courier

Dear Ms. Fichter:

This letter is the submission of the Communications, Energy and Paperworkers Union of Canada (CEP), in reply to the Saskatchewan Financial Services Commission's Consultation Paper re New Funding Regime for Public Sector Plans.

CEP is the largest union in several key sectors of Canada's economy, including telecommunications, energy, forestry and media. The union's 130,000 members work at a wide variety of jobs in hundreds of different workplaces across the country, including some 35,000 members in the telecommunications sector.

CEP represents approximately 3,800 members employed at SaskTel and approximately 70 members employed at DirectWest. There are currently 80 active members and about 2,100 retirees in the Saskatchewan Telecommunications Pension Plan (STPP) who would be directly affected by the proposals. Thus we appreciate the opportunity to comment.

The CEP submits that in developing new actuarial funding standards, the SFSC should ensure that the rules are appropriate and proportional to the nature of public sector employers and their pension plans. Not all public sector employers are alike. Indeed, there are significant and critically important differences between different types of public sector institutions.

In this regard, CEP submits that because of the nature of SaskTel as an independent Crown Corporation, the rationale for providing solvency relief is not appropriate or applicable and would expose STPP members and their benefits to undue increased risk.

The Consultation Paper discusses, and is based upon, one important rationale for providing relief from solvency funding standards: volatility in market conditions giving rise to volatility in contributions to defined benefit pension plans. In fact, this rationale has driven the provision of temporary solvency relief in other Canadian jurisdictions. However, this has generally been limited to situations where the risk of the plan sponsors insolvency is extremely low.

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This is because of a second, and critically important, rationale for solvency relief. Solvency funding requirements were created for the traditional private sector, defined benefit single employer pension plan that is vulnerable to insolvent wind-up if the employer sponsor fails. However, for most public sector and multi employer pensions the risk of the plan sponsor's insolvency is extremely low, thus relaxing (or even eliminating) solvency funding requirements does not unduly increase risk to the members' benefits.

This is not the case for the STPP. Although SaskTel is a crown corporation, the only thing "public" about the company is that it is owned by the Saskatchewan Government. In reality, and all other practical respects, SaskTel operates as an independent business, not as a government agency, such as the other organizations identified in the Consultation Paper. Moreover, SaskTel has sole responsibility for funding the STPP. As such, we submit that the rationale for providing solvency relief for public sector pension plans does not apply and, on the contrary, the STPP should be treated as a single employer pension plan. To do otherwise would expose plan members and their benefits to undue increased risk.

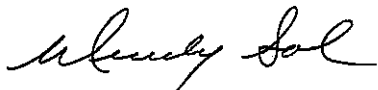
Further, as an independent business corporation operating in the competitive telecommunications sector, SaskTel is subject to market conditions and variances in profitability unlike other government agencies. This volatility, combined with relaxed actuarial requirements, would exacerbate the increased risk for plan members and their benefits.

The Consultation Paper does not include a proposal that allows for opting-out of the funding regimes. In any event, consistent with our view that not all employers or pension plans are alike, CEP does not agree that the proposed new actuarial funding regime should automatically apply to all public sector plans. Pension plan sponsors and administrators should have the flexibility, to take into consideration the unique circumstances of their plan and to not implement solvency relief. This is consistent with the approach in some other Canadian jurisdictions.

CEP submits that pension plan sponsors/administrators (in case of STPP, the Joint Board of Trustees) should be provided with the option to remain in their existing funding regime.

We would be happy to discuss this with you.

Yours truly,



Wendy Sol,
Administrative Vice President
CEP – Western Region

April 18, 2012

Ms. Leah Fichter
Director, Pension Division
Saskatchewan Financial Services Commission
Suite 601, 1919 Saskatchewan Drive
Regina, SK S4P 4H2
Email: leah.fichter@gov.sk.ca

Dear Ms. Fichter:

Re: Consultation Paper - New Funding Regime for Public Sector Plans

As the largest participating employer in the Regina Civic Employees' Superannuation & Benefit Plan, the City of Regina (City) welcomes the opportunity to provide comments on the proposed New Funding Regime for Public Sector Plans.

In addition to responding directly to the questions in the Consultation Paper below, we submit the following background and comments for your consideration:

The Regina Civic Employees' Superannuation & Benefit Plan (Plan) is a defined benefit pension plan with approximately 4,000 active members and 2,400 inactive members. Active members and participating employers share the cost of both current accruals and funding deficiencies equally, including funding deficiencies in respect of benefits for both active and inactive members.

Funding requirements are at unprecedented levels due to historically low bond yields, which increase benefit liabilities, and poor investment returns in 2008 and 2011. Employer contribution requirements are increasing pressure on City budgets and attracting negative attention from taxpayers. The equivalent employee contribution requirements are viewed negatively by employees and place the City at a competitive disadvantage for attracting and retaining employees.

We believe that funding the Plan on a solvency basis unnecessarily increases contributions and funding volatility. The purpose of solvency funding is to increase the likelihood that a pension plan will have sufficient assets to provide for all accrued benefits in the event that the sponsoring employers are bankrupt or otherwise unable to continue to fund the plan. The use of market-based valuation measures for both liabilities and assets results in significantly higher volatility for solvency funding relative to going concern funding measures. Unlike single employer pension plans, there is almost no risk of the Plan being wound up due to bankruptcy. The participating employers are public organizations that are expected to remain in operation indefinitely. The City, in particular, is created under provincial legislation and as such, the provincial government could intervene if the City were in serious financial trouble.

Given the long term future of the employers and the Plan, a going concern approach to funding is more appropriate.

Going concern valuation assumptions should include appropriate margins for adverse deviation. Actual experience will differ from actuarial assumptions, and the assumptions should be biased towards conservatism to increase the probability that, over time, aggregate experience will be better than assumed. The size of the margins will vary among pension plans. The plan design, member demographics, the plan's investment policy and the capacity of members and employers to accept risk (and withstand volatile contributions) will all affect the appropriate size of margins. If solvency funding is no longer required, each plan will have to re-assess its current going concern valuation margins, and determine if they should be maintained, increased or decreased, taking into account the unique circumstances of the plan.

Additionally, we note that funding of the Plan's deficits is shared equally between participating employers and active employees. This can result in intergenerational inequities for employees to the extent that deficits can be attributed in part to inactive members who are no longer contributing to the Plan. In order to help stabilize contributions and provide sufficient time to pay off their half of these deficits, we believe employees need 15 years to pay off these deficits. A 15 year amortization period would also provide more stability and predictability for the City's contributions which are essentially funded by taxpayers. We note that other, larger jurisdictions that exempt public sector plans from solvency funding have maintained 15 year amortizations for going concern deficits, including Ontario, Alberta and Manitoba.

In the absence of solvency funding requirements, it is appropriate to impose restrictions on benefit improvements when funded ratios are below a defined threshold, and we support the continued preparation of solvency valuations for this purpose. Limitations on benefit improvements can assist in imposing a degree of fiscal responsibility on public sector pension plans beyond public pressure from taxpayers. The threshold can be defined as the lower of the going concern and solvency funded ratios, although in other jurisdictions it is commonly based on solvency ratios alone. For example, Ontario and Manitoba do not permit benefit improvements if the solvency ratio is or would be reduced below 85% and 90% respectively.

In summary, the City's position is that solvency funding requirements should not be required for the Plan and, for jointly sponsored plans where funding deficits are shared equally between the active members and the participating employers, going concern deficits should continue to be amortized over 15 years. In this scenario, the City accepts the stringent requirements outlined in this paper for benefit improvements.

QUESTION 1: Do you agree with the list of plans which will be subject to the new rules?

We agree that the Regina Civic Employees' Superannuation & Benefit Plan is appropriately listed as a Public Sector Plan that should be subject to the new rules.

QUESTION 2: Do you agree with the principles on which the new funding rules are based?

Yes. To clarify our views with respect to the second principle, risk to the accrued benefits of plan beneficiaries is adequately addressed by the stability of the sponsoring employers of public sector pension plans, and by limiting benefit improvements for under-funded plans. We believe that the current going concern funding rules will provide an adequate level of funding over the long term.

QUESTION 3: Under Extended Solvency Amortization, is a ten year period for amortizing solvency deficiencies the appropriate length of time?

Our recommendation is that solvency funding should no longer be required.

QUESTION 4: Under Extended Solvency Amortization, should the going concern valuation be strengthened by requiring more conservatism in the assumptions?

The degree of conservatism in going concern valuation assumptions should be assessed on a plan by plan basis.

QUESTION 5: Under Enhanced Going Concern, is a ten year amortization period of amortizing unfunded liabilities the appropriate length of time?

As discussed above, we believe that the amortization period should remain at 15 years for jointly funded plans.

QUESTION 6: Do you have any comments at this time on appropriate best estimate assumptions and appropriate margins for public sector plans?

We agree that a reasonable level of margins for adverse deviation is appropriate. The size of the margins will vary among pension plans, and should be considered with due regard for the unique circumstances of each plan, as discussed above.

QUESTION 7: Do you agree that benefit improvements should be restricted in an insolvent plan, and if so:

- Is a threshold solvency ratio of 0.90 appropriate?
- Should the restriction apply under both Extended Solvency Amortization and Enhanced Going Concern?

We agree with restricting benefit improvements if the funded ratio of the plan is too low. As our focus is on the going concern funded position of our Plan it may be prudent to base the threshold on the lower of the going concern and solvency funded ratios. A threshold of 0.90 is appropriate.

QUESTION 8: Do you agree that plan amendments that provide different benefits on plan termination than on a going concern basis should no longer be accepted by SFSC?

This does not apply to our Plan.

QUESTION 9: Do you agree that amounts held back due to a transfer deficiency should be transferred within five years?

Yes, we agree with this approach.

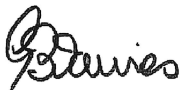
QUESTION 10: At a later date, should SFSC consider requiring annual valuations for all defined benefit plans, if the solvency ratio falls below a prescribed amount?

In the context of amortizing the Plans' going concern deficits over 15 years and removing the requirement to fund solvency deficits, we agree that it would be reasonable to require annual valuations if the solvency ratio falls below a reasonable level. It may be appropriate to use the same solvency ratio for this purpose as is used for restricting benefit improvements.

QUESTION 11: Which option do you feel best meets the principles, Extended Solvency Amortization or Enhanced Going Concern? Are there any flaws in either option?

As discussed above, we believe that amortizing going concern deficits over 15 years and removing the requirement to fund solvency deficits meets the principles outlined in Section 4 in the best way for our Plan.

Sincerely,



Glen B. Davies
City Manager

c: Dave Wild
Colyn Lowenberger
Marguerite Porter
Charlene Gavel
Paula Hesselink
Jeff Grant
Ben Boots
Debra Burnett
Brent Sjoberg
Byron Werry
Kirby Benning

Pensions & Disability

April 30, 2012

Leah Fichter
Director, Pensions
Saskatchewan Financial Services Commission
Suite 601 - 1919 Saskatchewan Drive
Regina, SK S4P 4H2

Dear Ms. Fichter:

Thank you for the opportunity to comment on the proposed changes to the funding regime for public sector pension plans. As you are aware, the Regina Civic Employees' Superannuation and Benefit Plan currently faces a number of challenges, among them, the contribution rate volatility inherent to the current funding regime. The Board is keenly aware that changes to the funding regime do not address the structural challenges faced by the Plan. However, the certainty offered by the proposed changes will form an integral piece of the path forward.

In regard to the proposed funding regime we offer the following commentary:

1. The principles followed in developing the new rules are consistent with the intent of the Pension Benefits Act, the duties bestowed upon those who administer pension plans and the needs of plans and their sponsors. The requirement for the rules to be simple to understand and apply is a tertiary consideration.
2. It is our opinion that both options offer plans a reduction in the volatility associated with the current rules. Both options achieve a balance between reducing contribution rate volatility and security of benefits. Of the two, Enhanced Going Concern is the more effective option at dealing with the volatility resulting from the current solvency requirement. In the current funding environment and in the absence of other alternatives, it is difficult to conclude otherwise. However, future economic conditions may present different valuation trends in which Enhanced Going Concern produces increased volatility. As such, the Board is advocating that the SFSC adopt an Enhanced Going Concern regime with a fifteen year amortization period. The risk reduction offered by the ten year amortization period, relative to the associated increase in contribution volatility, is negligible and is better achieved in other ways.

3. The most appropriate period to amortize the unfunded liabilities of public sector pension plans is fifteen years. The limited risk reduction resulting from shorter amortization periods does not sufficiently offset the resulting contribution rate volatility. Enhanced Going Concern with a fifteen year amortization period is consistent with the principles on which the proposals are based and a reasonable compromise between volatility reduction and managing risk.
4. It is unnecessary to introduce additional assumption and margin requirements for public sector plans. It is our opinion that the reduction in amortization period sufficiently offsets any additional risk introduced by the removal of the solvency funding requirement. Instituting additional requirements, over and above those placed on all pension plans, will unnecessarily hamper the ability of public sector plans to manage relative to other pension plans. The appropriate level of margin to be used and other assumptions related to going concern valuations are decisions best left to those who are most familiar with the individual plans, the administrators, operating within the confines of their duty to plan beneficiaries
5. In general, insolvent plans should not be permitted to make benefit improvements. It is preferable that plans have a solid financial position prior to improvements. In our opinion, a minimum solvency level of 110% should precede benefit improvements.
6. The 8(1)(b) of the Pension Benefits Regulations permits the Superintendent to request actuarial valuations of a date chosen by the Superintendent. It is our belief that the current approach provides the flexibility for the Superintendent to monitor plans that are believed to require additional oversight without imposing unnecessary restrictions on all defined benefit plans. Annual actuarial valuations may have the unintended consequence of increasing funding volatility in defined benefit plans and doing so at points in time when additional volatility hinders the efforts underway to address the plan funding. In addition, the increased frequency further complicates management of plans that already are challenged finding balance between the long term nature of their obligations and the short term regulatory environment in which they must operate.
7. Amounts held back due to transfer deficiency should be transferred within five years as per current practice. Under Enhanced Going Concern, the absence of a solvency funding requirement means that the term can not match the amortization period for solvency deficiencies. An argument can be made to match the holdback period to the amortization period of the unfunded liability. However, this introduces additional administrative challenges for plans including tracking former members for the extended period. As such we support the continuation of the current requirement.
8. Plan amendments that provide different benefits on plan termination than on a going concern basis should no longer be accepted by the SFSC. Under Enhanced Going Concern, the removal of the solvency funding requirement eliminates the need for such amendments. It is our belief that this change can only be applied on a prospective basis.

The experience of the Regina Civic Employees' Superannuation and Benefit Plan has shown that funding regulation alone does not ensure the financial sustainability of a defined benefit pension plan. Governance structure, including clearly defined rolls and responsibilities, is part and parcel of the successful administration of sustainable defined

benefit pension plans. This is where the proposed regulatory changes do not extend far enough. Minimum governance requirements, such as clearly defined roles, dispute resolution mechanisms and core administrative policies, are the most effective tools available in managing the risk to accrued benefits. Minimum governance requirements are a regulatory necessity and absent from current discussion.

Changes to the funding regime for public sector pension plans are an important step forward in addressing the contribution volatility such plans have experienced over the last number of years. The elimination of solvency funding is a reasonable compromise between benefit security and addressing this volatility. In the environment in which all pension plans currently exist, Enhanced Going Concern with a fifteen year amortization period provides the most attractive alternative. We encourage you to continue to actively evolve pension regulation in the future.

On behalf of the Administrative Board of the Regina Civic Employees' Superannuation & Benefit Plan, thank you for this opportunity.

Sincerely,



Colyn Lowenberger
Secretary
Regina Civic Employees' Superannuation & Benefit Plan

Pensions & Disability

April 26, 2012

Leah Fichter
Director, Pensions
Saskatchewan Financial Services Commission
Suite 601 - 1919 Saskatchewan Drive
Regina, SK S4P 4H2

Dear Ms. Fichter:

Thank you for the opportunity to comment on the proposed changes to the funding regime for public sector pension plans. The Administrative Board of The Regina Police Pension Plan has thoroughly reviewed the proposed changes to the funding regime for public sector defined benefit pension plans and offers the following commentary on your proposals:

1. The principles followed in developing the new rules are consistent with the intent of the Pension Benefits Act, the duties bestowed upon those who administer pension plans and the needs of plans and their sponsors. The requirement for the rules to be simple to understand and apply is tertiary to the other two.
2. It is our opinion that both options offer plans a reduction in the volatility associated with the current rules. Both options provide a reasonable balance between reducing contribution rate volatility and security of benefits. Of the two, Enhanced Going Concern is the more effective option at dealing with the volatility resulting from the current solvency requirement and is therefore the preferred approach. In the current funding environment it is difficult to conclude otherwise. However, future economic conditions may present different valuation trends in which Enhanced Going Concern produces increased volatility. As such, the preference for Enhanced Going Concern is expressed with a certain amount of trepidation, but the complete understanding that our preference is partially motivated by the current environment.
3. The ten year amortization period proposed under Enhanced Going Concern is consistent with the principles on which the proposals are based. It is a reasonable compromise between volatility reduction and managing risk.

4. It is unnecessary to introduce additional assumption and margin requirements for public sector plans. It is our opinion that the reduction in the amortization period sufficiently offsets any additional risk introduced by the removal of the solvency funding requirement. Instituting additional requirements, over and above those placed on all pension plans, will unnecessarily hamper the ability of public sector plans to manage relative to other pension plans. The appropriate level of margin to be used and other assumptions related to going concern valuations are decisions best left to those who are most familiar with the individual plans, the administrators, operating within the confines of their duty to plan beneficiaries
5. In general, insolvent plans should not be permitted to make benefit improvements. It is preferable that plans have a solid financial position prior to improvements. In our opinion, a minimum solvency level of 100% should precede benefit improvements.
6. The 8(1)(b) of the Pension Benefits Regulations permits the Superintendent to request actuarial valuations of a date chosen by the Superintendent. It is our belief that the current approach provides the flexibility for the Superintendent to monitor plans that are believed to require additional oversight without imposing unnecessary restrictions on all defined benefit plans. Annual actuarial valuations may have the unintended consequence of increasing funding volatility in defined benefit plans and doing so at points in time when additional volatility hinders the efforts underway to address the plan funding. In addition, the increased frequency further complicates management of plans that already are challenged finding balance between the long term nature of their obligations and the short term regulatory environment in which they must operate.
7. Amounts held back due to transfer deficiency should be transferred within five years as per current practice. Under Enhanced Going Concern, the absence of a solvency funding requirement means that the term cannot match the amortization period for solvency deficiencies. An argument can be made to match the holdback period to the amortization period of the unfunded liability. However, this introduces additional administrative challenges for plans including tracking former members for the extended period. As such, we support the continuation of the current requirement.
8. Plan amendments that provide different benefits on plan termination than on a going concern basis should no longer be accepted by the SFSC. Under Enhanced Going Concern, the removal of the solvency funding requirement eliminates the need for such amendments. It is our belief that this change can only be applied on a prospective basis.

In addition to the comments offered above, it is our opinion that further development of the funding regime is required. The current method of calculating commuted values, as determined by the Canadian Institute of Actuaries, advantages those leaving a plan to the detriment of the members who stay in. The current process may be a reasonable reflection of the cost of purchasing an annuity, but it does not accurately reflect the cost of that benefit when the benefit is payable years, or even decades, into the future. This is particularly apparent in times of low interest rates when commuted values rise, despite the fact that the ongoing cost of providing that benefit may not change. The result is that those who terminate receive an inflated payment to the detriment of the members who remain in the plan. Assuming that Enhanced Going Concern is adopted, commuted value calculations will be further out of line with the costs used to fund pensions in general. This issue needs to be

addressed to better reflect the cost of providing the promised benefit to the terminating employee.

We encourage you to continue to work collaboratively with Saskatchewan pension plans to ensure that pension regulation evolves to meet the changing needs of both plans and their members. The proposed changes, adequately address the immediate need. With this in mind, it is clear that there is further opportunity for refinement now and in the future.

On behalf of the Administrative Board and members of the Regina Police Pension Plan, thank you for the opportunity to provide our input. We look forward to the outcome of this process.

Sincerely,



Colyn Lowenberger
Secretary
Regina Police Pension Plan

April 30, 2012

Ms. Leah Fichter
Director, Pension Division
Saskatchewan Financial Services Commission
Suite 601, 1919 Saskatchewan Drive
Regina, SK, S4P 4H2

Ms. Fichter

Re: Consultation Paper - New Funding Regime for Public Sector Plans

As Chair of the Regina Civic Pension and Benefits Committee, I represent the approximately 4000 contributing members of the plan. These members are very satisfied to see this issue of solvency funding for public sector plans being seriously evaluated in Saskatchewan. Please accept the following text as our Committee's full submission to this important Consultation process. We note that we have also co-signed a separate submission with our employer and Regina Civic Administration Board colleagues on several of the key Consultation questions that are of common concern to us all. We intend that the positions taken in these two submissions are fully consistent, and would be happy to clarify any issues where substantive differences appear.

Our pension plan has many challenges and we hope to see overly onerous funding requirements removed from the regulatory framework that the plan operates under.

Below I respond to the questions as laid out in the consultation paper.

Question 1. *Do you agree with the list of plans which will be subject to the new rules?*

The Regina Civic Employees' Superannuation & Benefit Plan should be included under this new funding regime for public sector plans.

Question 2. *Do you agree with the principles on which the new funding rules are based?*

The principles that are listed in the paper are appropriate. We do not feel that exempting public sector plans from Solvency funding would introduce any meaningful level of risk to those plans. In fact, we would suggest that a public sector plan without the protection of solvency funding is still more secure than a private sector plan with that protection.

Question 3. *Under Extended Solvency Amortization, is a ten year period for amortizing solvency deficiencies the appropriate length of time?*

We believe that solvency funding should not be required for public sector plans.

Question 4. *Under Extended Solvency Amortization, should the going concern valuation be strengthened by requiring more conservatism in the assumptions?*

Solvency funding and going concern funding should be viewed independently. A plan that does not have the risks that would require solvency funding should not be forced to have more stringent going concern funding requirements. We feel that the going concern valuation and funding decisions provide a regular mechanism for adjusting to operational costs and

contribution rates. The normal operation of any plan should be operated under the same regulatory framework.

Question 5. *Under Enhanced Going Concern, is a ten year period for amortizing unfunded liabilities the appropriate length of time?*

The current 15 year time-frame for funding of these unfunded liabilities is the accepted standard. We do not see any basis on which to change from this nearly universal standard.

Question 6. *Do you have any comments at this time on appropriate best estimate assumptions and appropriate margins for public sector plans?*

Best estimates should be used whenever possible to allow for transparency. All provisions for adverse deviation should be built into the discount rate. Determination of the level of margins needs to be plan specific and therefore carried out by informed plan fiduciaries rather than regulatory oversight.

Question 7. *Do you agree that benefit improvements should be restricted in an insolvent plan, and if so:*

- *Is a threshold solvency ratio of 0.90 appropriate?*
- *Should the restriction apply under both extended Solvency Amortization and Enhanced Going Concern?*

The solvent status of a plan is not enough to restrict collective bargaining. There are a number of factors that should and do come into play when benefit improvements are being considered, including current contribution rates. As an example, consider a plan that is not jointly governed, has low contribution rates, but is minimally funded by decisions of the employer, should this plan be prohibited from bargaining plan improvements? There are many plans, this one included, that wouldn't consider plan improvements on the basis of required contribution rates rather than the funding status of the plan. Again, we believe that decisions about plan design are most appropriately carried out by representatives of the plan members and employers who are bearing the cost and risk.

Question 8. *Do you agree that plan amendments that provide different benefits on plan termination than on a going concern basis should no longer be accepted by SFSC?*

This could be a way for a plan to get around solvency valuations. By eliminating the solvency for public sector plans this would no longer be necessary.

Question 9. *Do you agree that amounts held back due to a transfer deficiency should be transferred within five years?*

Yes. Five years is a reasonable limit for plans to hold back and pay out deficiencies.

Question 10. *At a later date, should SFSC consider requiring annual valuations for all defined benefit plans, if the solvency ratio falls below a prescribed amount?*

Full valuations are an expensive operational cost. The Regina civic plan does do interim valuations to keep on top of the funded status of the plan. It may not always be worthwhile to do a full valuation as there might be little change over the course of one year.

Question 11. Which option do you feel best meets the principles, Extended Solvency Amortization or Enhanced Going Concern? Are there any flaws in either option?

Removing the solvency funding requirement as well as leaving the going concern amortization at 15 years would be an appropriate funding regime for public sector plans such as Regina Civic.

We are familiar with CUPE's stated position on this option that suggest the requirement of joint governance of the plan, and the existing Regina Civic plan has a jointly governed structure. This is important because those who fund the plan and those who bear risks are represented within this structure.. There is much to be said for open, fair, and transparent cooperation in pension governance. We would support a position that requires more progressive governance structures which promote more transparency and greater representation of plan members in plan decision making.

Thank you for your consideration on our positions.

Respectfully,



Kirby Benning
Chair, Regina Civic Pension and Benefits Committee
President, Saskatchewan Professional Fire Fighters Association
204 - 408 Broad Street
Regina, SK S4R 1X3

April 30, 2012

WITHOUT PREJUDICE

Ms. Leah Fichter
Director, Pension Division
Saskatchewan Financial Services Commission
Suite 601, 1919 Saskatchewan Drive
Regina, SK S4P 4H2
Email: leah.fichter@gov.sk.ca

Dear Ms. Fichter:

Re: Consultation Paper – New Funding Regime for Public Sector Plans

As representatives of the employers, employee groups, and the fiduciary Administration Board for the Regina Civic Employees' Superannuation & Benefit Plan, we welcome this opportunity to provide comments on the proposed New Funding Regime for Public Sector Plans.

With this letter, we have chosen to provide an abbreviated submission to this Consultation on priority issues of common agreement. Some, or all, of the organizations signatory to this letter may submit separate and more comprehensive briefs that deal with the full range of issues in question, and in certain cases in substantively different ways. Nonetheless, we believe that our shared support for these several critical issues merits this separate treatment.

The points in common cited above are as follows:

1. Exemption from solvency funding obligations

We believe that funding the Plan on a solvency basis unnecessarily increases contribution rate and funding volatility. The purpose of solvency funding is to increase the likelihood that a pension plan will have sufficient assets to provide for all accrued benefits in the event that the sponsoring employer(s) become insolvent or otherwise unable to continue to fund the plan. Unlike single employer, private sector pension plans, there is almost no risk of the Plan being wound up due to bankruptcy. The participating employers are public organizations that are expected to remain in operation indefinitely. The City of Regina, in particular, is created under provincial legislation and as such, the provincial government could intervene if the City were in serious financial difficulty. Given the long term future of the employers and the Plan, a going concern approach to funding is more appropriate.

2. 15 year amortization of going concern deficiencies

We note that the funding of the Plan's deficits is shared equally between participating employers and active employees. In order to help stabilize contributions and provide sufficient time to pay deficits, we believe employees and employers need 15 years to pay them off. A 15-year amortization period also provides more stability and predictability for contributions. We note that other, larger jurisdictions that exempt public sector plans from solvency funding have maintained 15-year amortizations for going concern deficits, including Ontario, Alberta, and Manitoba. Moreover, the Consultation Paper's proposed "Option 2", featuring a 10 year amortization schedule for going concern deficiencies, would make Saskatchewan an outlier in having the shortest and least flexible going concern funding regime in the country. We do not believe that such a change is justified, and prefer the option of a 15-year amortization.

3. Actuarial margins and assumptions

We believe that the degree of conservatism in going concern valuation assumptions should be assessed on a plan-by-plan basis. We recognize that a reasonable level of margins for adverse deviation is appropriate. The size of the margins will vary among pension plans, and should be considered with due regard for the unique circumstances of each plan. We believe that such judgments are the appropriate purview of the fiduciary Administrator for each plan.

Thank you for this opportunity to share our common views on these specific important issues.

Sincerely,



Brent D. Sjöberg, CMA, MBA
Deputy City Manager & CFO
City of Regina
On behalf of the Pension Plan Employer Sponsors



Colyn Löwenberger
Secretary, Regina Civic Employees' Superannuation and Benefit Plan



Kirby Benning
Chair, Civic Pension & Benefits Committee
On behalf of the Pension Plan Employee Sponsors



City of
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April 27, 2012

Mr. David Wild, Superintendent of Pensions
Pensions Division
Saskatchewan Financial Services Commission
Suite 601, 1919 Saskatchewan Drive
Regina SK S4P 4H2

Dear Mr. Wild:

**Re: City of Saskatoon Response to Consultation Paper
New Funding Regime for Public Sector Plans
(File No. CC 4730-1)**

Thank you for the opportunity for the City of Saskatoon, as plan sponsor, to provide our feedback regarding the questions you posed in your consultation paper on a potential new funding regime for public sector plans. Attached is our response to the questions, and I believe they are all self-explanatory, but should you require clarification on any of the material, please do not hesitate to contact me.

We appreciate your consideration of the City of Saskatoon's position on this matter.

Sincerely,

Murray Totland, P.Eng., MBA
City Manager

MT:blm

Enclosure

copy: Judy Schlechte, Director, Human Resources Department
Mike Gutek, General Manager, Infrastructure Services Department
Janice Mann, City Clerk, City of Saskatoon
Theresa Dust, City Solicitor, City of Saskatoon
Mike Jordan, Government and Aboriginal Relations Manager, City Manager's Office
Troy Milnthorp, Vice President, Aon Hewitt
Suite 800, 105 - 21st Street East, Saskatoon, SK S7K 0B3

City of Saskatoon (City)

Response to Consultation Paper

New Funding Regime for Public Sector Plans

April 17, 2012

QUESTION 1

Do you agree with the list of plans which will be subject to the new rules?

We agree with the list of pension plans. However, we would add that, in order to be eligible for the alternative funding requirements, a public sector plan must be in compliance with *The Pension Benefits Act*.

Note that, based on the definition of "cost-shared" plans under Point 12, we do not believe that the General Superannuation Plan is a cost-shared plan. Although any additional funding that has been required in the past has been shared equally between members and the City, this has always been as a result of negotiations. As per Section 4.03(1)(b) of the plan text, the City is ultimately responsible for any amounts deemed necessary to meet minimum funding requirements, with no legal onus on members to share in this additional funding. We also note that this same argument does not apply to the City of Saskatoon Fire and Protective Services Department Superannuation Plan or the Retirement Plan for Employees of the Saskatoon Board of Police Commissioners. In other words, the Fire and Police pension plans are cost-shared plans.

QUESTION 2

Do you agree with the principles on which the new funding rules are based?

We agree with the principles outlined in the consultation paper; however, we would add the following principle as it relates to the ability for both the plan sponsor(s) and members ability to pay:

- The rules must take into account the ability for members and the plan sponsors to meet the minimum funding requirements and should not present undue hardship on either the employee or the sponsors.

QUESTION 3

Under Extended Solvency Amortization, is a ten-year period for amortizing solvency deficiencies the appropriate length of time?

We do not believe that funding on a solvency basis is appropriate for public sector plans in Saskatchewan, and it violates the first principle outlined in Section 4 of the Paper. Since the volatility inherent in the solvency basis is mainly due to the prescribed bond yields and not the length of amortization, we feel that there is no appropriate amount of time for amortizing solvency deficiencies.

QUESTION 4

Under Extended Solvency Amortization, should the going concern valuation be strengthened by requiring more conservatism in the assumptions?

We do not believe that funding on a solvency basis is appropriate for public sector plans in Saskatchewan, but as a matter of general principle, we believe pension plans should include a certain level of conservatism in their going-concern assumption basis for valuation purposes. We also believe that the appropriate level of margin or conservatism should be a decision made by the plan sponsors, in consultation with their actuary, and should be governed by a well-written funding policy.

QUESTION 5

Under Enhanced Going Concern, is a ten-year amortization period for amortizing unfunded liabilities the appropriate length of time?

We believe 15 years to be a reasonable amount of time over which to amortize any unfunded liabilities.

QUESTION 6

Do you have any comments at this time on appropriate best estimate assumptions and appropriate margins for public sector plans?

See answer to Question 4.

QUESTION 7

Do you agree that benefit improvements should be restricted in an insolvent plan, and if so:

- *Is a threshold solvency ratio of 0.90 appropriate?*
- *Should the restriction apply under both Extended Solvency Amortization and Enhanced Going Concern?*

We believe a threshold solvency ratio of 1.0 would be the appropriate restriction for benefit improvements in all circumstances.

QUESTION 8

Do you agree that plan amendments that provide different benefits on plan termination than on a going concern basis should no longer be accepted by SFSC?

To provide plan sponsors with the maximum amount of flexibility within their plan designs, we believe that the SFSC should continue to allow these types of amendments under the Extended Solvency basis. We note that these types of amendments would not be necessary under the Enhanced Going Concern basis.

QUESTION 9

Do you agree that amounts held back due to a transfer deficiency should be transferred within five years?

For members transferring their entitlement out of the Plan, we do not feel that it is appropriate to hold back money based on a solvency ratio if the Plan is not subject to solvency funding. Given our views that public sector pension plans should be funded on a going-concern basis only, we feel that a more appropriate method would be to hold back money based on the going-concern funded ratio. In any case, we feel that the holdback period should be consistent with the amortization period established under the Enhanced Going Concern basis.

QUESTION 10

At a later date, should SFSC consider requiring annual valuations for all defined benefit plans, if the solvency ratio falls below a prescribed amount?

No, the current requirement for triennial valuations is adequate. Introducing annual valuations will only add to the volatility of the funding requirements of the plan and increase the administrative burden and costs for the plan. Interim valuations and extrapolations can be used by public sector plans to monitor the funding of the plans.

QUESTION 11

Which option do you feel best meets the principles, Extended Solvency Amortization, or Enhanced Going Concern? Are there any flaws in either option?

We strongly feel that the Enhanced Going Concern basis is the appropriate basis upon which public sector plans should be funded.

Additional Comments

As it relates to Point 12 (Use of Surplus Assets), we strongly believe that whether or not a plan is considered cost shared should not dictate whether surplus assets can be used to provide for current service cost contributions. A better approach is to mandate that a minimum going concern surplus threshold must exist before current service contributions can be made. Historically, the General Plan has always taken a prudent approach to using surplus to fund current service contributions by first ensuring surplus assets are sufficient to cover the shortfall between future normal costs and future contributions. Preserving the flexibility to fund current service costs from surplus with the proviso that a minimum surplus level be maintained is of paramount importance to the funding strategies employed by the General Plan.

In addition to the above, the City would like to make a request that consideration be given to amending *The Act* to require that any plan funding deficiencies be equally cost shared between the employee members and the plan sponsor in the future.

April 20, 2012

Ms. Leah Fichter, Director
Pension Division
Saskatchewan Financial Services Commission
6th Floor, 1919 Saskatchewan Drive
Regina, Saskatchewan S4P 3V7

Fax: (306)798-4425
leah.fichter@gov.sk.ca

Dear Ms. Fichter:

**Re: Public Sector Defined Benefit Pension Plan Funding
(File No. CK.4730-6)**

Thank you for your Department's (Mr. Wild) letter dated December 30, 2011 and the Consultation Paper that followed in January of this year. We appreciate that much research and consideration has been put into this matter.

You have asked for feedback on the Consultation Paper and provided eleven specific questions for consideration and response. At the meeting of the Board of Trustees held in March the Consultation Paper was discussed in detail and a response to each question has been formulated. Overriding the Board's response is a firm belief that the appropriate method for funding public sector pension plans is the going concern basis.

The Board's specific responses are as follows:

Question 1. The Board agrees that the City of Saskatoon General Superannuation Plan should be included on the list of public sector plans subject to the Act. The Board agrees that all public sector plans should be included.

Based on the definition of "cost shared" plans under Point 12 of the Consultation Paper, the City of Saskatoon General Superannuation Plan is not a cost shared plan. Although any additional funding that has been required in the past has been shared equally between members and the City, this has always been as a result of negotiations. As per Section 4.03(1)(b) of the plan text, the City is ultimately responsible for any amounts deemed necessary to meet minimum funding requirements, with no legal onus on members to share in this additional funding.

Question 2. The Board agrees with the principles you have used to develop any proposed changes to public sector pension funding rules. Pension funds must be able to take a long-term view when funding and investing policies are developed, and managing short-term volatility places an undue burden on the plan, the plan sponsor, and the members.

Question 3. The extended solvency amortization option should not be chosen. Without prejudice to the Board's position, if it were to be used, the amortization period should be greater than 10 years. In the current economic environment, even extending the amortization period to 10 years would place too large a burden on the current plan sponsor and members.

Question 4. Funding on a solvency basis is not appropriate for public sector plans in Saskatchewan, but as a matter of general principle, pension plans should include a certain level of conservatism in their going-concern assumption basis for valuation purposes. The appropriate level of margin or conservatism should be a decision made by the plan sponsors and boards, in consultation with their actuary, and should be governed by a well written funding policy.

Question 5. The Board agrees that a going concern method of calculating the funded status of a plan is appropriate. However the Board does not agree that the amortization period for funding a deficit needs to be shortened from 15 to 10 years. The appropriate amortization period should be a decision of the plan sponsor.

Question 6. Consistent with our view that the plan sponsor should be responsible for ensuring the long-term sustainability of the pension plan, establishing appropriate best estimate assumptions and margins for a plan should continue to be determined by the plan sponsor, with guidance from the plan actuary, and consistent with a clear funding policy. Regulation of these assumptions and margins is not necessary.

Question 7. Funding on a solvency basis is not appropriate for public sector plans in Saskatchewan. However, under the Enhance Going-Concern basis, the Board agrees that plan improvements should be restricted where a plan's going-concern funded ratio is below 90%.

Question 8. This question does not relate to the City of Saskatoon General Superannuation Plan as there are no benefit changes on termination of the plan; however, the solvency basis should not be used to determine the funded position of a public sector pension plan.

Question 9. The going concern basis, and not the solvency basis, should be used to calculate the transfer deficiency ratio for public sector pension plan in Saskatchewan under all circumstances. Recognizing this, it is appropriate to hold back an appropriate amount from funds being transferred out of the plan, but for a period not exceeding five years.

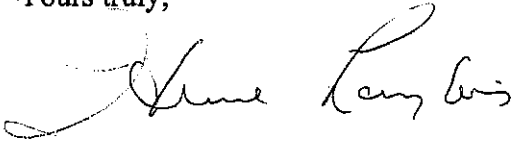
Question 10. The plan sponsors and trustees, as part of their fiduciary duties, should determine if an annual actuarial valuation is necessary. The current requirement for triennial valuations is adequate. Introducing annual valuations will only add to the volatility of the funding requirements of the plan and increase the administrative burden and costs for the plan. Interim valuations and extrapolations can be used by public sector plans to monitor the funding of the plans.

Question 11. The going concern calculation of a pension plan's funded position is the most appropriate for funding purposes. On the issue of whether it needs to be enhanced or not, a 15 year period is still appropriate for amortizing any unfunded liability.

April 23, 2012
Page 3

The Board hopes that these comments will be of use to you as you adapt the funding regime for public sector pension plans.

Yours truly,

A handwritten signature in cursive script, appearing to read "Herve Langlois".

Dr. Herve Langlois, Chairman
City of Saskatoon General Superannuation Plan

HL:lo

cc: Lorne Green, General Plan Manager
Marlene Hall, Secretary, Board of Trustees –General Superannuation Plan



**Canadian Union of Public Employees
Saskatchewan Division**

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April 30, 2012

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Attention: Leah Fichter,

RE: SUBMISSIONS RESPONDING TO THE CONSULTATION PAPER ON NEW FUNDING REGIME FOR PUBLIC SECTOR PENSION PLANS (the "CONSULTATION PAPER")

Dear Ms. Fichter:

Please find under cover of this letter the joint submissions of the Canadian Union of Public Employees (CUPE) - Saskatchewan Division and of our CUPE National Office in response to the consultation paper.

We appreciate the opportunity to provide submissions on the development of a new funding regime for public sector plans and, likewise, the opportunity to meet with you in person to discuss the issues outlined in the Consultation Paper last Thursday, April 19, 2012.

CUPE represents over 29,000 workers in Saskatchewan, a large majority of them in public sector pension plans. The proposed funding rules for these plans will have a direct and lasting impact on our members.

Our union has been significantly involved with public sector pension law reform in Saskatchewan and across the country, and we are engaged with the issues at the level of policy development and at the plan level, where our trustees, committee members, employees and retirees work to ensure healthy, secure and affordable pension plans.

We look forward to the development of the new funding regime, and we welcome the opportunity to meet again and discuss our submissions.

Yours truly,

Tom Graham
President, CUPE Saskatchewan

Enclosure: submission (28 pages)

/nm cope 342



SUBMISSION TO

THE SASKATCHEWAN FINANCIAL SERVICES COMMISSION

PENSIONS DIVISION

CONSULTATION PAPER – NEW FUNDING REGIME FOR PUBLIC SECTOR PLANS



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A. INTRODUCTION

The Canadian Union of Public Employees (Saskatchewan) represents 29,000 members and their families, in many sectors of Saskatchewan's economy, and over 600,000 employees Canada-wide. Our members are employed in Saskatchewan health care facilities, school boards, municipalities, universities, libraries, community-based organizations and various boards and agencies. Our members participate in many defined benefit and defined contribution pension plans in Saskatchewan and hundreds of plans across Canada. Our members are directly affected by proposals to change the funding rules established for these plans.

We appreciate the opportunity to comment on the Saskatchewan Financial Services Commission's ("SFSC") consultation paper on the proposed funding regimes for public sector pension plans (the "Consultation Paper"). We are supportive of the SFSC's proposal to provide permanent relief from solvency funding for public sector plans in Saskatchewan. We believe that exempting public sector plans from the solvency funding standard is consistent with pension policy and regulation across Canada. However, the Consultation Paper proposes the most conservative going concern funding rules in Canada in circumstances where they are not clearly justified. In the current market conditions and economic environment, and when pension plans are already under stress, we do not believe that introducing more conservative going concern funding rules is necessary or prudent policy.

We have attached, for your convenience, as Schedule "A" to these Submissions, a brief summary of solvency relief regulations in Canadian jurisdictions.

Our submissions are set out in the order the issues and questions are raised in the Consultation Paper.

B. SECTION 2 – DEFINITION OF PUBLIC SECTOR PLANS

Appendix "A" to the Consultation Paper lists the public sector plans regulated by the *Pension Benefits Act, 1992*¹ that will be affected by the proposed funding regime. We submit that the new funding regime should apply to all public sector plans.

¹ S.S. 1992, c. P-6.001 (the "Act").

Where CUPE Saskatchewan members are members of a regulated plan, we have urged our trustees, advisory committee members, and Local Unions to examine the impact of the proposed funding regimes on each plan and make their own submissions to the SFSC.

C. SECTION 3 – RATIONALE FOR THE CHANGE

The Consultation Paper discusses one important rationale for providing solvency relief or permanent exemptions from funding to solvency standards: volatility in market conditions giving rise to volatility in contributions to defined benefit pension plans. This rationale has justified the provision of *temporary* solvency relief to pension plans in all jurisdictions across Canada.

There is a second important reason to provide relief from solvency funding, one that has justified the provision of *permanent* exemptions from solvency funding: the purpose and assumptions of solvency funding standards do not apply to public sector plans. The purpose of solvency funding is to secure benefits against the risk of plan sponsor insolvency. In this respect, public and private sector plans face very different risks.

Lower risk to benefit security in public sector plans - Solvency funding requirements were created for the traditional private sector, defined benefit single employer pension plan that is vulnerable to the employer sponsor failing. However, the solvency standard is far less appropriate for two types of pension plan: multi-employer plans, which are designed to cope with plan sponsors entering and exiting with some regularity, and most public sector plans, for which there is a much more remote risk of plan sponsor insolvency. Both the purpose and assumption of solvency funding measures do not “fit” well in the public and multi-employer plan space.

If the basic assumptions and purpose of solvency funding do not apply to public sector plans, then the risks associated with relaxing or eliminating the solvency funding standard are not as great. For example, relaxing solvency funding rules does not place member benefits at materially greater risk if, on the other hand, there is a very low (or non-existent) risk of sponsor insolvency.

Fairness to members not served by increasing conservatism - Section 2 of the Consultation Paper also identifies “fairness to plan members” as a goal of solvency funding, and asserts that one of the risks of relaxing solvency funding is to jeopardize fairness among members. This is cited as a reason to inject additional conservatism into plan funding obligations, including

making going-concern funding rules more conservative – in fact, **the most** conservative regime in Canada. This is counter-intuitive to us, and may have unintended consequences on some plans, including a material increase in required going concern contributions. Strengthening going-concern funding rules that offset and possibly eliminate the benefit of relaxing solvency funding rules is a contradictory policy direction and is not consistent with emerging standards in other Canadian jurisdictions. Moreover, this conservatism is not required because it does not ameliorate any material risk to plan members.

Experience of solvency relief in other jurisdictions not indicative of need for extra conservatism - the Consultation Paper refers to the elimination of solvency funding in other jurisdictions leading to less-well-funded public sector pension plans than those in Saskatchewan. No plans are mentioned by way of example and no data is provided to support this comparison.

Given the different regulatory schemes across the country and the highly unusual market conditions of the past five years, we believe the Consultation Paper makes a significant overstatement in attributing some public sector plans' funding deficiencies solely to relaxed solvency funding rules. CUPE has extensive experience with public sector plans across the country, many of which are exempt from solvency funding on a temporary or permanent basis. In some cases, solvency deficiencies led to relaxing solvency funding rules. In our experience, other factors are equally if not more important in the successful administration of a plan, including its funded ratio. For example, many public sector plans enjoyed long periods of **employer contribution holidays** during the late 1990s and 2000s, which have contributed to under-funding in subsequent years. More importantly, in our experience, the key element in the proper funding of a pension plan is good governance of that plan, and we believe that governance and funding regimes are complementary and integrated functions of effective pension regulation.

Recommendation #1: *The SFSC should recognize two equally important rationales for providing relief from solvency funding for public sector plans: the management of contribution volatility and low risk of sponsor insolvency in many public sector plans.*

D. SECTION 4 – PRINCIPLES FOLLOWED IN DEVELOPING THE NEW RULES

The Consultation Paper enumerates three principles and asks if stakeholders agree with these principles. These principles are:

1. The rules must provide a means of managing volatility.
2. The rules must not introduce undue risk to the accrued benefits of the plan beneficiaries, and must result in an adequate level of funding over the long term.
3. The rules must be simple to understand and apply. They should not measurably increase the administrative burden for the plan administrator, or the level of complexity in the preparation, presentation and review of an actuarial valuation report.

CUPE Saskatchewan supports each of these principles. However, we do not believe that this list of principles encompasses all the relevant principles that the SFSC should take into consideration in creating a new funding regime for public sector plans. We believe that principles informing this process should also include two equally important principles:

4. The rules should be appropriate and proportional to the nature and structure of the public sector plans.
5. Where the rules expose the plan to increased funding-related risks, the rules should require or encourage both sponsors and plan beneficiaries to have joint responsibility for all material administrative and sponsor decisions.

Our experience with public sector plans across the country has taught us that “one size does not fit all”. Public sector plans are already distinguished in many ways from private sector plans – they are exempt from general pension legislation in many provinces – and even within the public sector plan space, may be treated differently according to sector. So, for example, hospitals, municipalities and universities may have special funding regimes (among other regulation) unique to their sectors.

For this reason, we believe that it is both possible and desirable to ensure there is sufficient flexibility in public sector pension plan regulation to permit different funding regimes for different types of plans that takes into account individual strengths and differences, and to coordinate the selection of the applicable funding rules with the governance of a plan.

This is the second additional principle that we believe should apply: where a plan selects a funding regime that relaxes solvency funding or otherwise exposes members to some degree of risk, the condition of that election should be that plan beneficiaries participate actively in the governance of the plan and the management of that risk.

Recommendation #2: We submit that the SFSC should enumerate two additional principles that inform the development of a funding regime for public sector plans, that:

- 1. The rules should be appropriate and proportional to the nature and structure of the public and broader public sector plans.*
- 2. Where the rules expose the plan to increased funding-related risks, the rules should require or encourage both sponsors and plan beneficiaries to have joint responsibility for all material administrative and sponsor decisions.*

E. SECTION 5 – TWO PROPOSED OPTIONS

These submissions will comment generally on the two options proposed, and the vision of selecting one of those options. We will also suggest a third option.

Option 1: Extended Solvency Amortization - As we understand it, Option 1 - the extended amortization option - would extend the five-year amortization and special payment period for solvency deficits to 10 years.

This form of relief has been employed across the country on a *temporary* basis, typically available for one actuarial cycle, in order to address the effects of the financial crisis in 2008 and the 2011 Q3 and Q4 experience, and the unprecedented low interest rate environment.

If it is otherwise appropriate to require a plan to fund to the solvency measure, we believe that relief should be available on *temporary* basis when market conditions support such relief, but that the normal solvency funding rules should eventually apply.

We believe that this form of temporary solvency relief (a 10-year amortization period for solvency deficiencies) was and is an appropriate option to make available to all pension plans in Saskatchewan (including some public sector plans) *on a temporary basis*, because it is simple to implement and it addresses the cyclical nature of market conditions.

We do not believe, however, that it is appropriate as a **permanent measure for all plans**. The size of a plan, the governance of a plan and the security of a plan's sponsor are all relevant considerations in determining whether permanent solvency relief should be available.

With respect to the plans listed in Appendix “A”, we submit that some discretion may be applied, by either the SFSC or the Ministry, to determine whether full permanent solvency relief is available to a public sector plan. The guiding principles in exercising this discretion should be that, where a plan can establish that it **sponsored by a large and stable public sector employer**, or where the plan **has established robust joint governance**, a permanent exemption from solvency funding should be available. Where the public sector employer is at low risk of insolvency, the purpose and assumptions for solvency funding are inapplicable. Similarly, where plans have created a robust governance process that enables members and retirees to take responsibility for and manage the risks associated with relaxing solvency funding, they should be permitted to elect to opt out of solvency funding.

We believe that most if not all the public sector plans on Appendix “A” meet both these criteria.

Option 2: Enhanced Going Concern - Option 2 would permanently eliminate the requirement to fund for solvency, but would simultaneously decrease the amortization period to amortize going concern unfunded liabilities to 10 years (from 15 years currently permitted). While we support and agree that public sector plans that establish the qualifications just enumerated should be permanently exempted from solvency funding, **we do not agree that a concurrent reduction of the going concern amortization period is an appropriate measure.**

A simple assessment of the impact of this change to going concern funding rules would be an increase in going-concern contributions of about 30% for the 10-year period. This reduces the effectiveness of a solvency exemption without a corresponding benefit (where there is low risk of sponsor insolvency). Such a measure “gives” with one hand while “taking” with the other, and the outcome is to mitigate the positive impact of solvency relief.

The basis for the selection of 10 years as an amortization period for going concern unfunded liabilities is not clearly identified in the Consultation Paper. **This would create the most restrictive going concern funding rules in Canada**, ironically in a jurisdiction of comparative economic prosperity. We do not see a clear justification for this measure where the risk of sponsor insolvency is low or non-existent.

We also note that other jurisdictions have continued to permit 15 year amortization of this form of deficiency for most solvency-exempt plans.

In several jurisdictions in (economically challenged) Eastern Canada, university and municipal sector pension plans have been solvency-exempt and permitted to fund going concern liabilities over 15 years.

In some jurisdictions, going concern amortization periods are shorter for specific types of plan structure or for specific plan sectors within the public sector space. For example, in Ontario, specified multi-employer plans are solvency-exempt but fund going concern liabilities over a 12-year period (with certain conditions attached). However, we note that most of these plans are industrial, private sector plans, and 12 years reflects a negotiated balance between plan administrators and regulatory concerns in the context of Ontario economic conditions. Private sector, industrial multi-employer plans in Ontario operate in a very different – more challenging – economic environment than public sector single and multi-employer pension plans in Saskatchewan.

By contrast, the SFSC is proposing **the most conservative going concern funding rules in the context of the strongest regional economy in country.**

For these reasons, we propose an alternative third option that should be made available to public sector plans in Saskatchewan.

Option 3: Permanent Solvency Relief for Eligible Public Sector Plans - We believe that a viable and appropriate third option that must be considered is simply the elimination of the solvency funding requirement for public sector plans.

As just stated, we believe that public sector plans electing this form of relief should be required to establish that they are sponsored by stable public sector employers or have robust joint governance of the plan.

We also note that in several jurisdictions across Canada, pension policy has sought to address some specific risks perceived to accompany the relaxation or elimination of solvency funding, such as the risk of inappropriate use of contribution holidays or benefit improvements while under-funded on a solvency basis.

We submit that the most appropriate way to address these risks is to place specific conditions on the provision of permanent solvency relief, and not to address these risks through more general

restrictions on going concern funding rules. We submit that the three most important conditions the SFSC should consider placing on a permanent exemption from solvency funding are:

- **Joint governance** - the plan administrator must be a committee or board of trustees at least one-half of whom are representatives of beneficiaries of the plan.
- **Enhanced disclosure** - members and retirees should receive enhanced disclosure summarizing the impact of permanent solvency relief on an on-going basis.
- **Restrictions on contribution holidays and benefit improvements** - other jurisdictions have prohibited contribution holidays funded by going concern surplus and limited the ability to make benefit improvements where the impact would reduce the solvency funded ratio below certain thresholds.

Some of these conditions are discussed later in these Submissions.

We emphasize that joint governance is a key “trade-off” for permanent solvency relief, because it ensures that the member and employer representatives together participate in governance and are responsible for the impact of their decisions. Jointly-governed plans making such an election have the flexibility to choose from the tools available to ensure adequate funding, benefit security and cost-stability (margins, assumptions, funding policies, targets).

Recommendation #3: A third option should be considered by the SFSC, being a permanent exemption from solvency funding for public sector plans that demonstrate stability of public sector plan sponsors and joint governance of the plan. This option should be available by election and may have certain conditions that must be met to remain eligible for exemption.

F. SECTION 6 – EXTENDED SOLVENCY AMORTIZATION

This section discusses the extended solvency option. As we understand this option, once these rules are in place, the solvency deficiency at the next arising valuation date would be amortized over 10 years, and all existing solvency payment schedules would no longer be required to be met. Following the initial “fresh start” valuation, all then-existing schedules of solvency payments would be required to be made.

The Consultation Paper asks two questions: whether 10 years is an appropriate maximum period to amortize solvency deficiencies, and whether the regulations should require (more) conservative going concern assumptions in concert with the new maximum 10-year solvency amortization period.

As stated above, we believe that the extended solvency amortization option is appropriate and effective only as temporary solvency relief. Within that framework, we believe that the 10-year amortization period is sufficient to achieve the objectives of this relief. This relief in effect reduces solvency amortization payments by just under 50% (taking into account the effect of interest). For periods that temporary solvency relief is available, this permits sponsors to allocate cash flows to other priorities, while eventually requiring full funding to the solvency measure. For the reasons stated above, we do not believe that this option is appropriate on a permanent basis if it is otherwise justified in applying to a plan due to the nature of the plan or the nature of the plan sponsor.

Whether solvency relief is temporary or permanent, we do not believe that it is appropriate to require more conservative going concern assumptions, as this would have the effect of reducing the impact of the solvency relief. If going concern assumptions are made more conservative, the effect would be to increase contributions on a going concern basis – over a shorter period of time. The net effect of these changes could vary significantly on each plan – depending on which assumptions are made more conservative or what other conditions are placed on plans that elect this relief. This may mitigate some of the positive effect of the extended solvency amortization period without necessarily addressing any of the broader array of factors that affect plan funding and health.

We note that in implementing temporary relief, policy-makers and regulators across the country have never required permanent changes to going concern methods and assumptions.

Recommendation #4: Extended amortization periods in respect of solvency deficiencies are appropriate for all plans (including some public sector plans) when provided on a temporary basis. Changes to going concern funding rules are not an appropriate condition for this option.

G. SECTION 7 – ENHANCED GOING CONCERN

Section 7 of the Consultation Paper describes the second option, enhanced going concern funding rules. As we understand the proposal, under this option all listed plans would be required to continue conducting solvency valuations for the purpose of governance and administration, and in order to establish the transfer ratio of a plan, but would not be required to make contributions in respect of solvency deficiencies. Instead, plans would be required to contribute on a modified going concern basis, in which unfunded liabilities are amortized over 10 years (instead of the 15 years currently permitted). Existing going concern payment schedules would not be affected – that is, would not be required to be funded over 10 years. The application of this option would be automatic (e.g., would not require an election) and would apply to valuations as at December 31, 2012 and following.

The Consultation Paper asks one question of this proposed regime, whether a 10-year period is an appropriate length of time for this option.

This option has two components, (i) the elimination of contributions on a solvency basis, and (ii) the changes to the going concern amortization period.

Where public sector plans are not at appreciable risk of underfunded termination due to sponsor insolvency, the appropriate basis upon which to fund the plan is the traditional going concern funding basis with an amortization period of 15 years. There is no demonstrable reason to do otherwise. As we stated above, a basic measure of the impact of this change is an increase of contributions on a going concern basis of about 30%. This may have significant impact on some Saskatchewan public sector plans in itself. Some plans may be able to absorb this increase, while others will be put under pressure to adjust other going concern assumptions to assist in absorbing this impact. Some plans may have no option but to reduce benefits. These would be very undesirable results. **Accordingly, we believe the reduction of the going concern funding basis from 15 to 10 years will lead to unintended outcomes, and creates a significant disincentive to the use of more conservative going concern assumptions and other methods for prudently administering a plan, such as the establishment and use of contingency reserves or contribution margins.**

We believe the changes to the going concern amortization period unnecessarily reduce the beneficial impact of exempting plans from solvency funding when that exemption is otherwise justified and appropriate.

If the objective of the SFSC is to ensure that the methods and assumptions employed in a going concern funding valuation are appropriate or that funding on this basis (only) is not improperly exploited, the SFSC can consider placing other conditions on the election of this form of relief. Other jurisdictions have included targeted conditions on solvency relief, such as:

- limiting the use of contribution holidays funded out of surplus determined on a going concern basis;
- requiring accelerated funding of certain plan amendments (for example, benefit improvements over 8 years instead of 15) where the going concern funded ratio of a plan is below 0.8 or 0.9; or
- requiring “terminal funding” of plans if they are wound-up during the period of solvency relief (we understand that it is expected that the Act will be revised to include terminal funding obligations in the Fall of 2012 in any event).

We submit that it would be appropriate to consider the imposition of each or any of these conditions as a requirement of plans that elect to become exempt from solvency funding rules, without other changes to the going concern funding rules.

Recommendation #5: Eliminating solvency funding for public sector plans is an appropriate option. Changes to going concern funding rules are not an appropriate element or condition of this option. Specific risks associated with this option may be addressed by attaching specific conditions to this option.

H. SECTION 8 - APPLICATION

This section states that the new regime will automatically apply to all public sector plans. As stated above, we submit that plans listed in Appendix “A” be provided with the **option** to remain in the existing funding regime (with options for temporary solvency relief) or to elect permanent solvency relief. Ideally, we believe that plans should have more than one option to permit maximum flexibility.

Recommendation #6: *Public sector plans should be provided with the option to remain in the current funding regime or elect permanent solvency relief.*

I. SECTION 9 – EFFECTIVE DATE OF THE NEW RULES

This section states that the proposed funding regime would apply to any valuation made as at December 31, 2012 or later.

The only comment we have is that the effective date of the new rules be set so that there is sufficient time to permit a full and informed consultation process to evolve.

J. SECTION 10 – BEST ESTIMATE DISCOUNT RATE AND MARGIN

This section discusses the provision of direction for margins (provisions for adverse deviation) in establishing a discount rate for a going concern valuation. We believe that this is properly a decision of the plan administrator, and is best determined by the administrator in consultation with the plan advisors and taking into consideration plan-specific features and conditions. In short, this is a governance decision that is best made by the plan's administrator.

One of the principles we suggest that the SFSC adopt as a guiding principle in determining the applicable funding rules is that regulation should be integrated with governance, and greater flexibility in regulatory choice require a greater role for an appropriate governance structure and process.

The current guidance of the Canadian Institute of Actuaries in determining key assumptions and methods used by plans is, in summary, that the actuary shall provide a range of acceptable options and explain their impact on the plan, and that the plan administrator shall select the methods and assumptions to be employed in the plan valuation. We support this general approach to the selection of assumptions and methods.

Each plan has different considerations that will be relevant to determining the margins for conservatism that may be included in a going concern valuation. In our experience, plans will create margins that reflect the plan's asset mix, maturity, potential for growth and other factors. We believe that these are best determined and managed by decisions of the administrator of the plan.

Recommendation #7: *The determination of an appropriate margin for conservatism in going concern assumptions is best controlled by the plan administrator in consultation with advisors and taking into account the plan-specific circumstances.*

K. SECTION 11 – BENEFIT IMPROVEMENTS

This section discusses restrictions on benefit improvements. It proposes that, during any period of solvency relief, any benefit improvement that would have the effect of reducing the solvency ratio below 0.9 would be required to be pre-funded (such that the solvency ratio did not fall below 0.9) or would be void.

As stated above, we support three conditions being attached to an exemption from solvency funding without changes to the going concern funding rules.

However, we submit that the threshold of 0.9 is both too conservative and calculated on the wrong basis. In our experience, a plan's funded ratio can fluctuate over short periods of time without necessarily reflecting long-term trends in the plan's health. This is the volatility that the solvency relief is intended to mitigate. We do not believe it would be appropriate to restrict otherwise-desirable amendments to benefits by short-term fluctuations on an inapplicable funding measurement.

We submit that the appropriate funded ratio to apply to any restrictions on benefit improvements is the going concern funded ratio. We also submit that a more realistic threshold is 0.8 to 0.85. This reflects a balance between concerns over the impact of plan amendments on the financial status of the plan and the flexibility to manage the plan to their mutual benefit by both sponsors and administrators.

We believe that requiring pre-funding of plan amendments that would reduce the funded ratio below 0.8 or 0.85 provides an appropriate management of volatility.

Recommendation #8: *Where a condition on the provision of permanent solvency exemptions is established, the appropriate funded ratio is the going concern funded ratio, and the appropriate threshold below which benefit improvements are required to be pre-funded is 0.8 to 0.85.*

L. SECTION 12 – USE OF SURPLUS ASSETS

This section discusses the application of surplus while a plan is exempt from solvency funding.

We agree that, where public sector plans are non-contributory, a condition of solvency relief should be that any surplus arising should first be applied to reduce unfunded liabilities (measured on the current basis, a 15 year amortization period), and thereafter applied in accordance with the plan text or applicable law.

We also agree that for contributory plans, the plan sponsor(s) and/or administrator (depending on the governance structure of the plan) should have the option to apply going concern surplus to *both employer and employee* contributions to current service costs. We note that the Consultation Paper only states that surplus may be applied to employer contributions (although employee contributions may be contractually stipulated to be equivalent, contractual language may vary and may not specifically tie employee contributions to actual amounts paid by a sponsoring employer). We assume that the intention of the Consultation Paper was to permit going concern surplus to be applied to both employer and employee contributions to a plan and if that assumption is incorrect, we advocate ensuring it is available to both.

This is one area in which we strongly believe that appropriate use of surplus is linked to good governance of the plan, which in our experience is best achieved by joint governance of the plan reflecting, in effect, the joint sponsorship of the plan. Where joint governance has not been established, plans should be required to provide on-going, enhanced notice and disclosure of the impact of plan funding, and regulation should require consent of members and retirees.

Recommendation #9: In non-contributory public sector plans that elect a solvency exemption, surplus should be applied first to reduce unfunded liabilities and then to solvency deficiencies. In contributory plans that elect a solvency exemption, surplus should be permitted to be applied to reduce employer and employee contributions to current service costs at both the discretion of the administrator and with the consent of members. In any event, such surplus application to reduce employer or employee contributions should be subject to strict disclosure obligations. For example, British Columbia has significant disclosure requirements attached to the use of contribution holidays.

M. SECTION 13 – BENEFIT EXCLUSIONS IN SOLVENCY VALUATIONS

This section discusses particular plan provisions that reduce benefits on termination. The effect of these plan provisions is that certain benefits (those reduced on termination) are not required to be funded on a solvency basis.

We believe that the elimination of the requirement for public sector plans to fund on a solvency basis (but to fund on a 15-year going concern basis) would eliminate the use of these provisions in plans. Retaining a form of solvency funding (the extended solvency option) would continue to create an incentive to employ these types of provisions.

N. SECTION 14 – IMPLEMENTATION OF CONTRIBUTION INCREASES

This section discusses the **existing discretion** of the Regulator to permit a delay in implementing contribution increases for up to one year in contributory plans, and for nine months in other plans.

We support the addition of a clear regulatory power to permit this discretionary extension of the commencement of contribution changes.

O. SECTION 15 – TRANSFER DEFICIENCY

This section discusses the effect of extending a solvency amortization period (or reducing a going concern amortization period) on the period of time over which a transfer of a commuted value out of the plan must be paid.

We support the Consultation Paper's position. We do not believe it is reasonable for administrators to pay out commuted values over more than five years, and we do not believe this is fair to the former member of the plan. The five year period is an appropriate balance between the short-term risk of under-funding and both fairness and administrative simplicity.

Recommendation #10: *Commuted value transfers from a plan should be permitted over no more than five years.*

P. SECTION 16 – FREQUENCY OF FILING VALUATIONS

This section discusses the frequency of filing valuations. It proposes that there be no change to current three year cycle with discretion of the Superintendent to order more frequent valuations.

The Consultation Paper asks if the SFSC should, in the future, consider requiring annual valuations where the solvency ratio falls below some threshold.

We agree that the SFSC should consider introducing annual valuations for plans with a solvency ratio below a certain threshold. We note that in other jurisdictions, this threshold is set between 0.8 and 0.9.

Q. SECTION 17 – ASSET SMOOTHING

The Consultation Paper confirms that asset smoothing is and will be permitted.

No comment.

R. SECTION 18 - DISCLOSURE

This section states that it may be prudent to provide enhanced disclosure to plan beneficiaries. We agree with this suggestion. We note that enhanced disclosure to plan members and retirees is a condition of most temporary solvency relief provided in other jurisdictions. For example, the Ontario regulations permitting temporary solvency relief to plans enumerate information on the impact of the solvency relief that must be included in disclosure to members and retirees.

S. SECTION 19 – OTHER CONSIDERATIONS

This section notes that plans may be required to make amendments to come into compliance with the new funding regime, and that the funding regime is a minimum standard – plan sponsors may elect to contribute in excess of this standard and subject to any limits under tax legislation.

We note for example that the option we have proposed in this submission would permit plan sponsors or administrators to elect to fund on a solvency basis or an enhanced going concern basis if they consider it prudent and desirable.

T. SECTION 20 - COMMENTS

This section asks which option best fits the criteria set out in Section 4 of the Consultation Paper. We submit that the criteria in Section 4 should be expanded to recognize that “one size does not fit all” and that the regulatory scheme should, and to be successful, must, integrate well with the governance of the plan. We therefore submit that the principles guiding the development of the new funding regime should encompass flexibility in each plan’s options and where options

“relax” solvency funding they should be tied to enhanced governance – ideally joint governance – of the plan.

We submit that the best way to develop a new funding regime is to provide the option to public sector plan administrators and plan sponsors to:

1. Option 1: remain within the current funding regime.
2. Option 2: elect to exempt the plan from contributions in respect of solvency deficiencies, and fund the plan on the existing going concern funding rules, with certain conditions to this relief, including (but not limited to) joint governance of the plan.

U. CONCLUDING REMARKS

For convenience, we have attached a summary of our recommendations to the SFSC in the next section.

We would like to thank the SFSC for the opportunity to make submissions on the proposed funding regime for public sector pension plans in Saskatchewan. We welcome any opportunity to clarify or expand upon our submissions.

V. SUMMARY OF RECOMMENDATIONS

Recommendation #1: The SFSC should recognize two equally important rationales for providing relief from solvency funding for public sector plans: the management of contribution volatility and low risk of sponsor insolvency in many public sector plans.

Recommendation #2: We submit that the SFSC should enumerate two additional principles that inform the development of a funding regime for public sector plans, that:

- The rules should be appropriate and proportional to the nature and structure of the public sector plans.
- Where the rules expose the plan to increased funding-related risks, the rules should require or encourage both sponsors and plan beneficiaries to have joint responsibility for all material administrative and sponsor decisions.

Recommendation #3: A third option should be considered by the SFSC, namely a permanent exemption from solvency funding for public sector plans that demonstrate stability of public sector plan sponsors and joint governance of the plan. This option should be available by election and may have certain conditions that must be met to remain eligible for relief.

Recommendation #4: Extended amortization periods in respect of solvency deficiencies are appropriate for all plans (including some public sector plans) when provided on a temporary basis. Changes to going concern funding rules are not an appropriate condition for this option.

Recommendation #5: Eliminating solvency funding for public sector plans is an appropriate option. Changes to going concern funding rules are not an appropriate element or condition of this option. Specific risks associated with this option may be addressed by attaching specific conditions to this option.

Recommendation #6: Public sector plans should be provided with the option to remain in the current funding regime or elect permanent solvency relief.

Recommendation #7: The determination of an appropriate margin for conservatism in going concern assumptions is best controlled by the plan administrator in consultation with advisors and taking into account the plan-specific circumstances.

Recommendation #8: Where a condition on the provision of permanent solvency relief, the appropriate threshold below which benefit improvements are required to be pre-funded is 0.8.

Recommendation #9: In non-contributory public sector plans that elect a solvency exemption, surplus should be applied first to reduce unfunded liabilities and then to solvency deficiencies. In contributory plans that elect a solvency exemption, surplus should be permitted to be applied to reduce employer and employee contributions to current service costs at both the discretion of the administrator and with the consent of members. In any event, such surplus application to reduce employer or employee contributions should be subject to strict disclosure obligations. For example, British Columbia has significant disclosure requirements attached to the use of contribution holidays.

Recommendation #10: commuted value transfers from a plan should be permitted over no more than five years.

SCHEDULE “A”

SOLVENCY FUNDING REGIMES ACROSS CANADA

1. SUMMARY

What is Solvency Funding?

In most jurisdictions in Canada, employers and employees (where applicable) participating in regulated pension plans are required to make sufficient contributions to those plans to satisfy two different measurements of a plan’s funded status: going concern and solvency.

Going concern funding requirements are normally calculated on the assumption that a plan will continue indefinitely, and roughly speaking, determines the contributions necessary to fund liabilities over no more than 15 years. **Solvency** funding requirements are calculated on the assumption that a plan will terminate and wind-up immediately, and requires that the contributions necessary to fund liabilities over five years are made to a plan. Each measurement of funding uses different economic and plan-level assumptions (for example, e.g., discount rates, exclusion of certain benefits from funding).

During periods of low interest rates (which imply low discount rates), the solvency funding measurement tends to require higher levels of contributions over shorter periods of time. When plan assets lose value or fail to achieve the expected rate of return, the effect of low interest rates is exacerbated, requiring even higher contributions.²

Rationales for Relief

There are two primary rationales for solvency relief. The first is that market conditions are temporary and cyclical, which supports the provision of temporary solvency relief while market conditions change, which may assist pension plans in meeting their funding obligations. This rationale has driven (and continues to drive) the provision of temporary solvency relief to many pension plans across Canada. For example, this rationale supports temporary moratoriums on making solvency funding payments while interest rate and asset values change, which may, on the next actuarial valuation, reduce the otherwise-expected level of contributions.

The second rationale is that, for some plans the assumption that their sponsors will become insolvent is not a realistic assumption, and consequently, funding to a solvency standard creates “trapped capital” that has better alternative uses by sponsors.

Solvency funding was a measure developed in the 1980s to address the risk of insolvency of a plan’s sponsor – at that time the focus of this policy change was private sector single employer pension plans.³ Today, a majority of plan members in Canada are members of a multi-employer plan, a jointly-governed plan or a public sector plan (or combination of these types). Multi-

² Conversely, if interest rates rise appreciably and asset values appreciate, plans that have been funded to a solvency basis for several years may then experience surplus, that is, the higher “solvency-driven” contributions will be have, in retrospect and when conditions change, have “over-funded” the plan.

³ It is also relevant to note that at that time interest rates were relatively high, and so the impact of the solvency funding measurement was muted compared to today.

employer and public sector plans have long challenged the assumptions behind solvency funding as unrealistic and inapplicable to their plans. Multi-employer plans by definition are structured to accommodate the entry and exit of employers in the normal life of the plan. Public sector plan sponsors are far less likely to become insolvent, and, even if they elect to terminate plans, are likely to be able to pay any terminal funding obligations.

Forms of Relief

There are – roughly speaking – two types of solvency relief available in jurisdictions across Canada: temporary and permanent solvency relief. Each jurisdiction has implemented variations on these basic forms of solvency relief, and attached conditions to solvency relief, some of which are not strictly related to solvency relief as a policy choice, but are part of a broader pension policy (or collective bargaining) strategy by public sector plan sponsors. A summary of the main forms of relief would include:

- Moratorium on solvency payments for some period of time (typically, one to three years, or one actuarial reporting cycle), usually with the provision that interest on the solvency deficit be paid to avoid the deficit increasing in size.
- Consolidation of existing past solvency funding schedules into a new (five-year) schedule (in effect, re-amortizing remaining payments of a previous schedules over a new five-year period).
- Amortization of newly-arising or existing (past) solvency deficits over a period of time, usually 10 years, in effect reducing required contributions due to the solvency measurement by about half.
- Permanent exemption from solvency funding.

Conditions that have been attached to solvency relief vary in each jurisdiction, but include:

- Restrictions on benefit improvements and contribution holidays during periods of solvency relief, either prohibiting them or requiring a certain funded status to permit them, or accelerating the pre-funding of benefit improvements.
- Requirement that plan sponsors agree to “terminal funding” of plans if they are terminated during the period of relief (where this is not already required of the sponsor by legislation).
- Securing a portion of the solvency deficit through letters of credit.
- Requiring the consent of members, usually by “negative option”, that is, where no more than some percentage of members and retirees (usually one-third, counted together) object to the relief after receiving notice.
- Requirements that plans implement restructuring of liabilities and contributions, particularly increasing employee (but usually not employer) contributions or the reduction of future benefit accruals.

- Conducting “stress tests” of plans on a periodic basis and attaching consequences to failing a stress-test.
- Enhanced notice and reporting to members and retirees, including explanations of the effects of solvency funding versus solvency relief.

2. SOLVENCY RELIEF BY JURISDICTION

Saskatchewan

Saskatchewan pension legislation applies to all registered plans in Saskatchewan except certain core public sector plans.⁴ These core public sector plans are exempt from solvency funding. Deficiencies in the plans are paid from provincial general revenues.

Broader public sector plans and multi-employer plans are subject to the *Pension Benefits Act 1992*.⁵ In 2009, temporary solvency relief was made available to all plans registered under the PBA 1992, permitting plans to elect a moratorium on solvency payments for a three year period.

The Saskatchewan Financial Services Commission has released a consultation paper that focuses primarily on two forms of potential solvency relief for public sector and publicly-funded plans:

1. “Extended Solvency Amortization” which would provide a 10-year (rather than 5-year) amortization period for solvency deficits, and
2. “Enhanced Going Concern” which would allow the elimination of solvency funding obligations going forward, but add constraints to going concern funding, in particular, reducing the amortization of going concern unfunded liabilities to 10 years from the current period of 15 years.

British Columbia

The four major public sector pension plans⁶ in B.C. are exempt from solvency funding altogether.

All other pension plans including the broader public sector plans may apply for solvency relief on a case-by-case basis.⁷ The Superintendent will consider whether extending a solvency amortization period is in the best interests of plan members, whether there is a “realistic” funding policy to address long-term sustainability, and whether factors leading to the solvency deficit

⁴ These are the Public Service Superannuation Plan, Teachers Superannuation Plan, SaskPower Superannuation Plan, Liquor Board Superannuation Plan, MLA Plan, Judges of Provincial Court Superannuation Plan; see *Public Service Superannuation Act*, R.S.S., 1978, c. P-43.

⁵ S.S. 1992, c. P-6.001 (“PBA 1992”).

⁶ Municipal, College, Teachers and Public Service plans, *Pension Benefits Standards Act*, R.S.B.C., XX, (“PBSA”) s. 3(10) and Schedule 1, and Regulation (“PBSA-R”).

⁷ PBSA-R, ss. 6, 35 and FICOM Bulletin PEN-11-002 (the “FICOM Bulletin”) updating the original solvency relief bulletin of 2009.

were within or outside the plan administrator's control. The FICOM Bulletin suggests that the Superintendent is unlikely to approve a solvency funding schedule longer than 15 years.

Negotiated-cost plans (where employer contributions are fixed by contract) are eligible for a moratorium on solvency contributions for a period of up to three years beginning on a date prior to 2013.⁸

Alberta

Private and public sector plans in Alberta are each governed by different legislation. Private sector plans are required to fund on a solvency basis,⁹ but public sector plans are exempt from this requirement. The core public sector plan legislation instead requires that public sector plans adjust current service costs to meet solvency funding requirements.¹⁰ Broader public sector plans are also exempt from solvency funding but under the EPPA must periodically adjust contributions to meet funding requirements.¹¹

Publicly-funded plans are permitted to apply for an exemption from solvency funding (if it otherwise applies) by meeting the definition in s. 2(q.1) of the EPPA-R (a "publically-funded plan" funded by a public entity or source related to a public entity) and where the sponsor agrees to terminal funding.¹²

Certain multi-employer plans (specified multi-employer plans) are eligible for a moratorium on solvency payments for three years. The eligibility for this relief has been extended to periods before 2015.¹³

Manitoba

Manitoba's general pension plan regulation requires solvency funding.¹⁴ However, the core public sector pension plans are exempt from this requirement.¹⁵

Broader public sector plans are eligible to apply for a permanent exemption from solvency funding on meeting certain conditions, including consent by negative option of members and retirees.¹⁶ One restriction on this relief is that no plan amendments are permitted that would reduce the funded ratio on a solvency basis below 0.9 (or 90% funded).

⁸ PBSA-R, Schedule 1.1.

⁹ *Employment Pension Plans Act*, R.S.A. 2000, c. E-8 ("EPPA"), and Regulations ("EPPA-R").

¹⁰ *Public Sector Pension Plans Act*, R.S.A. 2000, c. P-41; governing the Local Authorities Pension Plan, Management Employees Pension Plan, Public Service Pension Plan, Special Forces Pension Plan and Provincial Judges and Masters in Chambers Pension Plan.

¹¹ EPPA-R, Schedule 0.1 (universities academic pension plan) and 0.2 (publically-funded plans and SMEPPs).

¹² EPPA-R, s. 0.2.

¹³ EPPA-R, Schedule 0.2(3).

¹⁴ *Pension Benefits Act*, C.C.S.M. c. P 32 ("MPBA") and Regulation ("MPBA-R").

¹⁵ For example, by the *Civil Service Superannuation Act*, C.C.S.M., c. c120 and *Teachers Pension Act*, C.C.S.M., c. 720.

¹⁶ Manitoba Regulation 81/2010.

Temporary solvency relief is available to other pension plans in respect of a report filed before January 2, 2014.¹⁷ This relief permits the amortization of solvency deficits over 10 years, again with member and retiree consent by negative option. Again, a restriction on this relief is that no plan amendments are permitted that would increase the cost of benefits or create unfunded liability (that is, benefit improvements must be fully pre-funded).

Ontario

All pension plans in Ontario are regulated by the general pension regulation.¹⁸ The government introduced temporary solvency relief in 2009 that permitted three options: consolidating past solvency schedules, deferring payment on the new schedule by one year, and extending the amortization of newly-arising solvency deficits for 10 years with member and retiree consent by negative option.

In the 2012 budget, the government extended the window for this solvency relief to include the first-filed valuation following September 30, 2011.

Specified multi-employer pension plans are now permanently exempt from solvency funding (following a period of temporary exemption between 2007 and 2012). However, the going concern funding rules are more restrictive for these plans than for other plans. Unfunded liabilities must be amortized over 12 years (instead of 15) and, where the funded ratio of the plan is less than 0.9, any increase to benefits must be funded over eight years.

Ontario has also introduced two forms of solvency relief for public and broader public sector plans. Jointly-sponsored pension plans established prior to August 24, 2010 and listed by regulation¹⁹ are permitted to set their solvency deficits to “zero” and not make contributions in respect of those deficits. Jointly-sponsored pension plans established after August 24, 2010 may seek a similar exemption from solvency funding by regulation, and although there is no defined process or criteria for obtaining this exemption at least one plan has obtained one.²⁰

Single employer plans in the public and broader public sector are eligible to apply for “phased” solvency relief. The relief involves two phases. Phase One provides a moratorium on solvency payments for three years, with only interest on solvency deficits required to be paid. Phase Two permits the consolidation of then-existing solvency deficits and amortization over 10 years, and permits the deferral of solvency payments in that schedule for one year. There are significant conditions that are attached to Phase One and Phase Two relief. Application must be made to the Ministry of Finance and the Minister has discretion to permit or deny relief. Applications must be supported by a plan to restructure benefits and contributions to meet “savings targets” which roughly correspond to any “structural deficit” in the plan. The recent Ontario budget promises to legislate outcomes of this process if negotiations fail to achieve savings targets, and states that increased employer contributions are not to be part of any restructuring plan. In addition, during solvency relief, there are restrictions on benefit improvements and contribution holidays.

¹⁷ Manitoba Regulation 213/2011.

¹⁸ Pension Benefits Act, R.S.O. 1990, c. P.8 (“OPBA”) and Regulation (“OPBA-R”).

¹⁹ The Ontario Teachers Pension Plan, Healthcare of Ontario Pension Plan, Colleges of Applied Arts Pension Plan Trust, OPSEU Pension Trust, the OPSEU Staff Plan, the Ontario Municipal Employees Retirement System.

²⁰ The Toronto Transit Commission Pension Fund Society.

Quebec

The Quebec government introduced temporary solvency funding relief in 2009 for plans regulated by the general pension regulation²¹ that permitted “asset smoothing” (that is, recognition of losses gradually over five years), consolidation of previous solvency deficits and an extension of the amortization period to 10 years. This relief has been extended to filing dates up to December 31, 2013.

The municipal and university sectors are not covered by this relief. These sectors are exempt from solvency funding, but subject to more restrictive going-concern funding rules. These sectors were provided separate relief in 2010 (recently extended to December 31, 2013). This relief permitted the reduction of certain portion of the normal amortization of a going concern unfunded liability to either 33% or 20% of the otherwise required payment for the actuarial cycle, but imposed a reserve requirement (provision for adverse deviation, or PfAD) on these plans, which was also imposed on other SPPA-regulated plans.²²

New Brunswick

New Brunswick introduced solvency relief permitting plans to apply to extend the amortization period for solvency deficits for a period ending no later than December 31, 2018 for valuation dates no later than December 31, 2011.²³ This relief was available at the Superintendent’s discretion.

Recent regulations permit plans filing a valuation with an effective date prior to January 1, 2012 to elect to consolidate existing solvency deficiencies and apply a 10 year amortization period (that is, the Superintendent does not have discretion to refuse).²⁴ Conditions for this election are an actuary’s certification that assets are sufficient to meet expected payments, and notice to beneficiaries. There are restrictions on plan amendments during periods of solvency relief including the requirement to prefund benefit improvements.

University and municipal sector plans may apply for a full exemption from solvency funding.²⁵ An application must be supported by notice to and majority vote of the members and retirees of the plan (majority of those who respond to notice and vote). Similar conditions apply during periods of exemption from solvency funding, including the full pre-funding of benefit improvements.

Nova Scotia

Temporary solvency relief was provided to plans filing before January 2, 2011, permitting the extension of amortization of solvency deficiencies (then arising, not existing solvency

²¹ *Supplemental Pension Plans Act*, R.S.Q. c. R-15.1 (“SPPA”) and Regulation (“SPPA-R”).

²² The Quebec legislation makes a distinction between “technical deficits”, which are deficits arising from results and predictions, and benefit improvement deficits, which are attributable to amendments to the plan with a financial impact. Relief is extended for technical deficits, but benefit improvements deficits must be funded over five years, and may be funded through surplus.

²³ *Pension Benefits Act*, S.N.B. 1987, c. P-5.1, Regulations, s. 36(1.21).

²⁴ *Ibid.*, s. 36(1.22) and (1.23).

²⁵ *Ibid.*, s. 42.1.

deficiencies) to 10 years.²⁶ This relief required members consent by negative option, and there are restrictions on plan amendments during the first five years of solvency relief.

Nova Scotia has now proposed to exempt all university and municipal plans from solvency funding.²⁷ Previously, university and municipal plans were subject to unusual solvency funding requirements.²⁸ University plans with a deficiency arising before January 1, 2006 were permitted to amortize that deficiency over 15 years. Municipal plans are not required to make contributions in respect of a solvency deficiency greater than 85% of liabilities (that is, they are only required to solvency fund to 85%, not to 100%).

The solvency relief extended in 2010 to other plans also contained measures applicable to universities and municipalities. Universities were permitted a moratorium on solvency payments for three years beginning with the first-filed valuation between December 31, 2008 and January 2, 2011, and following this moratorium, solvency deficits could be amortized over seven years. Municipalities were permitted to fund any solvency deficit less than 85% (ie. the amount needed to fund to 85% on a solvency basis) over 10 years.

Nova Scotia is also poised to recognize jointly-sponsored pension plans in new legislation, and to permit a number of other funding measures, including actuarial smoothing and permitting JSPPs to fund to 80% of solvency liabilities. Specified multi-employer plans will be exempt from solvency funding.²⁹

Newfoundland and Labrador

Newfoundland & Labrador promulgated special regulations providing solvency relief in June 2008, permitting consolidation of existing solvency schedules and an extension of the amortization period to 10 years, on condition of member and retiree consent by negative option, or on condition that the extended schedule be secured by letter of credit.³⁰ This relief has been extended to plans with valuations filed to January 1, 2013.

Public sector plans are exempt from the solvency funding requirements of the general pension legislation.³¹

Multi-employer plans can elect a one-time exemption from solvency funding based on actuarial valuation reports with a valuation date between December 31, 2007 and December 31, 2010.³² Already-existing solvency payment schedules at that time must be completed.

²⁶ *Pension Benefits Act*, R.S.N.S. 1989, c. 340 and Regulation, s. 6A(3).

²⁷ *Ibid.*, s. 6(1).

²⁸ The regulations supporting this policy proposal are not yet released at the time of writing. The policy announcement was March 8, 2012.

²⁹ *Pension Benefits Act*, S.N.S. 2011, c. 41.

³⁰ *Pension Benefits Act*, 1997, S.N.L. 1996, c. P-4.01 and Regulation 30/08 as amended by Regulation 110/11.

³¹ The *Pension Benefits Act, 1997* applies to all plans for persons employed in the province. However, s. 41 of the regulations exempts certain public sector plans from solvency funding. Newfoundland & Labrador has also granted plan-specific temporary exemptions to the Memorial University Pension Plan and the Newfoundland and Labrador Municipal Employee Benefits Inc. Pension Plan, pursuant to ss. 41(4) and 42.2 of the regulation.

³² Regulation 114/96, s. 7.1.

Prince Edward Island

P.E.I. has indicated that it intends to follow the new Nova Scotia general pension legislation. A bill is expected to be introduced this spring.

Federal

In 2006, the federal government announced temporary solvency relief and in 2009 renewed it.³³ This relief permits plans regulated by the general pension regulation to extend solvency funding payment periods to 10 years with either member and retiree consent by negative option or with a letter of credit as security. Federal crown corporations are able to access the relief by direct application to the Minister of Finance.

The core public sector pension plans - the pension plans for the Public Service, Canadian Forces and RCMP - are exempt from the general pension regulation. The funding requirements of these public sector plans are based on the specific acts which create and govern them.

Effective July 1, 2010, the federal government adopted a new standard for establishing minimum solvency funding requirements that permits averaging solvency funded ratios over three years (instead of the spot ratio on the date of the valuation).³⁴

Finally, the recent federal government introduced the “distressed plan workout scheme” which permits a moratorium on solvency payments for up to nine months, following which the Minister has discretion to accept a proposal and negotiated agreement by a plan sponsor and members (and retirees) to, among other considerations, extend the amortization period of a solvency deficiency. This scheme may be “accessed” every 48 months.³⁵ To our knowledge only one plan has thus far entered this scheme and there is no negotiated result at the time of writing.

³³ *Pension Benefits Standards Act*, R.S.C. 1985, c. 32 (2nd Supp.) and Regulations. Solvency relief is created by Regulation 2006-275 and 2009-182.

³⁴ PBSA-R, s. 9(8).

³⁵ PBSA, s. 29.1 and Regulations.



**CANADIAN UNION OF PUBLIC
EMPLOYEES**

CUPE Local 3766

April 30, 2012

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Attention: Leah Fichter, leah.fichter@gov.sk.ca

**RE: SUBMISSIONS RESPONDING TO THE CONSULTATION PAPER ON
NEW FUNDING REGIME FOR PUBLIC SECTOR PENSION PLANS (the
"CONSULTATION PAPER")**

Dear Ms. Fichter:

Please find under cover of this letter the submission of the Canadian Union of Public Employees, Local 3766 in response to the Consultation Paper.

CUPE Local 3766 has approximately 300 members in the Regina Civic Pension Plan.

We would like to thank the Saskatchewan Financial Services Commission for the opportunity to provide submissions on the development of a new funding regime for public sector plans.

Yours truly,

Jackie Christianson
President, CUPE Local 3766

c. Aina Kagis, Regional Director

/cope491

SUBMISSION TO

THE SASKATCHEWAN FINANCIAL SERVICES COMMISSION

PENSIONS DIVISION

CONSULTATION PAPER – NEW FUNDING REGIME FOR PUBLIC SECTOR PLANS



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A. INTRODUCTION

The Canadian Union of Public Employees (Saskatchewan) represents 29,000 members and their families, in many sectors of Saskatchewan's economy, and over 600,000 employees Canada-wide. Our members are employed in Saskatchewan health care facilities, school boards, municipalities, universities, libraries, community-based organizations and various boards and agencies. Our members participate in many defined benefit and defined contribution pension plans in Saskatchewan and hundreds of plans across Canada. Our members are directly affected by proposals to change the funding rules established for these plans.

We appreciate the opportunity to comment on the Saskatchewan Financial Services Commission's ("SFSC") consultation paper on the proposed funding regimes for public sector pension plans (the "Consultation Paper"). We are supportive of the SFSC's proposal to provide permanent relief from solvency funding for public sector plans in Saskatchewan. We believe that exempting public sector plans from the solvency funding standard is consistent with pension policy and regulation across Canada. However, the Consultation Paper proposes the most conservative going concern funding rules in Canada in circumstances where they are not clearly justified. In the current market conditions and economic environment, and when pension plans are already under stress, we do not believe that introducing more conservative going concern funding rules is necessary or prudent policy.

We have attached, for your convenience, as Schedule "A" to these Submissions, a brief summary of solvency relief regulations in Canadian jurisdictions.

Our submissions are set out in the order the issues and questions are raised in the Consultation Paper.

B. SECTION 2 – DEFINITION OF PUBLIC SECTOR PLANS

Appendix "A" to the Consultation Paper lists the public sector plans regulated by the *Pension Benefits Act, 1992*¹ that will be affected by the proposed funding regime. We submit that the new funding regime should apply to all public sector plans.

¹ S.S. 1992, c. P-6.001 (the "Act").

Where CUPE Saskatchewan members are members of a regulated plan, we have urged our trustees, advisory committee members, and Local Unions to examine the impact of the proposed funding regimes on each plan and make their own submissions to the SFSC.

C. SECTION 3 – RATIONALE FOR THE CHANGE

The Consultation Paper discusses one important rationale for providing solvency relief or permanent exemptions from funding to solvency standards: volatility in market conditions giving rise to volatility in contributions to defined benefit pension plans. This rationale has justified the provision of *temporary* solvency relief to pension plans in all jurisdictions across Canada.

There is a second important reason to provide relief from solvency funding, one that has justified the provision of *permanent* exemptions from solvency funding: the purpose and assumptions of solvency funding standards do not apply to public sector plans. The purpose of solvency funding is to secure benefits against the risk of plan sponsor insolvency. In this respect, public and private sector plans face very different risks.

Lower risk to benefit security in public sector plans - Solvency funding requirements were created for the traditional private sector, defined benefit single employer pension plan that is vulnerable to the employer sponsor failing. However, the solvency standard is far less appropriate for two types of pension plan: multi-employer plans, which are designed to cope with plan sponsors entering and exiting with some regularity, and most public sector plans, for which there is a much more remote risk of plan sponsor insolvency. Both the purpose and assumption of solvency funding measures do not “fit” well in the public and multi-employer plan space.

If the basic assumptions and purpose of solvency funding do not apply to public sector plans, then the risks associated with relaxing or eliminating the solvency funding standard are not as great. For example, relaxing solvency funding rules does not place member benefits at materially greater risk if, on the other hand, there is a very low (or non-existent) risk of sponsor insolvency.

Fairness to members not served by increasing conservatism - Section 2 of the Consultation Paper also identifies “fairness to plan members” as a goal of solvency funding, and asserts that one of the risks of relaxing solvency funding is to jeopardize fairness among members. This is cited as a reason to inject additional conservatism into plan funding obligations, including

making going-concern funding rules more conservative – in fact, **the most** conservative regime in Canada. This is counter-intuitive to us, and may have unintended consequences on some plans, including a material increase in required going concern contributions. Strengthening going-concern funding rules that offset and possibly eliminate the benefit of relaxing solvency funding rules is a contradictory policy direction and is not consistent with emerging standards in other Canadian jurisdictions. Moreover, this conservatism is not required because it does not ameliorate any material risk to plan members.

Experience of solvency relief in other jurisdictions not indicative of need for extra conservatism - the Consultation Paper refers to the elimination of solvency funding in other jurisdictions leading to less-well-funded public sector pension plans than those in Saskatchewan. No plans are mentioned by way of example and no data is provided to support this comparison.

Given the different regulatory schemes across the country and the highly unusual market conditions of the past five years, we believe the Consultation Paper makes a significant overstatement in attributing some public sector plans' funding deficiencies solely to relaxed solvency funding rules. CUPE has extensive experience with public sector plans across the country, many of which are exempt from solvency funding on a temporary or permanent basis. In some cases, solvency deficiencies led to relaxing solvency funding rules. In our experience, other factors are equally if not more important in the successful administration of a plan, including its funded ratio. For example, many public sector plans enjoyed long periods of **employer contribution holidays** during the late 1990s and 2000s, which have contributed to under-funding in subsequent years. More importantly, in our experience, the key element in the proper funding of a pension plan is good governance of that plan, and we believe that governance and funding regimes are complementary and integrated functions of effective pension regulation.

Recommendation #1: *The SFSC should recognize two equally important rationales for providing relief from solvency funding for public sector plans: the management of contribution volatility and low risk of sponsor insolvency in many public sector plans.*

D. SECTION 4 – PRINCIPLES FOLLOWED IN DEVELOPING THE NEW RULES

The Consultation Paper enumerates three principles and asks if stakeholders agree with these principles. These principles are:

1. The rules must provide a means of managing volatility.
2. The rules must not introduce undue risk to the accrued benefits of the plan beneficiaries, and must result in an adequate level of funding over the long term.
3. The rules must be simple to understand and apply. They should not measurably increase the administrative burden for the plan administrator, or the level of complexity in the preparation, presentation and review of an actuarial valuation report.

CUPE Saskatchewan supports each of these principles. However, we do not believe that this list of principles encompasses all the relevant principles that the SFSC should take into consideration in creating a new funding regime for public sector plans. We believe that principles informing this process should also include two equally important principles:

4. The rules should be appropriate and proportional to the nature and structure of the public sector plans.
5. Where the rules expose the plan to increased funding-related risks, the rules should require or encourage both sponsors and plan beneficiaries to have joint responsibility for all material administrative and sponsor decisions.

Our experience with public sector plans across the country has taught us that “one size does not fit all”. Public sector plans are already distinguished in many ways from private sector plans – they are exempt from general pension legislation in many provinces – and even within the public sector plan space, may be treated differently according to sector. So, for example, hospitals, municipalities and universities may have special funding regimes (among other regulation) unique to their sectors.

For this reason, we believe that it is both possible and desirable to ensure there is sufficient flexibility in public sector pension plan regulation to permit different funding regimes for different types of plans that takes into account individual strengths and differences, and to coordinate the selection of the applicable funding rules with the governance of a plan.

This is the second additional principle that we believe should apply: where a plan selects a funding regime that relaxes solvency funding or otherwise exposes members to some degree of risk, the condition of that election should be that plan beneficiaries participate actively in the governance of the plan and the management of that risk.

Recommendation #2: We submit that the SFSC should enumerate two additional principles that inform the development of a funding regime for public sector plans, that:

- 1. The rules should be appropriate and proportional to the nature and structure of the public and broader public sector plans.*
- 2. Where the rules expose the plan to increased funding-related risks, the rules should require or encourage both sponsors and plan beneficiaries to have joint responsibility for all material administrative and sponsor decisions.*

E. SECTION 5 – TWO PROPOSED OPTIONS

These submissions will comment generally on the two options proposed, and the vision of selecting one of those options. We will also suggest a third option.

Option 1: Extended Solvency Amortization - As we understand it, Option 1 - the extended amortization option - would extend the five-year amortization and special payment period for solvency deficits to 10 years.

This form of relief has been employed across the country on a *temporary* basis, typically available for one actuarial cycle, in order to address the effects of the financial crisis in 2008 and the 2011 Q3 and Q4 experience, and the unprecedented low interest rate environment.

If it is otherwise appropriate to require a plan to fund to the solvency measure, we believe that relief should be available on *temporary* basis when market conditions support such relief, but that the normal solvency funding rules should eventually apply.

We believe that this form of temporary solvency relief (a 10-year amortization period for solvency deficiencies) was and is an appropriate option to make available to all pension plans in Saskatchewan (including some public sector plans) *on a temporary basis*, because it is simple to implement and it addresses the cyclical nature of market conditions.

We do not believe, however, that it is appropriate as a **permanent measure for all plans**. The size of a plan, the governance of a plan and the security of a plan's sponsor are all relevant considerations in determining whether permanent solvency relief should be available.

With respect to the plans listed in Appendix “A”, we submit that some discretion may be applied, by either the SFSC or the Ministry, to determine whether full permanent solvency relief is available to a public sector plan. The guiding principles in exercising this discretion should be that, where a plan can establish that it **sponsored by a large and stable public sector employer**, or where the plan **has established robust joint governance**, a permanent exemption from solvency funding should be available. Where the public sector employer is at low risk of insolvency, the purpose and assumptions for solvency funding are inapplicable. Similarly, where plans have created a robust governance process that enables members and retirees to take responsibility for and manage the risks associated with relaxing solvency funding, they should be permitted to elect to opt out of solvency funding.

We believe that most if not all the public sector plans on Appendix “A” meet both these criteria.

Option 2: Enhanced Going Concern - Option 2 would permanently eliminate the requirement to fund for solvency, but would simultaneously decrease the amortization period to amortize going concern unfunded liabilities to 10 years (from 15 years currently permitted). While we support and agree that public sector plans that establish the qualifications just enumerated should be permanently exempted from solvency funding, **we do not agree that a concurrent reduction of the going concern amortization period is an appropriate measure.**

A simple assessment of the impact of this change to going concern funding rules would be an increase in going-concern contributions of about 30% for the 10-year period. This reduces the effectiveness of a solvency exemption without a corresponding benefit (where there is low risk of sponsor insolvency). Such a measure “gives” with one hand while “taking” with the other, and the outcome is to mitigate the positive impact of solvency relief.

The basis for the selection of 10 years as an amortization period for going concern unfunded liabilities is not clearly identified in the Consultation Paper. **This would create the most restrictive going concern funding rules in Canada**, ironically in a jurisdiction of comparative economic prosperity. We do not see a clear justification for this measure where the risk of sponsor insolvency is low or non-existent.

We also note that other jurisdictions have continued to permit 15 year amortization of this form of deficiency for most solvency-exempt plans.

In several jurisdictions in (economically challenged) Eastern Canada, university and municipal sector pension plans have been solvency-exempt and permitted to fund going concern liabilities over 15 years.

In some jurisdictions, going concern amortization periods are shorter for specific types of plan structure or for specific plan sectors within the public sector space. For example, in Ontario, specified multi-employer plans are solvency-exempt but fund going concern liabilities over a 12-year period (with certain conditions attached). However, we note that most of these plans are industrial, private sector plans, and 12 years reflects a negotiated balance between plan administrators and regulatory concerns in the context of Ontario economic conditions. Private sector, industrial multi-employer plans in Ontario operate in a very different – more challenging – economic environment than public sector single and multi-employer pension plans in Saskatchewan.

By contrast, the SFSC is proposing **the most conservative going concern funding rules in the context of the strongest regional economy in country.**

For these reasons, we propose an alternative third option that should be made available to public sector plans in Saskatchewan.

Option 3: Permanent Solvency Relief for Eligible Public Sector Plans - We believe that a viable and appropriate third option that must be considered is simply the elimination of the solvency funding requirement for public sector plans.

As just stated, we believe that public sector plans electing this form of relief should be required to establish that they are sponsored by stable public sector employers or have robust joint governance of the plan.

We also note that in several jurisdictions across Canada, pension policy has sought to address some specific risks perceived to accompany the relaxation or elimination of solvency funding, such as the risk of inappropriate use of contribution holidays or benefit improvements while under-funded on a solvency basis.

We submit that the most appropriate way to address these risks is to place specific conditions on the provision of permanent solvency relief, and not to address these risks through more general

restrictions on going concern funding rules. We submit that the three most important conditions the SFSC should consider placing on a permanent exemption from solvency funding are:

- **Joint governance** - the plan administrator must be a committee or board of trustees at least one-half of whom are representatives of beneficiaries of the plan.
- **Enhanced disclosure** - members and retirees should receive enhanced disclosure summarizing the impact of permanent solvency relief on an on-going basis.
- **Restrictions on contribution holidays and benefit improvements** - other jurisdictions have prohibited contribution holidays funded by going concern surplus and limited the ability to make benefit improvements where the impact would reduce the solvency funded ratio below certain thresholds.

Some of these conditions are discussed later in these Submissions.

We emphasize that joint governance is a key “trade-off” for permanent solvency relief, because it ensures that the member and employer representatives together participate in governance and are responsible for the impact of their decisions. Jointly-governed plans making such an election have the flexibility to choose from the tools available to ensure adequate funding, benefit security and cost-stability (margins, assumptions, funding policies, targets).

Recommendation #3: A third option should be considered by the SFSC, being a permanent exemption from solvency funding for public sector plans that demonstrate stability of public sector plan sponsors and joint governance of the plan. This option should be available by election and may have certain conditions that must be met to remain eligible for exemption.

F. SECTION 6 – EXTENDED SOLVENCY AMORTIZATION

This section discusses the extended solvency option. As we understand this option, once these rules are in place, the solvency deficiency at the next arising valuation date would be amortized over 10 years, and all existing solvency payment schedules would no longer be required to be met. Following the initial “fresh start” valuation, all then-existing schedules of solvency payments would be required to be made.

The Consultation Paper asks two questions: whether 10 years is an appropriate maximum period to amortize solvency deficiencies, and whether the regulations should require (more) conservative going concern assumptions in concert with the new maximum 10-year solvency amortization period.

As stated above, we believe that the extended solvency amortization option is appropriate and effective only as temporary solvency relief. Within that framework, we believe that the 10-year amortization period is sufficient to achieve the objectives of this relief. This relief in effect reduces solvency amortization payments by just under 50% (taking into account the effect of interest). For periods that temporary solvency relief is available, this permits sponsors to allocate cash flows to other priorities, while eventually requiring full funding to the solvency measure. For the reasons stated above, we do not believe that this option is appropriate on a permanent basis if it is otherwise justified in applying to a plan due to the nature of the plan or the nature of the plan sponsor.

Whether solvency relief is temporary or permanent, we do not believe that it is appropriate to require more conservative going concern assumptions, as this would have the effect of reducing the impact of the solvency relief. If going concern assumptions are made more conservative, the effect would be to increase contributions on a going concern basis – over a shorter period of time. The net effect of these changes could vary significantly on each plan – depending on which assumptions are made more conservative or what other conditions are placed on plans that elect this relief. This may mitigate some of the positive effect of the extended solvency amortization period without necessarily addressing any of the broader array of factors that affect plan funding and health.

We note that in implementing temporary relief, policy-makers and regulators across the country have never required permanent changes to going concern methods and assumptions.

Recommendation #4: Extended amortization periods in respect of solvency deficiencies are appropriate for all plans (including some public sector plans) when provided on a temporary basis. Changes to going concern funding rules are not an appropriate condition for this option.

G. SECTION 7 – ENHANCED GOING CONCERN

Section 7 of the Consultation Paper describes the second option, enhanced going concern funding rules. As we understand the proposal, under this option all listed plans would be required to continue conducting solvency valuations for the purpose of governance and administration, and in order to establish the transfer ratio of a plan, but would not be required to make contributions in respect of solvency deficiencies. Instead, plans would be required to contribute on a modified going concern basis, in which unfunded liabilities are amortized over 10 years (instead of the 15 years currently permitted). Existing going concern payment schedules would not be affected – that is, would not be required to be funded over 10 years. The application of this option would be automatic (e.g., would not require an election) and would apply to valuations as at December 31, 2012 and following.

The Consultation Paper asks one question of this proposed regime, whether a 10-year period is an appropriate length of time for this option.

This option has two components, (i) the elimination of contributions on a solvency basis, and (ii) the changes to the going concern amortization period.

Where public sector plans are not at appreciable risk of underfunded termination due to sponsor insolvency, the appropriate basis upon which to fund the plan is the traditional going concern funding basis with an amortization period of 15 years. There is no demonstrable reason to do otherwise. As we stated above, a basic measure of the impact of this change is an increase of contributions on a going concern basis of about 30%. This may have significant impact on some Saskatchewan public sector plans in itself. Some plans may be able to absorb this increase, while others will be put under pressure to adjust other going concern assumptions to assist in absorbing this impact. Some plans may have no option but to reduce benefits. These would be very undesirable results. **Accordingly, we believe the reduction of the going concern funding basis from 15 to 10 years will lead to unintended outcomes, and creates a significant disincentive to the use of more conservative going concern assumptions and other methods for prudently administering a plan, such as the establishment and use of contingency reserves or contribution margins.**

We believe the changes to the going concern amortization period unnecessarily reduce the beneficial impact of exempting plans from solvency funding when that exemption is otherwise justified and appropriate.

If the objective of the SFSC is to ensure that the methods and assumptions employed in a going concern funding valuation are appropriate or that funding on this basis (only) is not improperly exploited, the SFSC can consider placing other conditions on the election of this form of relief. Other jurisdictions have included targeted conditions on solvency relief, such as:

- limiting the use of contribution holidays funded out of surplus determined on a going concern basis;
- requiring accelerated funding of certain plan amendments (for example, benefit improvements over 8 years instead of 15) where the going concern funded ratio of a plan is below 0.8 or 0.9; or
- requiring “terminal funding” of plans if they are wound-up during the period of solvency relief (we understand that it is expected that the Act will be revised to include terminal funding obligations in the Fall of 2012 in any event).

We submit that it would be appropriate to consider the imposition of each or any of these conditions as a requirement of plans that elect to become exempt from solvency funding rules, without other changes to the going concern funding rules.

Recommendation #5: Eliminating solvency funding for public sector plans is an appropriate option. Changes to going concern funding rules are not an appropriate element or condition of this option. Specific risks associated with this option may be addressed by attaching specific conditions to this option.

H. SECTION 8 - APPLICATION

This section states that the new regime will automatically apply to all public sector plans. As stated above, we submit that plans listed in Appendix “A” be provided with the **option** to remain in the existing funding regime (with options for temporary solvency relief) or to elect permanent solvency relief. Ideally, we believe that plans should have more than one option to permit maximum flexibility.

Recommendation #6: *Public sector plans should be provided with the option to remain in the current funding regime or elect permanent solvency relief.*

I. SECTION 9 – EFFECTIVE DATE OF THE NEW RULES

This section states that the proposed funding regime would apply to any valuation made as at December 31, 2012 or later.

The only comment we have is that the effective date of the new rules be set so that there is sufficient time to permit a full and informed consultation process to evolve.

J. SECTION 10 – BEST ESTIMATE DISCOUNT RATE AND MARGIN

This section discusses the provision of direction for margins (provisions for adverse deviation) in establishing a discount rate for a going concern valuation. We believe that this is properly a decision of the plan administrator, and is best determined by the administrator in consultation with the plan advisors and taking into consideration plan-specific features and conditions. In short, this is a governance decision that is best made by the plan's administrator.

One of the principles we suggest that the SFSC adopt as a guiding principle in determining the applicable funding rules is that regulation should be integrated with governance, and greater flexibility in regulatory choice require a greater role for an appropriate governance structure and process.

The current guidance of the Canadian Institute of Actuaries in determining key assumptions and methods used by plans is, in summary, that the actuary shall provide a range of acceptable options and explain their impact on the plan, and that the plan administrator shall select the methods and assumptions to be employed in the plan valuation. We support this general approach to the selection of assumptions and methods.

Each plan has different considerations that will be relevant to determining the margins for conservatism that may be included in a going concern valuation. In our experience, plans will create margins that reflect the plan's asset mix, maturity, potential for growth and other factors. We believe that these are best determined and managed by decisions of the administrator of the plan.

Recommendation #7: *The determination of an appropriate margin for conservatism in going concern assumptions is best controlled by the plan administrator in consultation with advisors and taking into account the plan-specific circumstances.*

K. SECTION 11 – BENEFIT IMPROVEMENTS

This section discusses restrictions on benefit improvements. It proposes that, during any period of solvency relief, any benefit improvement that would have the effect of reducing the solvency ratio below 0.9 would be required to be pre-funded (such that the solvency ratio did not fall below 0.9) or would be void.

As stated above, we support three conditions being attached to an exemption from solvency funding without changes to the going concern funding rules.

However, we submit that the threshold of 0.9 is both too conservative and calculated on the wrong basis. In our experience, a plan's funded ratio can fluctuate over short periods of time without necessarily reflecting long-term trends in the plan's health. This is the volatility that the solvency relief is intended to mitigate. We do not believe it would be appropriate to restrict otherwise-desirable amendments to benefits by short-term fluctuations on an inapplicable funding measurement.

We submit that the appropriate funded ratio to apply to any restrictions on benefit improvements is the going concern funded ratio. We also submit that a more realistic threshold is 0.8 to 0.85. This reflects a balance between concerns over the impact of plan amendments on the financial status of the plan and the flexibility to manage the plan to their mutual benefit by both sponsors and administrators.

We believe that requiring pre-funding of plan amendments that would reduce the funded ratio below 0.8 or 0.85 provides an appropriate management of volatility.

Recommendation #8: *Where a condition on the provision of permanent solvency exemptions is established, the appropriate funded ratio is the going concern funded ratio, and the appropriate threshold below which benefit improvements are required to be pre-funded is 0.8 to 0.85.*

L. SECTION 12 – USE OF SURPLUS ASSETS

This section discusses the application of surplus while a plan is exempt from solvency funding.

We agree that, where public sector plans are non-contributory, a condition of solvency relief should be that any surplus arising should first be applied to reduce unfunded liabilities (measured on the current basis, a 15 year amortization period), and thereafter applied in accordance with the plan text or applicable law.

We also agree that for contributory plans, the plan sponsor(s) and/or administrator (depending on the governance structure of the plan) should have the option to apply going concern surplus to *both employer and employee* contributions to current service costs. We note that the Consultation Paper only states that surplus may be applied to employer contributions (although employee contributions may be contractually stipulated to be equivalent, contractual language may vary and may not specifically tie employee contributions to actual amounts paid by a sponsoring employer). We assume that the intention of the Consultation Paper was to permit going concern surplus to be applied to both employer and employee contributions to a plan and if that assumption is incorrect, we advocate ensuring it is available to both.

This is one area in which we strongly believe that appropriate use of surplus is linked to good governance of the plan, which in our experience is best achieved by joint governance of the plan reflecting, in effect, the joint sponsorship of the plan. Where joint governance has not been established, plans should be required to provide on-going, enhanced notice and disclosure of the impact of plan funding, and regulation should require consent of members and retirees.

Recommendation #9: In non-contributory public sector plans that elect a solvency exemption, surplus should be applied first to reduce unfunded liabilities and then to solvency deficiencies. In contributory plans that elect a solvency exemption, surplus should be permitted to be applied to reduce employer and employee contributions to current service costs at both the discretion of the administrator and with the consent of members. In any event, such surplus application to reduce employer or employee contributions should be subject to strict disclosure obligations. For example, British Columbia has significant disclosure requirements attached to the use of contribution holidays.

M. SECTION 13 – BENEFIT EXCLUSIONS IN SOLVENCY VALUATIONS

This section discusses particular plan provisions that reduce benefits on termination. The effect of these plan provisions is that certain benefits (those reduced on termination) are not required to be funded on a solvency basis.

We believe that the elimination of the requirement for public sector plans to fund on a solvency basis (but to fund on a 15-year going concern basis) would eliminate the use of these provisions in plans. Retaining a form of solvency funding (the extended solvency option) would continue to create an incentive to employ these types of provisions.

N. SECTION 14 – IMPLEMENTATION OF CONTRIBUTION INCREASES

This section discusses the **existing discretion** of the Regulator to permit a delay in implementing contribution increases for up to one year in contributory plans, and for nine months in other plans.

We support the addition of a clear regulatory power to permit this discretionary extension of the commencement of contribution changes.

O. SECTION 15 – TRANSFER DEFICIENCY

This section discusses the effect of extending a solvency amortization period (or reducing a going concern amortization period) on the period of time over which a transfer of a commuted value out of the plan must be paid.

We support the Consultation Paper's position. We do not believe it is reasonable for administrators to pay out commuted values over more than five years, and we do not believe this is fair to the former member of the plan. The five year period is an appropriate balance between the short-term risk of under-funding and both fairness and administrative simplicity.

Recommendation #10: Commuted value transfers from a plan should be permitted over no more than five years.

P. SECTION 16 – FREQUENCY OF FILING VALUATIONS

This section discusses the frequency of filing valuations. It proposes that there be no change to current three year cycle with discretion of the Superintendent to order more frequent valuations.

The Consultation Paper asks if the SFSC should, in the future, consider requiring annual valuations where the solvency ratio falls below some threshold.

We agree that the SFSC should consider introducing annual valuations for plans with a solvency ratio below a certain threshold. We note that in other jurisdictions, this threshold is set between 0.8 and 0.9.

Q. SECTION 17 – ASSET SMOOTHING

The Consultation Paper confirms that asset smoothing is and will be permitted.

No comment.

R. SECTION 18 - DISCLOSURE

This section states that it may be prudent to provide enhanced disclosure to plan beneficiaries. We agree with this suggestion. We note that enhanced disclosure to plan members and retirees is a condition of most temporary solvency relief provided in other jurisdictions. For example, the Ontario regulations permitting temporary solvency relief to plans enumerate information on the impact of the solvency relief that must be included in disclosure to members and retirees.

S. SECTION 19 – OTHER CONSIDERATIONS

This section notes that plans may be required to make amendments to come into compliance with the new funding regime, and that the funding regime is a minimum standard – plan sponsors may elect to contribute in excess of this standard and subject to any limits under tax legislation.

We note for example that the option we have proposed in this submission would permit plan sponsors or administrators to elect to fund on a solvency basis or an enhanced going concern basis if they consider it prudent and desirable.

T. SECTION 20 - COMMENTS

This section asks which option best fits the criteria set out in Section 4 of the Consultation Paper. We submit that the criteria in Section 4 should be expanded to recognize that “one size does not fit all” and that the regulatory scheme should, and to be successful, must, integrate well with the governance of the plan. We therefore submit that the principles guiding the development of the new funding regime should encompass flexibility in each plan’s options and where options

“relax” solvency funding they should be tied to enhanced governance – ideally joint governance – of the plan.

We submit that the best way to develop a new funding regime is to provide the option to public sector plan administrators and plan sponsors to:

1. Option 1: remain within the current funding regime.
2. Option 2: elect to exempt the plan from contributions in respect of solvency deficiencies, and fund the plan on the existing going concern funding rules, with certain conditions to this relief, including (but not limited to) joint governance of the plan.

U. CONCLUDING REMARKS

For convenience, we have attached a summary of our recommendations to the SFSC in the next section.

We would like to thank the SFSC for the opportunity to make submissions on the proposed funding regime for public sector pension plans in Saskatchewan. We welcome any opportunity to clarify or expand upon our submissions.

V. SUMMARY OF RECOMMENDATIONS

Recommendation #1: The SFSC should recognize two equally important rationales for providing relief from solvency funding for public sector plans: the management of contribution volatility and low risk of sponsor insolvency in many public sector plans.

Recommendation #2: We submit that the SFSC should enumerate two additional principles that inform the development of a funding regime for public sector plans, that:

- The rules should be appropriate and proportional to the nature and structure of the public sector plans.
- Where the rules expose the plan to increased funding-related risks, the rules should require or encourage both sponsors and plan beneficiaries to have joint responsibility for all material administrative and sponsor decisions.

Recommendation #3: A third option should be considered by the SFSC, namely a permanent exemption from solvency funding for public sector plans that demonstrate stability of public sector plan sponsors and joint governance of the plan. This option should be available by election and may have certain conditions that must be met to remain eligible for relief.

Recommendation #4: Extended amortization periods in respect of solvency deficiencies are appropriate for all plans (including some public sector plans) when provided on a temporary basis. Changes to going concern funding rules are not an appropriate condition for this option.

Recommendation #5: Eliminating solvency funding for public sector plans is an appropriate option. Changes to going concern funding rules are not an appropriate element or condition of this option. Specific risks associated with this option may be addressed by attaching specific conditions to this option.

Recommendation #6: Public sector plans should be provided with the option to remain in the current funding regime or elect permanent solvency relief.

Recommendation #7: The determination of an appropriate margin for conservatism in going concern assumptions is best controlled by the plan administrator in consultation with advisors and taking into account the plan-specific circumstances.

Recommendation #8: Where a condition on the provision of permanent solvency relief, the appropriate threshold below which benefit improvements are required to be pre-funded is 0.8.

Recommendation #9: In non-contributory public sector plans that elect a solvency exemption, surplus should be applied first to reduce unfunded liabilities and then to solvency deficiencies. In contributory plans that elect a solvency exemption, surplus should be permitted to be applied to reduce employer and employee contributions to current service costs at both the discretion of the administrator and with the consent of members. In any event, such surplus application to reduce employer or employee contributions should be subject to strict disclosure obligations. For example, British Columbia has significant disclosure requirements attached to the use of contribution holidays.

Recommendation #10: commuted value transfers from a plan should be permitted over no more than five years.

SCHEDULE "A"

SOLVENCY FUNDING REGIMES ACROSS CANADA

1. SUMMARY

What is Solvency Funding?

In most jurisdictions in Canada, employers and employees (where applicable) participating in regulated pension plans are required to make sufficient contributions to those plans to satisfy two different measurements of a plan's funded status: going concern and solvency.

Going concern funding requirements are normally calculated on the assumption that a plan will continue indefinitely, and roughly speaking, determines the contributions necessary to fund liabilities over no more than 15 years. **Solvency** funding requirements are calculated on the assumption that a plan will terminate and wind-up immediately, and requires that the contributions necessary to fund liabilities over five years are made to a plan. Each measurement of funding uses different economic and plan-level assumptions (for example, e.g., discount rates, exclusion of certain benefits from funding).

During periods of low interest rates (which imply low discount rates), the solvency funding measurement tends to require higher levels of contributions over shorter periods of time. When plan assets lose value or fail to achieve the expected rate of return, the effect of low interest rates is exacerbated, requiring even higher contributions.²

Rationales for Relief

There are two primary rationales for solvency relief. The first is that market conditions are temporary and cyclical, which supports the provision of temporary solvency relief while market conditions change, which may assist pension plans in meeting their funding obligations. This rationale has driven (and continues to drive) the provision of temporary solvency relief to many pension plans across Canada. For example, this rationale supports temporary moratoriums on making solvency funding payments while interest rate and asset values change, which may, on the next actuarial valuation, reduce the otherwise-expected level of contributions.

The second rationale is that, for some plans the assumption that their sponsors will become insolvent is not a realistic assumption, and consequently, funding to a solvency standard creates "trapped capital" that has better alternative uses by sponsors.

Solvency funding was a measure developed in the 1980s to address the risk of insolvency of a plan's sponsor – at that time the focus of this policy change was private sector single employer pension plans.³ Today, a majority of plan members in Canada are members of a multi-employer plan, a jointly-governed plan or a public sector plan (or combination of these types). Multi-

² Conversely, if interest rates rise appreciably and asset values appreciate, plans that have been funded to a solvency basis for several years may then experience surplus, that is, the higher "solvency-driven" contributions will be have, in retrospect and when conditions change, have "over-funded" the plan.

³ It is also relevant to note that at that time interest rates were relatively high, and so the impact of the solvency funding measurement was muted compared to today.

employer and public sector plans have long challenged the assumptions behind solvency funding as unrealistic and inapplicable to their plans. Multi-employer plans by definition are structured to accommodate the entry and exit of employers in the normal life of the plan. Public sector plan sponsors are far less likely to become insolvent, and, even if they elect to terminate plans, are likely to be able to pay any terminal funding obligations.

Forms of Relief

There are – roughly speaking – two types of solvency relief available in jurisdictions across Canada: temporary and permanent solvency relief. Each jurisdiction has implemented variations on these basic forms of solvency relief, and attached conditions to solvency relief, some of which are not strictly related to solvency relief as a policy choice, but are part of a broader pension policy (or collective bargaining) strategy by public sector plan sponsors. A summary of the main forms of relief would include:

- Moratorium on solvency payments for some period of time (typically, one to three years, or one actuarial reporting cycle), usually with the provision that interest on the solvency deficit be paid to avoid the deficit increasing in size.
- Consolidation of existing past solvency funding schedules into a new (five-year) schedule (in effect, re-amortizing remaining payments of a previous schedules over a new five-year period).
- Amortization of newly-arising or existing (past) solvency deficits over a period of time, usually 10 years, in effect reducing required contributions due to the solvency measurement by about half.
- Permanent exemption from solvency funding.

Conditions that have been attached to solvency relief vary in each jurisdiction, but include:

- Restrictions on benefit improvements and contribution holidays during periods of solvency relief, either prohibiting them or requiring a certain funded status to permit them, or accelerating the pre-funding of benefit improvements.
- Requirement that plan sponsors agree to “terminal funding” of plans if they are terminated during the period of relief (where this is not already required of the sponsor by legislation).
- Securing a portion of the solvency deficit through letters of credit.
- Requiring the consent of members, usually by “negative option”, that is, where no more than some percentage of members and retirees (usually one-third, counted together) object to the relief after receiving notice.
- Requirements that plans implement restructuring of liabilities and contributions, particularly increasing employee (but usually not employer) contributions or the reduction of future benefit accruals.

- Conducting “stress tests” of plans on a periodic basis and attaching consequences to failing a stress-test.
- Enhanced notice and reporting to members and retirees, including explanations of the effects of solvency funding versus solvency relief.

2. SOLVENCY RELIEF BY JURISDICTION

Saskatchewan

Saskatchewan pension legislation applies to all registered plans in Saskatchewan except certain core public sector plans.⁴ These core public sector plans are exempt from solvency funding. Deficiencies in the plans are paid from provincial general revenues.

Broader public sector plans and multi-employer plans are subject to the *Pension Benefits Act 1992*.⁵ In 2009, temporary solvency relief was made available to all plans registered under the PBA 1992, permitting plans to elect a moratorium on solvency payments for a three year period.

The Saskatchewan Financial Services Commission has released a consultation paper that focuses primarily on two forms of potential solvency relief for public sector and publicly-funded plans:

1. “Extended Solvency Amortization” which would provide a 10-year (rather than 5-year) amortization period for solvency deficits, and
2. “Enhanced Going Concern” which would allow the elimination of solvency funding obligations going forward, but add constraints to going concern funding, in particular, reducing the amortization of going concern unfunded liabilities to 10 years from the current period of 15 years.

British Columbia

The four major public sector pension plans⁶ in B.C. are exempt from solvency funding altogether.

All other pension plans including the broader public sector plans may apply for solvency relief on a case-by-case basis.⁷ The Superintendent will consider whether extending a solvency amortization period is in the best interests of plan members, whether there is a “realistic” funding policy to address long-term sustainability, and whether factors leading to the solvency deficit

⁴ These are the Public Service Superannuation Plan, Teachers Superannuation Plan, SaskPower Superannuation Plan, Liquor Board Superannuation Plan, MLA Plan, Judges of Provincial Court Superannuation Plan; see *Public Service Superannuation Act*, R.S.S., 1978, c. P-43.

⁵ S.S. 1992, c. P-6.001 (“PBA 1992”).

⁶ Municipal, College, Teachers and Public Service plans, *Pension Benefits Standards Act*, R.S.B.C., XX, (“PBSA”) s. 3(10) and Schedule 1, and Regulation (“PBSA-R”).

⁷ PBSA-R, ss. 6, 35 and FICOM Bulletin PEN-11-002 (the “FICOM Bulletin”) updating the original solvency relief bulletin of 2009.

were within or outside the plan administrator's control. The FICOM Bulletin suggests that the Superintendent is unlikely to approve a solvency funding schedule longer than 15 years.

Negotiated-cost plans (where employer contributions are fixed by contract) are eligible for a moratorium on solvency contributions for a period of up to three years beginning on a date prior to 2013.⁸

Alberta

Private and public sector plans in Alberta are each governed by different legislation. Private sector plans are required to fund on a solvency basis,⁹ but public sector plans are exempt from this requirement. The core public sector plan legislation instead requires that public sector plans adjust current service costs to meet solvency funding requirements.¹⁰ Broader public sector plans are also exempt from solvency funding but under the EPPA must periodically adjust contributions to meet funding requirements.¹¹

Publicly-funded plans are permitted to apply for an exemption from solvency funding (if it otherwise applies) by meeting the definition in s. 2(q.1) of the EPPA-R (a "publically-funded plan" funded by a public entity or source related to a public entity) and where the sponsor agrees to terminal funding.¹²

Certain multi-employer plans (specified multi-employer plans) are eligible for a moratorium on solvency payments for three years. The eligibility for this relief has been extended to periods before 2015.¹³

Manitoba

Manitoba's general pension plan regulation requires solvency funding.¹⁴ However, the core public sector pension plans are exempt from this requirement.¹⁵

Broader public sector plans are eligible to apply for a permanent exemption from solvency funding on meeting certain conditions, including consent by negative option of members and retirees.¹⁶ One restriction on this relief is that no plan amendments are permitted that would reduce the funded ratio on a solvency basis below 0.9 (or 90% funded).

⁸ PBSA-R, Schedule 1.1.

⁹ *Employment Pension Plans Act*, R.S.A. 2000, c. E-8 ("EPPA"), and Regulations ("EPPA-R").

¹⁰ *Public Sector Pension Plans Act*, R.S.A. 2000, c. P-41; governing the Local Authorities Pension Plan, Management Employees Pension Plan, Public Service Pension Plan, Special Forces Pension Plan and Provincial Judges and Masters in Chambers Pension Plan.

¹¹ EPPA-R, Schedule 0.1 (universities academic pension plan) and 0.2 (publically-funded plans and SMEPPs).

¹² EPPA-R, s. 0.2.

¹³ EPPA-R, Schedule 0.2(3).

¹⁴ *Pension Benefits Act*, C.C.S.M. c. P 32 ("MPBA") and Regulation ("MPBA-R").

¹⁵ For example, by the *Civil Service Superannuation Act*, C.C.S.M., c. c120 and *Teachers Pension Act*, C.C.S.M., c. 720.

¹⁶ Manitoba Regulation 81/2010.

Temporary solvency relief is available to other pension plans in respect of a report filed before January 2, 2014.¹⁷ This relief permits the amortization of solvency deficits over 10 years, again with member and retiree consent by negative option. Again, a restriction on this relief is that no plan amendments are permitted that would increase the cost of benefits or create unfunded liability (that is, benefit improvements must be fully pre-funded).

Ontario

All pension plans in Ontario are regulated by the general pension regulation.¹⁸ The government introduced temporary solvency relief in 2009 that permitted three options: consolidating past solvency schedules, deferring payment on the new schedule by one year, and extending the amortization of newly-arising solvency deficits for 10 years with member and retiree consent by negative option.

In the 2012 budget, the government extended the window for this solvency relief to include the first-filed valuation following September 30, 2011.

Specified multi-employer pension plans are now permanently exempt from solvency funding (following a period of temporary exemption between 2007 and 2012). However, the going concern funding rules are more restrictive for these plans than for other plans. Unfunded liabilities must be amortized over 12 years (instead of 15) and, where the funded ratio of the plan is less than 0.9, any increase to benefits must be funded over eight years.

Ontario has also introduced two forms of solvency relief for public and broader public sector plans. Jointly-sponsored pension plans established prior to August 24, 2010 and listed by regulation¹⁹ are permitted to set their solvency deficits to “zero” and not make contributions in respect of those deficits. Jointly-sponsored pension plans established after August 24, 2010 may seek a similar exemption from solvency funding by regulation, and although there is no defined process or criteria for obtaining this exemption at least one plan has obtained one.²⁰

Single employer plans in the public and broader public sector are eligible to apply for “phased” solvency relief. The relief involves two phases. Phase One provides a moratorium on solvency payments for three years, with only interest on solvency deficits required to be paid. Phase Two permits the consolidation of then-existing solvency deficits and amortization over 10 years, and permits the deferral of solvency payments in that schedule for one year. There are significant conditions that are attached to Phase One and Phase Two relief. Application must be made to the Ministry of Finance and the Minister has discretion to permit or deny relief. Applications must be supported by a plan to restructure benefits and contributions to meet “savings targets” which roughly correspond to any “structural deficit” in the plan. The recent Ontario budget promises to legislate outcomes of this process if negotiations fail to achieve savings targets, and states that increased employer contributions are not to be part of any restructuring plan. In addition, during solvency relief, there are restrictions on benefit improvements and contribution holidays.

¹⁷ Manitoba Regulation 213/2011.

¹⁸ Pension Benefits Act, R.S.O. 1990, c. P.8 (“OPBA”) and Regulation (“OPBA-R”).

¹⁹ The Ontario Teachers Pension Plan, Healthcare of Ontario Pension Plan, Colleges of Applied Arts Pension Plan Trust, OPSEU Pension Trust, the OPSEU Staff Plan, the Ontario Municipal Employees Retirement System.

²⁰ The Toronto Transit Commission Pension Fund Society.

Quebec

The Quebec government introduced temporary solvency funding relief in 2009 for plans regulated by the general pension regulation²¹ that permitted “asset smoothing” (that is, recognition of losses gradually over five years), consolidation of previous solvency deficits and an extension of the amortization period to 10 years. This relief has been extended to filing dates up to December 31, 2013.

The municipal and university sectors are not covered by this relief. These sectors are exempt from solvency funding, but subject to more restrictive going-concern funding rules. These sectors were provided separate relief in 2010 (recently extended to December 31, 2013). This relief permitted the reduction of certain portion of the normal amortization of a going concern unfunded liability to either 33% or 20% of the otherwise required payment for the actuarial cycle, but imposed a reserve requirement (provision for adverse deviation, or PfAD) on these plans, which was also imposed on other SPPA-regulated plans.²²

New Brunswick

New Brunswick introduced solvency relief permitting plans to apply to extend the amortization period for solvency deficits for a period ending no later than December 31, 2018 for valuation dates no later than December 31, 2011.²³ This relief was available at the Superintendent’s discretion.

Recent regulations permit plans filing a valuation with an effective date prior to January 1, 2012 to elect to consolidate existing solvency deficiencies and apply a 10 year amortization period (that is, the Superintendent does not have discretion to refuse).²⁴ Conditions for this election are an actuary’s certification that assets are sufficient to meet expected payments, and notice to beneficiaries. There are restrictions on plan amendments during periods of solvency relief including the requirement to prefund benefit improvements.

University and municipal sector plans may apply for a full exemption from solvency funding.²⁵ An application must be supported by notice to and majority vote of the members and retirees of the plan (majority of those who respond to notice and vote). Similar conditions apply during periods of exemption from solvency funding, including the full pre-funding of benefit improvements.

Nova Scotia

Temporary solvency relief was provided to plans filing before January 2, 2011, permitting the extension of amortization of solvency deficiencies (then arising, not existing solvency

²¹ *Supplemental Pension Plans Act*, R.S.Q. c. R-15.1 (“SPPA”) and Regulation (“SPPA-R”).

²² The Quebec legislation makes a distinction between “technical deficits”, which are deficits arising from results and predictions, and benefit improvement deficits, which are attributable to amendments to the plan with a financial impact. Relief is extended for technical deficits, but benefit improvements deficits must be funded over five years, and may be funded through surplus.

²³ *Pension Benefits Act*, S.N.B. 1987, c. P-5.1, Regulations, s. 36(1.21).

²⁴ *Ibid.*, s. 36(1.22) and (1.23).

²⁵ *Ibid.*, s. 42.1.

deficiencies) to 10 years.²⁶ This relief required members consent by negative option, and there are restrictions on plan amendments during the first five years of solvency relief.

Nova Scotia has now proposed to exempt all university and municipal plans from solvency funding.²⁷ Previously, university and municipal plans were subject to unusual solvency funding requirements.²⁸ University plans with a deficiency arising before January 1, 2006 were permitted to amortize that deficiency over 15 years. Municipal plans are not required to make contributions in respect of a solvency deficiency greater than 85% of liabilities (that is, they are only required to solvency fund to 85%, not to 100%).

The solvency relief extended in 2010 to other plans also contained measures applicable to universities and municipalities. Universities were permitted a moratorium on solvency payments for three years beginning with the first-filed valuation between December 31, 2008 and January 2, 2011, and following this moratorium, solvency deficits could be amortized over seven years. Municipalities were permitted to fund any solvency deficit less than 85% (ie. the amount needed to fund to 85% on a solvency basis) over 10 years.

Nova Scotia is also poised to recognize jointly-sponsored pension plans in new legislation, and to permit a number of other funding measures, including actuarial smoothing and permitting JSPPs to fund to 80% of solvency liabilities. Specified multi-employer plans will be exempt from solvency funding.²⁹

Newfoundland and Labrador

Newfoundland & Labrador promulgated special regulations providing solvency relief in June 2008, permitting consolidation of existing solvency schedules and an extension of the amortization period to 10 years, on condition of member and retiree consent by negative option, or on condition that the extended schedule be secured by letter of credit.³⁰ This relief has been extended to plans with valuations filed to January 1, 2013.

Public sector plans are exempt from the solvency funding requirements of the general pension legislation.³¹

Multi-employer plans can elect a one-time exemption from solvency funding based on actuarial valuation reports with a valuation date between December 31, 2007 and December 31, 2010.³² Already-existing solvency payment schedules at that time must be completed.

²⁶ *Pension Benefits Act*, R.S.N.S. 1989, c. 340 and Regulation, s. 6A(3).

²⁷ *Ibid.*, s. 6(1).

²⁸ The regulations supporting this policy proposal are not yet released at the time of writing. The policy announcement was March 8, 2012.

²⁹ *Pension Benefits Act*, S.N.S. 2011, c. 41.

³⁰ *Pension Benefits Act*, 1997, S.N.L. 1996, c. P-4.01 and Regulation 30/08 as amended by Regulation 110/11.

³¹ The *Pension Benefits Act*, 1997 applies to all plans for persons employed in the province. However, s. 41 of the regulations exempts certain public sector plans from solvency funding. Newfoundland & Labrador has also granted plan-specific temporary exemptions to the Memorial University Pension Plan and the Newfoundland and Labrador Municipal Employee Benefits Inc. Pension Plan, pursuant to ss. 41(4) and 42.2 of the regulation.

³² Regulation 114/96, s. 7.1.

Prince Edward Island

P.E.I. has indicated that it intends to follow the new Nova Scotia general pension legislation. A bill is expected to be introduced this spring.

Federal

In 2006, the federal government announced temporary solvency relief and in 2009 renewed it.³³ This relief permits plans regulated by the general pension regulation to extend solvency funding payment periods to 10 years with either member and retiree consent by negative option or with a letter of credit as security. Federal crown corporations are able to access the relief by direct application to the Minister of Finance.

The core public sector pension plans - the pension plans for the Public Service, Canadian Forces and RCMP - are exempt from the general pension regulation. The funding requirements of these public sector plans are based on the specific acts which create and govern them.

Effective July 1, 2010, the federal government adopted a new standard for establishing minimum solvency funding requirements that permits averaging solvency funded ratios over three years (instead of the spot ratio on the date of the valuation).³⁴

Finally, the recent federal government introduced the “distressed plan workout scheme” which permits a moratorium on solvency payments for up to nine months, following which the Minister has discretion to accept a proposal and negotiated agreement by a plan sponsor and members (and retirees) to, among other considerations, extend the amortization period of a solvency deficiency. This scheme may be “accessed” every 48 months.³⁵ To our knowledge only one plan has thus far entered this scheme and there is no negotiated result at the time of writing.

³³ *Pension Benefits Standards Act*, R.S.C. 1985, c. 32 (2nd Supp.) and Regulations. Solvency relief is created by Regulation 2006-275 and 2009-182.

³⁴ PBSA-R, s. 9(8).

³⁵ PBSA, s. 29.1 and Regulations.

April 30, 2012

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Attention: Leah Fichter, leah.fichter@gov.sk.ca

**RE: SUBMISSIONS RESPONDING TO THE CONSULTATION PAPER ON
NEW FUNDING REGIME FOR PUBLIC SECTOR PENSION PLANS (the
"CONSULTATION PAPER")**

Dear Ms. Fichter:

Please find under cover of this letter the submission of the Canadian Union of Public Employees, Local 7 in response to the Consultation Paper.

We are 240 members strong and we belong to the Regina Civic Pension Plan.

We would like to thank the Saskatchewan Financial Services Commission for the opportunity to provide submissions on the development of a new funding regime for public sector plans.

Yours truly,

A handwritten signature in black ink, appearing to read "Lorne Chow", with a long horizontal flourish extending to the right.

Lorne Chow
President, CUPE Local 7

c. Aina Kagis, Regional Director

/cope491

SUBMISSION TO
THE SASKATCHEWAN FINANCIAL SERVICES COMMISSION
PENSIONS DIVISION

CONSULTATION PAPER
NEW FUNDING REGIME FOR PUBLIC SECTOR PLANS



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A. INTRODUCTION

The Canadian Union of Public Employees (Saskatchewan) represents 29,000 members and their families, in many sectors of Saskatchewan's economy, and over 600,000 employees Canada-wide. Our members are employed in Saskatchewan health care facilities, school boards, municipalities, universities, libraries, community-based organizations and various boards and agencies. Our members participate in many defined benefit and defined contribution pension plans in Saskatchewan and hundreds of plans across Canada. Our members are directly affected by proposals to change the funding rules established for these plans.

We appreciate the opportunity to comment on the Saskatchewan Financial Services Commission's ("SFSC") consultation paper on the proposed funding regimes for public sector pension plans (the "Consultation Paper"). We are supportive of the SFSC's proposal to provide permanent relief from solvency funding for public sector plans in Saskatchewan. We believe that exempting public sector plans from the solvency funding standard is consistent with pension policy and regulation across Canada. However, the Consultation Paper proposes the most conservative going concern funding rules in Canada in circumstances where they are not clearly justified. In the current market conditions and economic environment, and when pension plans are already under stress, we do not believe that introducing more conservative going concern funding rules is necessary or prudent policy.

We have attached, for your convenience, as Schedule "A" to these Submissions, a brief summary of solvency relief regulations in Canadian jurisdictions.

Our submissions are set out in the order the issues and questions are raised in the Consultation Paper.

B. SECTION 2 – DEFINITION OF PUBLIC SECTOR PLANS

Appendix "A" to the Consultation Paper lists the public sector plans regulated by the *Pension Benefits Act, 1992*¹ that will be affected by the proposed funding regime. We submit that the new funding regime should apply to all public sector plans.

¹ S.S. 1992, c. P-6.001 (the "Act").

Where CUPE Saskatchewan members are members of a regulated plan, we have urged our trustees, advisory committee members, and Local Unions to examine the impact of the proposed funding regimes on each plan and make their own submissions to the SFSC.

C. SECTION 3 – RATIONALE FOR THE CHANGE

The Consultation Paper discusses one important rationale for providing solvency relief or permanent exemptions from funding to solvency standards: volatility in market conditions giving rise to volatility in contributions to defined benefit pension plans. This rationale has justified the provision of *temporary* solvency relief to pension plans in all jurisdictions across Canada.

There is a second important reason to provide relief from solvency funding, one that has justified the provision of *permanent* exemptions from solvency funding: the purpose and assumptions of solvency funding standards do not apply to public sector plans. The purpose of solvency funding is to secure benefits against the risk of plan sponsor insolvency. In this respect, public and private sector plans face very different risks.

Lower risk to benefit security in public sector plans - Solvency funding requirements were created for the traditional private sector, defined benefit single employer pension plan that is vulnerable to the employer sponsor failing. However, the solvency standard is far less appropriate for two types of pension plan: multi-employer plans, which are designed to cope with plan sponsors entering and exiting with some regularity, and most public sector plans, for which there is a much more remote risk of plan sponsor insolvency. Both the purpose and assumption of solvency funding measures do not “fit” well in the public and multi-employer plan space.

If the basic assumptions and purpose of solvency funding do not apply to public sector plans, then the risks associated with relaxing or eliminating the solvency funding standard are not as great. For example, relaxing solvency funding rules does not place member benefits at materially greater risk if, on the other hand, there is a very low (or non-existent) risk of sponsor insolvency.

Fairness to members not served by increasing conservatism - Section 2 of the Consultation Paper also identifies “fairness to plan members” as a goal of solvency funding, and asserts that one of the risks of relaxing solvency funding is to jeopardize fairness among members. This is cited as a reason to inject additional conservatism into plan funding obligations, including

making going-concern funding rules more conservative – in fact, **the most** conservative regime in Canada. This is counter-intuitive to us, and may have unintended consequences on some plans, including a material increase in required going concern contributions. Strengthening going-concern funding rules that offset and possibly eliminate the benefit of relaxing solvency funding rules is a contradictory policy direction and is not consistent with emerging standards in other Canadian jurisdictions. Moreover, this conservatism is not required because it does not ameliorate any material risk to plan members.

Experience of solvency relief in other jurisdictions not indicative of need for extra conservatism - the Consultation Paper refers to the elimination of solvency funding in other jurisdictions leading to less-well-funded public sector pension plans than those in Saskatchewan. No plans are mentioned by way of example and no data is provided to support this comparison.

Given the different regulatory schemes across the country and the highly unusual market conditions of the past five years, we believe the Consultation Paper makes a significant over-statement in attributing some public sector plans' funding deficiencies solely to relaxed solvency funding rules. CUPE has extensive experience with public sector plans across the country, many of which are exempt from solvency funding on a temporary or permanent basis. In some cases, solvency deficiencies led to relaxing solvency funding rules. In our experience, other factors are equally if not more important in the successful administration of a plan, including its funded ratio. For example, many public sector plans enjoyed long periods of **employer contribution holidays** during the late 1990s and 2000s, which have contributed to under-funding in subsequent years. More importantly, in our experience, the key element in the proper funding of a pension plan is good governance of that plan, and we believe that governance and funding regimes are complementary and integrated functions of effective pension regulation.

Recommendation #1: *The SFSC should recognize two equally important rationales for providing relief from solvency funding for public sector plans: the management of contribution volatility and low risk of sponsor insolvency in many public sector plans.*

D. SECTION 4 – PRINCIPLES FOLLOWED IN DEVELOPING THE NEW RULES

The Consultation Paper enumerates three principles and asks if stakeholders agree with these principles. These principles are:

1. The rules must provide a means of managing volatility.
2. The rules must not introduce undue risk to the accrued benefits of the plan beneficiaries, and must result in an adequate level of funding over the long term.
3. The rules must be simple to understand and apply. They should not measurably increase the administrative burden for the plan administrator, or the level of complexity in the preparation, presentation and review of an actuarial valuation report.

CUPE Saskatchewan supports each of these principles. However, we do not believe that this list of principles encompasses all the relevant principles that the SFSC should take into consideration in creating a new funding regime for public sector plans. We believe that principles informing this process should also include two equally important principles:

4. The rules should be appropriate and proportional to the nature and structure of the public sector plans.
5. Where the rules expose the plan to increased funding-related risks, the rules should require or encourage both sponsors and plan beneficiaries to have joint responsibility for all material administrative and sponsor decisions.

Our experience with public sector plans across the country has taught us that “one size does not fit all”. Public sector plans are already distinguished in many ways from private sector plans – they are exempt from general pension legislation in many provinces – and even within the public sector plan space, may be treated differently according to sector. So, for example, hospitals, municipalities and universities may have special funding regimes (among other regulation) unique to their sectors.

For this reason, we believe that it is both possible and desirable to ensure there is sufficient flexibility in public sector pension plan regulation to permit different funding regimes for different types of plans that takes into account individual strengths and differences, and to coordinate the selection of the applicable funding rules with the governance of a plan.

This is the second additional principle that we believe should apply: where a plan selects a funding regime that relaxes solvency funding or otherwise exposes members to some degree of risk, the condition of that election should be that plan beneficiaries participate actively in the governance of the plan and the management of that risk.

Recommendation #2: *We submit that the SFSC should enumerate two additional principles that inform the development of a funding regime for public sector plans, that:*

- 1. The rules should be appropriate and proportional to the nature and structure of the public and broader public sector plans.*
- 2. Where the rules expose the plan to increased funding-related risks, the rules should require or encourage both sponsors and plan beneficiaries to have joint responsibility for all material administrative and sponsor decisions.*

E. SECTION 5 – TWO PROPOSED OPTIONS

These submissions will comment generally on the two options proposed, and the vision of selecting one of those options. We will also suggest a third option.

Option 1: Extended Solvency Amortization - As we understand it, Option 1 - the extended amortization option - would extend the five-year amortization and special payment period for solvency deficits to 10 years.

This form of relief has been employed across the country on a *temporary* basis, typically available for one actuarial cycle, in order to address the effects of the financial crisis in 2008 and the 2011 Q3 and Q4 experience, and the unprecedented low interest rate environment.

If it is otherwise appropriate to require a plan to fund to the solvency measure, we believe that relief should be available on *temporary* basis when market conditions support such relief, but that the normal solvency funding rules should eventually apply.

We believe that this form of temporary solvency relief (a 10-year amortization period for solvency deficiencies) was and is an appropriate option to make available to all pension plans in Saskatchewan (including some public sector plans) *on a temporary basis*, because it is simple to implement and it addresses the cyclical nature of market conditions.

We do not believe, however, that it is appropriate as a **permanent measure for all plans**. The size of a plan, the governance of a plan and the security of a plan's sponsor are all relevant considerations in determining whether permanent solvency relief should be available.

With respect to the plans listed in Appendix “A”, we submit that some discretion may be applied, by either the SFSC or the Ministry, to determine whether full permanent solvency relief is available to a public sector plan. The guiding principles in exercising this discretion should be that, where a plan can establish that it **sponsored by a large and stable public sector employer**, or where the plan **has established robust joint governance**, a permanent exemption from solvency funding should be available. Where the public sector employer is at low risk of insolvency, the purpose and assumptions for solvency funding are inapplicable. Similarly, where plans have created a robust governance process that enables members and retirees to take responsibility for and manage the risks associated with relaxing solvency funding, they should be permitted to elect to opt out of solvency funding.

We believe that most if not all the public sector plans on Appendix “A” meet both these criteria.

Option 2: Enhanced Going Concern - Option 2 would permanently eliminate the requirement to fund for solvency, but would simultaneously decrease the amortization period to amortize going concern unfunded liabilities to 10 years (from 15 years currently permitted). While we support and agree that public sector plans that establish the qualifications just enumerated should be permanently exempted from solvency funding, **we do not agree that a concurrent reduction of the going concern amortization period is an appropriate measure.**

A simple assessment of the impact of this change to going concern funding rules would be an increase in going-concern contributions of about 30% for the 10-year period. This reduces the effectiveness of a solvency exemption without a corresponding benefit (where there is low risk of sponsor insolvency). Such a measure “gives” with one hand while “taking” with the other, and the outcome is to mitigate the positive impact of solvency relief.

The basis for the selection of 10 years as an amortization period for going concern unfunded liabilities is not clearly identified in the Consultation Paper. **This would create the most restrictive going concern funding rules in Canada**, ironically in a jurisdiction of comparative economic prosperity. We do not see a clear justification for this measure where the risk of sponsor insolvency is low or non-existent.

We also note that other jurisdictions have continued to permit 15 year amortization of this form of deficiency for most solvency-exempt plans.

In several jurisdictions in (economically challenged) Eastern Canada, university and municipal sector pension plans have been solvency-exempt and permitted to fund going concern liabilities over 15 years.

In some jurisdictions, going concern amortization periods are shorter for specific types of plan structure or for specific plan sectors within the public sector space. For example, in Ontario, specified multi-employer plans are solvency-exempt but fund going concern liabilities over a 12-year period (with certain conditions attached). However, we note that most of these plans are industrial, private sector plans, and 12 years reflects a negotiated balance between plan administrators and regulatory concerns in the context of Ontario economic conditions. Private sector, industrial multi-employer plans in Ontario operate in a very different – more challenging – economic environment than public sector single and multi-employer pension plans in Saskatchewan.

By contrast, the SFSC is proposing **the most conservative going concern funding rules in the context of the strongest regional economy in country.**

For these reasons, we propose an alternative third option that should be made available to public sector plans in Saskatchewan.

Option 3: Permanent Solvency Relief for Eligible Public Sector Plans - We believe that a viable and appropriate third option that must be considered is simply the elimination of the solvency funding requirement for public sector plans.

As just stated, we believe that public sector plans electing this form of relief should be required to establish that they are sponsored by stable public sector employers or have robust joint governance of the plan.

We also note that in several jurisdictions across Canada, pension policy has sought to address some specific risks perceived to accompany the relaxation or elimination of solvency funding, such as the risk of inappropriate use of contribution holidays or benefit improvements while under-funded on a solvency basis.

We submit that the most appropriate way to address these risks is to place specific conditions on the provision of permanent solvency relief, and not to address these risks through more general

restrictions on going concern funding rules. We submit that the three most important conditions the SFSC should consider placing on a permanent exemption from solvency funding are:

- **Joint governance** - the plan administrator must be a committee or board of trustees at least one-half of whom are representatives of beneficiaries of the plan.
- **Enhanced disclosure** - members and retirees should receive enhanced disclosure summarizing the impact of permanent solvency relief on an on-going basis.
- **Restrictions on contribution holidays and benefit improvements** - other jurisdictions have prohibited contribution holidays funded by going concern surplus and limited the ability to make benefit improvements where the impact would reduce the solvency funded ratio below certain thresholds.

Some of these conditions are discussed later in these Submissions.

We emphasize that joint governance is a key “trade-off” for permanent solvency relief, because it ensures that the member and employer representatives together participate in governance and are responsible for the impact of their decisions. Jointly-governed plans making such an election have the flexibility to choose from the tools available to ensure adequate funding, benefit security and cost-stability (margins, assumptions, funding policies, targets).

Recommendation #3: A third option should be considered by the SFSC, being a permanent exemption from solvency funding for public sector plans that demonstrate stability of public sector plan sponsors and joint governance of the plan. This option should be available by election and may have certain conditions that must be met to remain eligible for exemption.

F. SECTION 6 – EXTENDED SOLVENCY AMORTIZATION

This section discusses the extended solvency option. As we understand this option, once these rules are in place, the solvency deficiency at the next arising valuation date would be amortized over 10 years, and all existing solvency payment schedules would no longer be required to be met. Following the initial “fresh start” valuation, all then-existing schedules of solvency payments would be required to be made.

The Consultation Paper asks two questions: whether 10 years is an appropriate maximum period to amortize solvency deficiencies, and whether the regulations should require (more) conservative going concern assumptions in concert with the new maximum 10-year solvency amortization period.

As stated above, we believe that the extended solvency amortization option is appropriate and effective only as temporary solvency relief. Within that framework, we believe that the 10-year amortization period is sufficient to achieve the objectives of this relief. This relief in effect reduces solvency amortization payments by just under 50% (taking into account the effect of interest). For periods that temporary solvency relief is available, this permits sponsors to allocate cash flows to other priorities, while eventually requiring full funding to the solvency measure. For the reasons stated above, we do not believe that this option is appropriate on a permanent basis if it is otherwise justified in applying to a plan due to the nature of the plan or the nature of the plan sponsor.

Whether solvency relief is temporary or permanent, we do not believe that it is appropriate to require more conservative going concern assumptions, as this would have the effect of reducing the impact of the solvency relief. If going concern assumptions are made more conservative, the effect would be to increase contributions on a going concern basis – over a shorter period of time. The net effect of these changes could vary significantly on each plan – depending on which assumptions are made more conservative or what other conditions are placed on plans that elect this relief. This may mitigate some of the positive effect of the extended solvency amortization period without necessarily addressing any of the broader array of factors that affect plan funding and health.

We note that in implementing temporary relief, policy-makers and regulators across the country have never required permanent changes to going concern methods and assumptions.

Recommendation #4: Extended amortization periods in respect of solvency deficiencies are appropriate for all plans (including some public sector plans) when provided on a temporary basis. Changes to going concern funding rules are not an appropriate condition for this option.

G. SECTION 7 – ENHANCED GOING CONCERN

Section 7 of the Consultation Paper describes the second option, enhanced going concern funding rules. As we understand the proposal, under this option all listed plans would be required to continue conducting solvency valuations for the purpose of governance and administration, and in order to establish the transfer ratio of a plan, but would not be required to make contributions in respect of solvency deficiencies. Instead, plans would be required to contribute on a modified going concern basis, in which unfunded liabilities are amortized over 10 years (instead of the 15 years currently permitted). Existing going concern payment schedules would not be affected – that is, would not be required to be funded over 10 years. The application of this option would be automatic (e.g., would not require an election) and would apply to valuations as at December 31, 2012 and following.

The Consultation Paper asks one question of this proposed regime, whether a 10-year period is an appropriate length of time for this option.

This option has two components, (i) the elimination of contributions on a solvency basis, and (ii) the changes to the going concern amortization period.

Where public sector plans are not at appreciable risk of underfunded termination due to sponsor insolvency, the appropriate basis upon which to fund the plan is the traditional going concern funding basis with an amortization period of 15 years. There is no demonstrable reason to do otherwise. As we stated above, a basic measure of the impact of this change is an increase of contributions on a going concern basis of about 30%. This may have significant impact on some Saskatchewan public sector plans in itself. Some plans may be able to absorb this increase, while others will be put under pressure to adjust other going concern assumptions to assist in absorbing this impact. Some plans may have no option but to reduce benefits. These would be very undesirable results. **Accordingly, we believe the reduction of the going concern funding basis from 15 to 10 years will lead to unintended outcomes, and creates a significant disincentive to the use of more conservative going concern assumptions and other methods for prudently administering a plan, such as the establishment and use of contingency reserves or contribution margins.**

We believe the changes to the going concern amortization period unnecessarily reduce the beneficial impact of exempting plans from solvency funding when that exemption is otherwise justified and appropriate.

If the objective of the SFSC is to ensure that the methods and assumptions employed in a going concern funding valuation are appropriate or that funding on this basis (only) is not improperly exploited, the SFSC can consider placing other conditions on the election of this form of relief. Other jurisdictions have included targeted conditions on solvency relief, such as:

- limiting the use of contribution holidays funded out of surplus determined on a going concern basis;
- requiring accelerated funding of certain plan amendments (for example, benefit improvements over 8 years instead of 15) where the going concern funded ratio of a plan is below 0.8 or 0.9; or
- requiring “terminal funding” of plans if they are wound-up during the period of solvency relief (we understand that it is expected that the Act will be revised to include terminal funding obligations in the Fall of 2012 in any event).

We submit that it would be appropriate to consider the imposition of each or any of these conditions as a requirement of plans that elect to become exempt from solvency funding rules, without other changes to the going concern funding rules.

Recommendation #5: Eliminating solvency funding for public sector plans is an appropriate option. Changes to going concern funding rules are not an appropriate element or condition of this option. Specific risks associated with this option may be addressed by attaching specific conditions to this option.

H. SECTION 8 - APPLICATION

This section states that the new regime will automatically apply to all public sector plans. As stated above, we submit that plans listed in Appendix “A” be provided with the **option** to remain in the existing funding regime (with options for temporary solvency relief) or to elect permanent solvency relief. Ideally, we believe that plans should have more than one option to permit maximum flexibility.

Recommendation #6: *Public sector plans should be provided with the option to remain in the current funding regime or elect permanent solvency relief.*

I. SECTION 9 – EFFECTIVE DATE OF THE NEW RULES

This section states that the proposed funding regime would apply to any valuation made as at December 31, 2012 or later.

The only comment we have is that the effective date of the new rules be set so that there is sufficient time to permit a full and informed consultation process to evolve.

J. SECTION 10 – BEST ESTIMATE DISCOUNT RATE AND MARGIN

This section discusses the provision of direction for margins (provisions for adverse deviation) in establishing a discount rate for a going concern valuation. We believe that this is properly a decision of the plan administrator, and is best determined by the administrator in consultation with the plan advisors and taking into consideration plan-specific features and conditions. In short, this is a governance decision that is best made by the plan's administrator.

One of the principles we suggest that the SFSC adopt as a guiding principle in determining the applicable funding rules is that regulation should be integrated with governance, and greater flexibility in regulatory choice require a greater role for an appropriate governance structure and process.

The current guidance of the Canadian Institute of Actuaries in determining key assumptions and methods used by plans is, in summary, that the actuary shall provide a range of acceptable options and explain their impact on the plan, and that the plan administrator shall select the methods and assumptions to be employed in the plan valuation. We support this general approach to the selection of assumptions and methods.

Each plan has different considerations that will be relevant to determining the margins for conservatism that may be included in a going concern valuation. In our experience, plans will create margins that reflect the plan's asset mix, maturity, potential for growth and other factors. We believe that these are best determined and managed by decisions of the administrator of the plan.

Recommendation #7: *The determination of an appropriate margin for conservatism in going concern assumptions is best controlled by the plan administrator in consultation with advisors and taking into account the plan-specific circumstances.*

K. SECTION 11 – BENEFIT IMPROVEMENTS

This section discusses restrictions on benefit improvements. It proposes that, during any period of solvency relief, any benefit improvement that would have the effect of reducing the solvency ratio below 0.9 would be required to be pre-funded (such that the solvency ratio did not fall below 0.9) or would be void.

As stated above, we support three conditions being attached to an exemption from solvency funding without changes to the going concern funding rules.

However, we submit that the threshold of 0.9 is both too conservative and calculated on the wrong basis. In our experience, a plan's funded ratio can fluctuate over short periods of time without necessarily reflecting long-term trends in the plan's health. This is the volatility that the solvency relief is intended to mitigate. We do not believe it would be appropriate to restrict otherwise-desirable amendments to benefits by short-term fluctuations on an inapplicable funding measurement.

We submit that the appropriate funded ratio to apply to any restrictions on benefit improvements is the going concern funded ratio. We also submit that a more realistic threshold is 0.8 to 0.85. This reflects a balance between concerns over the impact of plan amendments on the financial status of the plan and the flexibility to manage the plan to their mutual benefit by both sponsors and administrators.

We believe that requiring pre-funding of plan amendments that would reduce the funded ratio below 0.8 or 0.85 provides an appropriate management of volatility.

Recommendation #8: *Where a condition on the provision of permanent solvency exemptions is established, the appropriate funded ratio is the going concern funded ratio, and the appropriate threshold below which benefit improvements are required to be pre-funded is 0.8 to 0.85.*

L. SECTION 12 – USE OF SURPLUS ASSETS

This section discusses the application of surplus while a plan is exempt from solvency funding.

We agree that, where public sector plans are non-contributory, a condition of solvency relief should be that any surplus arising should first be applied to reduce unfunded liabilities (measured on the current basis, a 15 year amortization period), and thereafter applied in accordance with the plan text or applicable law.

We also agree that for contributory plans, the plan sponsor(s) and/or administrator (depending on the governance structure of the plan) should have the option to apply going concern surplus to *both employer and employee* contributions to current service costs. We note that the Consultation Paper only states that surplus may be applied to employer contributions (although employee contributions may be contractually stipulated to be equivalent, contractual language may vary and may not specifically tie employee contributions to actual amounts paid by a sponsoring employer). We assume that the intention of the Consultation Paper was to permit going concern surplus to be applied to both employer and employee contributions to a plan and if that assumption is incorrect, we advocate ensuring it is available to both.

This is one area in which we strongly believe that appropriate use of surplus is linked to good governance of the plan, which in our experience is best achieved by joint governance of the plan reflecting, in effect, the joint sponsorship of the plan. Where joint governance has not been established, plans should be required to provide on-going, enhanced notice and disclosure of the impact of plan funding, and regulation should require consent of members and retirees.

Recommendation #9: *In non-contributory public sector plans that elect a solvency exemption, surplus should be applied first to reduce unfunded liabilities and then to solvency deficiencies. In contributory plans that elect a solvency exemption, surplus should be permitted to be applied to reduce employer and employee contributions to current service costs at both the discretion of the administrator and with the consent of members. In any event, such surplus application to reduce employer or employee contributions should be subject to strict disclosure obligations. For example, British Columbia has significant disclosure requirements attached to the use of contribution holidays.*

M. SECTION 13 – BENEFIT EXCLUSIONS IN SOLVENCY VALUATIONS

This section discusses particular plan provisions that reduce benefits on termination. The effect of these plan provisions is that certain benefits (those reduced on termination) are not required to be funded on a solvency basis.

We believe that the elimination of the requirement for public sector plans to fund on a solvency basis (but to fund on a 15-year going concern basis) would eliminate the use of these provisions in plans. Retaining a form of solvency funding (the extended solvency option) would continue to create an incentive to employ these types of provisions.

N. SECTION 14 – IMPLEMENTATION OF CONTRIBUTION INCREASES

This section discusses the **existing discretion** of the Regulator to permit a delay in implementing contribution increases for up to one year in contributory plans, and for nine months in other plans.

We support the addition of a clear regulatory power to permit this discretionary extension of the commencement of contribution changes.

O. SECTION 15 – TRANSFER DEFICIENCY

This section discusses the effect of extending a solvency amortization period (or reducing a going concern amortization period) on the period of time over which a transfer of a commuted value out of the plan must be paid.

We support the Consultation Paper's position. We do not believe it is reasonable for administrators to pay out commuted values over more than five years, and we do not believe this is fair to the former member of the plan. The five year period is an appropriate balance between the short-term risk of under-funding and both fairness and administrative simplicity.

Recommendation #10: *Committed value transfers from a plan should be permitted over no more than five years.*

P. SECTION 16 – FREQUENCY OF FILING VALUATIONS

This section discusses the frequency of filing valuations. It proposes that there be no change to current three year cycle with discretion of the Superintendent to order more frequent valuations.

The Consultation Paper asks if the SFSC should, in the future, consider requiring annual valuations where the solvency ratio falls below some threshold.

We agree that the SFSC should consider introducing annual valuations for plans with a solvency ratio below a certain threshold. We note that in other jurisdictions, this threshold is set between 0.8 and 0.9.

Q. SECTION 17 – ASSET SMOOTHING

The Consultation Paper confirms that asset smoothing is and will be permitted.

No comment.

R. SECTION 18 - DISCLOSURE

This section states that it may be prudent to provide enhanced disclosure to plan beneficiaries. We agree with this suggestion. We note that enhanced disclosure to plan members and retirees is a condition of most temporary solvency relief provided in other jurisdictions. For example, the Ontario regulations permitting temporary solvency relief to plans enumerate information on the impact of the solvency relief that must be included in disclosure to members and retirees.

S. SECTION 19 – OTHER CONSIDERATIONS

This section notes that plans may be required to make amendments to come into compliance with the new funding regime, and that the funding regime is a minimum standard – plan sponsors may elect to contribute in excess of this standard and subject to any limits under tax legislation.

We note for example that the option we have proposed in this submission would permit plan sponsors or administrators to elect to fund on a solvency basis or an enhanced going concern basis if they consider it prudent and desirable.

T. SECTION 20 - COMMENTS

This section asks which option best fits the criteria set out in Section 4 of the Consultation Paper. We submit that the criteria in Section 4 should be expanded to recognize that “one size does not fit all” and that the regulatory scheme should, and to be successful, must, integrate well with the governance of the plan. We therefore submit that the principles guiding the development of the new funding regime should encompass flexibility in each plan’s options and where options

“relax” solvency funding they should be tied to enhanced governance – ideally joint governance – of the plan.

We submit that the best way to develop a new funding regime is to provide the option to public sector plan administrators and plan sponsors to:

1. Option 1: remain within the current funding regime.
2. Option 2: elect to exempt the plan from contributions in respect of solvency deficiencies, and fund the plan on the existing going concern funding rules, with certain conditions to this relief, including (but not limited to) joint governance of the plan.

U. CONCLUDING REMARKS

For convenience, we have attached a summary of our recommendations to the SFSC in the next section.

We would like to thank the SFSC for the opportunity to make submissions on the proposed funding regime for public sector pension plans in Saskatchewan. We welcome any opportunity to clarify or expand upon our submissions.

V. SUMMARY OF RECOMMENDATIONS

Recommendation #1: The SFSC should recognize two equally important rationales for providing relief from solvency funding for public sector plans: the management of contribution volatility and low risk of sponsor insolvency in many public sector plans.

Recommendation #2: We submit that the SFSC should enumerate two additional principles that inform the development of a funding regime for public sector plans, that:

- The rules should be appropriate and proportional to the nature and structure of the public sector plans.
- Where the rules expose the plan to increased funding-related risks, the rules should require or encourage both sponsors and plan beneficiaries to have joint responsibility for all material administrative and sponsor decisions.

Recommendation #3: A third option should be considered by the SFSC, namely a permanent exemption from solvency funding for public sector plans that demonstrate stability of public sector plan sponsors and joint governance of the plan. This option should be available by election and may have certain conditions that must be met to remain eligible for relief.

Recommendation #4: Extended amortization periods in respect of solvency deficiencies are appropriate for all plans (including some public sector plans) when provided on a temporary basis. Changes to going concern funding rules are not an appropriate condition for this option.

Recommendation #5: Eliminating solvency funding for public sector plans is an appropriate option. Changes to going concern funding rules are not an appropriate element or condition of this option. Specific risks associated with this option may be addressed by attaching specific conditions to this option.

Recommendation #6: Public sector plans should be provided with the option to remain in the current funding regime or elect permanent solvency relief.

Recommendation #7: The determination of an appropriate margin for conservatism in going concern assumptions is best controlled by the plan administrator in consultation with advisors and taking into account the plan-specific circumstances.

Recommendation #8: Where a condition on the provision of permanent solvency relief, the appropriate threshold below which benefit improvements are required to be pre-funded is 0.8.

Recommendation #9: In non-contributory public sector plans that elect a solvency exemption, surplus should be applied first to reduce unfunded liabilities and then to solvency deficiencies. In contributory plans that elect a solvency exemption, surplus should be permitted to be applied to reduce employer and employee contributions to current service costs at both the discretion of the administrator and with the consent of members. In any event, such surplus application to reduce employer or employee contributions should be subject to strict disclosure obligations. For example, British Columbia has significant disclosure requirements attached to the use of contribution holidays.

Recommendation #10: commuted value transfers from a plan should be permitted over no more than five years.

SCHEDULE "A"

SOLVENCY FUNDING REGIMES ACROSS CANADA

1. SUMMARY

What is Solvency Funding?

In most jurisdictions in Canada, employers and employees (where applicable) participating in regulated pension plans are required to make sufficient contributions to those plans to satisfy two different measurements of a plan's funded status: going concern and solvency.

Going concern funding requirements are normally calculated on the assumption that a plan will continue indefinitely, and roughly speaking, determines the contributions necessary to fund liabilities over no more than 15 years. **Solvency** funding requirements are calculated on the assumption that a plan will terminate and wind-up immediately, and requires that the contributions necessary to fund liabilities over five years are made to a plan. Each measurement of funding uses different economic and plan-level assumptions (for example, e.g., discount rates, exclusion of certain benefits from funding).

During periods of low interest rates (which imply low discount rates), the solvency funding measurement tends to require higher levels of contributions over shorter periods of time. When plan assets lose value or fail to achieve the expected rate of return, the effect of low interest rates is exacerbated, requiring even higher contributions.²

Rationales for Relief

There are two primary rationales for solvency relief. The first is that market conditions are temporary and cyclical, which supports the provision of temporary solvency relief while market conditions change, which may assist pension plans in meeting their funding obligations. This rationale has driven (and continues to drive) the provision of temporary solvency relief to many pension plans across Canada. For example, this rationale supports temporary moratoriums on making solvency funding payments while interest rate and asset values change, which may, on the next actuarial valuation, reduce the otherwise-expected level of contributions.

The second rationale is that, for some plans the assumption that their sponsors will become insolvent is not a realistic assumption, and consequently, funding to a solvency standard creates "trapped capital" that has better alternative uses by sponsors.

Solvency funding was a measure developed in the 1980s to address the risk of insolvency of a plan's sponsor – at that time the focus of this policy change was private sector single employer pension plans.³ Today, a majority of plan members in Canada are members of a multi-employer plan, a jointly-governed plan or a public sector plan (or combination of these types). Multi-

² Conversely, if interest rates rise appreciably and asset values appreciate, plans that have been funded to a solvency basis for several years may then experience surplus, that is, the higher "solvency-driven" contributions will be have, in retrospect and when conditions change, have "over-funded" the plan.

³ It is also relevant to note that at that time interest rates were relatively high, and so the impact of the solvency funding measurement was muted compared to today.

employer and public sector plans have long challenged the assumptions behind solvency funding as unrealistic and inapplicable to their plans. Multi-employer plans by definition are structured to accommodate the entry and exit of employers in the normal life of the plan. Public sector plan sponsors are far less likely to become insolvent, and, even if they elect to terminate plans, are likely to be able to pay any terminal funding obligations.

Forms of Relief

There are – roughly speaking – two types of solvency relief available in jurisdictions across Canada: temporary and permanent solvency relief. Each jurisdiction has implemented variations on these basic forms of solvency relief, and attached conditions to solvency relief, some of which are not strictly related to solvency relief as a policy choice, but are part of a broader pension policy (or collective bargaining) strategy by public sector plan sponsors. A summary of the main forms of relief would include:

- Moratorium on solvency payments for some period of time (typically, one to three years, or one actuarial reporting cycle), usually with the provision that interest on the solvency deficit be paid to avoid the deficit increasing in size.
- Consolidation of existing past solvency funding schedules into a new (five-year) schedule (in effect, re-amortizing remaining payments of a previous schedules over a new five-year period).
- Amortization of newly-arising or existing (past) solvency deficits over a period of time, usually 10 years, in effect reducing required contributions due to the solvency measurement by about half.
- Permanent exemption from solvency funding.

Conditions that have been attached to solvency relief vary in each jurisdiction, but include:

- Restrictions on benefit improvements and contribution holidays during periods of solvency relief, either prohibiting them or requiring a certain funded status to permit them, or accelerating the pre-funding of benefit improvements.
- Requirement that plan sponsors agree to “terminal funding” of plans if they are terminated during the period of relief (where this is not already required of the sponsor by legislation).
- Securing a portion of the solvency deficit through letters of credit.
- Requiring the consent of members, usually by “negative option”, that is, where no more than some percentage of members and retirees (usually one-third, counted together) object to the relief after receiving notice.
- Requirements that plans implement restructuring of liabilities and contributions, particularly increasing employee (but usually not employer) contributions or the reduction of future benefit accruals.

- Conducting “stress tests” of plans on a periodic basis and attaching consequences to failing a stress-test.
- Enhanced notice and reporting to members and retirees, including explanations of the effects of solvency funding versus solvency relief.

2. SOLVENCY RELIEF BY JURISDICTION

Saskatchewan

Saskatchewan pension legislation applies to all registered plans in Saskatchewan except certain core public sector plans.⁴ These core public sector plans are exempt from solvency funding. Deficiencies in the plans are paid from provincial general revenues.

Broader public sector plans and multi-employer plans are subject to the *Pension Benefits Act 1992*.⁵ In 2009, temporary solvency relief was made available to all plans registered under the PBA 1992, permitting plans to elect a moratorium on solvency payments for a three year period.

The Saskatchewan Financial Services Commission has released a consultation paper that focuses primarily on two forms of potential solvency relief for public sector and publicly-funded plans:

1. “Extended Solvency Amortization” which would provide a 10-year (rather than 5-year) amortization period for solvency deficits, and
2. “Enhanced Going Concern” which would allow the elimination of solvency funding obligations going forward, but add constraints to going concern funding, in particular, reducing the amortization of going concern unfunded liabilities to 10 years from the current period of 15 years.

British Columbia

The four major public sector pension plans⁶ in B.C. are exempt from solvency funding altogether.

All other pension plans including the broader public sector plans may apply for solvency relief on a case-by-case basis.⁷ The Superintendent will consider whether extending a solvency amortization period is in the best interests of plan members, whether there is a “realistic” funding policy to address long-term sustainability, and whether factors leading to the solvency deficit

⁴ These are the Public Service Superannuation Plan, Teachers Superannuation Plan, SaskPower Superannuation Plan, Liquor Board Superannuation Plan, MLA Plan, Judges of Provincial Court Superannuation Plan; see *Public Service Superannuation Act*, R.S.S., 1978, c. P-43.

⁵ S.S. 1992, c. P-6.001 (“PBA 1992”).

⁶ Municipal, College, Teachers and Public Service plans, *Pension Benefits Standards Act*, R.S.B.C., XX, (“PBSA”) s. 3(10) and Schedule 1, and Regulation (“PBSA-R”).

⁷ PBSA-R, ss. 6, 35 and FICOM Bulletin PEN-11-002 (the “FICOM Bulletin”) updating the original solvency relief bulletin of 2009.

were within or outside the plan administrator's control. The FICOM Bulletin suggests that the Superintendent is unlikely to approve a solvency funding schedule longer than 15 years.

Negotiated-cost plans (where employer contributions are fixed by contract) are eligible for a moratorium on solvency contributions for a period of up to three years beginning on a date prior to 2013.⁸

Alberta

Private and public sector plans in Alberta are each governed by different legislation. Private sector plans are required to fund on a solvency basis,⁹ but public sector plans are exempt from this requirement. The core public sector plan legislation instead requires that public sector plans adjust current service costs to meet solvency funding requirements.¹⁰ Broader public sector plans are also exempt from solvency funding but under the EPPA must periodically adjust contributions to meet funding requirements.¹¹

Publicly-funded plans are permitted to apply for an exemption from solvency funding (if it otherwise applies) by meeting the definition in s. 2(q.1) of the EPPA-R (a "publically-funded plan" funded by a public entity or source related to a public entity) and where the sponsor agrees to terminal funding.¹²

Certain multi-employer plans (specified multi-employer plans) are eligible for a moratorium on solvency payments for three years. The eligibility for this relief has been extended to periods before 2015.¹³

Manitoba

Manitoba's general pension plan regulation requires solvency funding.¹⁴ However, the core public sector pension plans are exempt from this requirement.¹⁵

Broader public sector plans are eligible to apply for a permanent exemption from solvency funding on meeting certain conditions, including consent by negative option of members and retirees.¹⁶ One restriction on this relief is that no plan amendments are permitted that would reduce the funded ratio on a solvency basis below 0.9 (or 90% funded).

⁸ PBSA-R, Schedule 1.1.

⁹ *Employment Pension Plans Act*, R.S.A. 2000, c. E-8 ("EPPA"), and Regulations ("EPPA-R").

¹⁰ *Public Sector Pension Plans Act*, R.S.A. 2000, c. P-41; governing the Local Authorities Pension Plan, Management Employees Pension Plan, Public Service Pension Plan, Special Forces Pension Plan and Provincial Judges and Masters in Chambers Pension Plan.

¹¹ EPPA-R, Schedule 0.1 (universities academic pension plan) and 0.2 (publically-funded plans and SMEPPs).

¹² EPPA-R, s. 0.2.

¹³ EPPA-R, Schedule 0.2(3).

¹⁴ *Pension Benefits Act*, C.C.S.M. c. P 32 ("MPBA") and Regulation ("MPBA-R").

¹⁵ For example, by the *Civil Service Superannuation Act*, C.C.S.M., c. c120 and *Teachers Pension Act*, C.C.S.M., c. 720.

¹⁶ Manitoba Regulation 81/2010.

Temporary solvency relief is available to other pension plans in respect of a report filed before January 2, 2014.¹⁷ This relief permits the amortization of solvency deficits over 10 years, again with member and retiree consent by negative option. Again, a restriction on this relief is that no plan amendments are permitted that would increase the cost of benefits or create unfunded liability (that is, benefit improvements must be fully pre-funded).

Ontario

All pension plans in Ontario are regulated by the general pension regulation.¹⁸ The government introduced temporary solvency relief in 2009 that permitted three options: consolidating past solvency schedules, deferring payment on the new schedule by one year, and extending the amortization of newly-arising solvency deficits for 10 years with member and retiree consent by negative option.

In the 2012 budget, the government extended the window for this solvency relief to include the first-filed valuation following September 30, 2011.

Specified multi-employer pension plans are now permanently exempt from solvency funding (following a period of temporary exemption between 2007 and 2012). However, the going concern funding rules are more restrictive for these plans than for other plans. Unfunded liabilities must be amortized over 12 years (instead of 15) and, where the funded ratio of the plan is less than 0.9, any increase to benefits must be funded over eight years.

Ontario has also introduced two forms of solvency relief for public and broader public sector plans. Jointly-sponsored pension plans established prior to August 24, 2010 and listed by regulation¹⁹ are permitted to set their solvency deficits to “zero” and not make contributions in respect of those deficits. Jointly-sponsored pension plans established after August 24, 2010 may seek a similar exemption from solvency funding by regulation, and although there is no defined process or criteria for obtaining this exemption at least one plan has obtained one.²⁰

Single employer plans in the public and broader public sector are eligible to apply for “phased” solvency relief. The relief involves two phases. Phase One provides a moratorium on solvency payments for three years, with only interest on solvency deficits required to be paid. Phase Two permits the consolidation of then-existing solvency deficits and amortization over 10 years, and permits the deferral of solvency payments in that schedule for one year. There are significant conditions that are attached to Phase One and Phase Two relief. Application must be made to the Ministry of Finance and the Minister has discretion to permit or deny relief. Applications must be supported by a plan to restructure benefits and contributions to meet “savings targets” which roughly correspond to any “structural deficit” in the plan. The recent Ontario budget promises to legislate outcomes of this process if negotiations fail to achieve savings targets, and states that increased employer contributions are not to be part of any restructuring plan. In addition, during solvency relief, there are restrictions on benefit improvements and contribution holidays.

¹⁷ Manitoba Regulation 213/2011.

¹⁸ Pension Benefits Act, R.S.O. 1990, c. P.8 (“OPBA”) and Regulation (“OPBA-R”).

¹⁹ The Ontario Teachers Pension Plan, Healthcare of Ontario Pension Plan, Colleges of Applied Arts Pension Plan Trust, OPSEU Pension Trust, the OPSEU Staff Plan, the Ontario Municipal Employees Retirement System.

²⁰ The Toronto Transit Commission Pension Fund Society.

Quebec

The Quebec government introduced temporary solvency funding relief in 2009 for plans regulated by the general pension regulation²¹ that permitted “asset smoothing” (that is, recognition of losses gradually over five years), consolidation of previous solvency deficits and an extension of the amortization period to 10 years. This relief has been extended to filing dates up to December 31, 2013.

The municipal and university sectors are not covered by this relief. These sectors are exempt from solvency funding, but subject to more restrictive going-concern funding rules. These sectors were provided separate relief in 2010 (recently extended to December 31, 2013). This relief permitted the reduction of certain portion of the normal amortization of a going concern unfunded liability to either 33% or 20% of the otherwise required payment for the actuarial cycle, but imposed a reserve requirement (provision for adverse deviation, or PfAD) on these plans, which was also imposed on other SPPA-regulated plans.²²

New Brunswick

New Brunswick introduced solvency relief permitting plans to apply to extend the amortization period for solvency deficits for a period ending no later than December 31, 2018 for valuation dates no later than December 31, 2011.²³ This relief was available at the Superintendent’s discretion.

Recent regulations permit plans filing a valuation with an effective date prior to January 1, 2012 to elect to consolidate existing solvency deficiencies and apply a 10 year amortization period (that is, the Superintendent does not have discretion to refuse).²⁴ Conditions for this election are an actuary’s certification that assets are sufficient to meet expected payments, and notice to beneficiaries. There are restrictions on plan amendments during periods of solvency relief including the requirement to prefund benefit improvements.

University and municipal sector plans may apply for a full exemption from solvency funding.²⁵ An application must be supported by notice to and majority vote of the members and retirees of the plan (majority of those who respond to notice and vote). Similar conditions apply during periods of exemption from solvency funding, including the full pre-funding of benefit improvements.

Nova Scotia

Temporary solvency relief was provided to plans filing before January 2, 2011, permitting the extension of amortization of solvency deficiencies (then arising, not existing solvency

²¹ *Supplemental Pension Plans Act*, R.S.Q. c. R-15.1 (“SPPA”) and Regulation (“SPPA-R”).

²² The Quebec legislation makes a distinction between “technical deficits”, which are deficits arising from results and predictions, and benefit improvement deficits, which are attributable to amendments to the plan with a financial impact. Relief is extended for technical deficits, but benefit improvements deficits must be funded over five years, and may be funded through surplus.

²³ *Pension Benefits Act*, S.N.B. 1987, c. P-5.1, Regulations, s. 36(1.21).

²⁴ *Ibid.*, s. 36(1.22) and (1.23).

²⁵ *Ibid.*, s. 42.1.

deficiencies) to 10 years.²⁶ This relief required members consent by negative option, and there are restrictions on plan amendments during the first five years of solvency relief.

Nova Scotia has now proposed to exempt all university and municipal plans from solvency funding.²⁷ Previously, university and municipal plans were subject to unusual solvency funding requirements.²⁸ University plans with a deficiency arising before January 1, 2006 were permitted to amortize that deficiency over 15 years. Municipal plans are not required to make contributions in respect of a solvency deficiency greater than 85% of liabilities (that is, they are only required to solvency fund to 85%, not to 100%).

The solvency relief extended in 2010 to other plans also contained measures applicable to universities and municipalities. Universities were permitted a moratorium on solvency payments for three years beginning with the first-filed valuation between December 31, 2008 and January 2, 2011, and following this moratorium, solvency deficits could be amortized over seven years. Municipalities were permitted to fund any solvency deficit less than 85% (ie. the amount needed to fund to 85% on a solvency basis) over 10 years.

Nova Scotia is also poised to recognize jointly-sponsored pension plans in new legislation, and to permit a number of other funding measures, including actuarial smoothing and permitting JSPPs to fund to 80% of solvency liabilities. Specified multi-employer plans will be exempt from solvency funding.²⁹

Newfoundland and Labrador

Newfoundland & Labrador promulgated special regulations providing solvency relief in June 2008, permitting consolidation of existing solvency schedules and an extension of the amortization period to 10 years, on condition of member and retiree consent by negative option, or on condition that the extended schedule be secured by letter of credit.³⁰ This relief has been extended to plans with valuations filed to January 1, 2013.

Public sector plans are exempt from the solvency funding requirements of the general pension legislation.³¹

Multi-employer plans can elect a one-time exemption from solvency funding based on actuarial valuation reports with a valuation date between December 31, 2007 and December 31, 2010.³² Already-existing solvency payment schedules at that time must be completed.

²⁶ *Pension Benefits Act*, R.S.N.S. 1989, c. 340 and Regulation, s. 6A(3).

²⁷ *Ibid.*, s. 6(1).

²⁸ The regulations supporting this policy proposal are not yet released at the time of writing. The policy announcement was March 8, 2012.

²⁹ *Pension Benefits Act*, S.N.S. 2011, c. 41.

³⁰ *Pension Benefits Act*, 1997, S.N.L. 1996, c. P-4.01 and Regulation 30/08 as amended by Regulation 110/11.

³¹ The *Pension Benefits Act, 1997* applies to all plans for persons employed in the province. However, s. 41 of the regulations exempts certain public sector plans from solvency funding. Newfoundland & Labrador has also granted plan-specific temporary exemptions to the Memorial University Pension Plan and the Newfoundland and Labrador Municipal Employee Benefits Inc. Pension Plan, pursuant to ss. 41(4) and 42.2 of the regulation.

³² Regulation 114/96, s. 7.1.

Prince Edward Island

P.E.I. has indicated that it intends to follow the new Nova Scotia general pension legislation. A bill is expected to be introduced this spring.

Federal

In 2006, the federal government announced temporary solvency relief and in 2009 renewed it.³³ This relief permits plans regulated by the general pension regulation to extend solvency funding payment periods to 10 years with either member and retiree consent by negative option or with a letter of credit as security. Federal crown corporations are able to access the relief by direct application to the Minister of Finance.

The core public sector pension plans - the pension plans for the Public Service, Canadian Forces and RCMP - are exempt from the general pension regulation. The funding requirements of these public sector plans are based on the specific acts which create and govern them.

Effective July 1, 2010, the federal government adopted a new standard for establishing minimum solvency funding requirements that permits averaging solvency funded ratios over three years (instead of the spot ratio on the date of the valuation).³⁴

Finally, the recent federal government introduced the “distressed plan workout scheme” which permits a moratorium on solvency payments for up to nine months, following which the Minister has discretion to accept a proposal and negotiated agreement by a plan sponsor and members (and retirees) to, among other considerations, extend the amortization period of a solvency deficiency. This scheme may be “accessed” every 48 months.³⁵ To our knowledge only one plan has thus far entered this scheme and there is no negotiated result at the time of writing.

³³ *Pension Benefits Standards Act*, R.S.C. 1985, c. 32 (2nd Supp.) and Regulations. Solvency relief is created by Regulation 2006-275 and 2009-182.

³⁴ PBSA-R, s. 9(8).

³⁵ PBSA, s. 29.1 and Regulations.

From: Ron Williams [mailto:r.williams@sasktel.net]

Sent: Tuesday, March 13, 2012 2:23 PM

To: Fichter, Leah SFSC

Subject: Consultation paper on New Funding Regime for Public Sector Plans

Dear Leah:

The IUOE 870 pension plan comments, although brief, will focus on Question 1 of your consultation paper, "Do you agree with list of plans which will be subject to the new rules?" under Section 2. DEFINITION OF PUBLIC SECTOR PLANS and also Section 3 RATIONALE FOR THE CHANGE.

The pension plans which this new Funding regime should apply to; are all plans which have similar characteristics to Public Sector plans, not just Public sector pension plans.
SMEPPS should be included in the same funding regime as Public Sector Plans.

Public section plans will generally always have the employer exist. The chances of a government going bankrupt or ceasing to exist is very slim. The same is true for SMEPPS.

If in the Operating Engineer industry, a crane employer ceased to exist, other crane employers would pick up that business. Thus, pension contributions would still continue.

Therefore, there is little benefit to the solvency test.

It is most important to convince the Saskatchewan Financial Services Commission, Pensions Division of the principle underlined above and then the remainder of the principles in the consultation paper can be further commented on.

Thank you.

Ron Williams
Trust Funds Administrator
IUOE Local 870 Pension Plan

4/3/2012

April 26, 2012

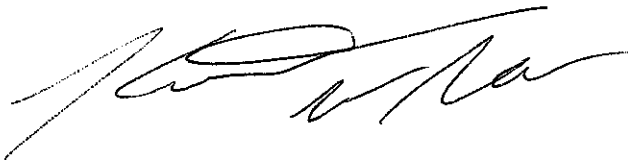
Leah Fichter
Director, Pension Divisions
Saskatchewan Financial Services Commission
Suite 601, 1919 Saskatchewan Drive
REGINA SK S4P 4H2

Dear Ms. Fichter:

Attached is the Municipal Employees Pension Commission's (the Commission) submission to the Saskatchewan Financial Services Commission consultation paper, "New Funding Regime for Public Sector Pension Plans", which contemplates changes to solvency funding requirements for public sector plans.

If you have any questions regarding the submission, please do not hesitate to contact me at 787-1875.

Sincerely,



Kent Walde
Board Secretary, Municipal Employees' Pension Commission

c.c. Earl Braun, Chair of the Municipal Employees' Pension Commission

**The Municipal Employees' Pension Commission
Submission to the Financial Services Commission
Consultation Paper: New Funding Regime for Public Sector Plans**

Introduction

The Saskatchewan Financial Services Commission (SFSC) consultation paper, "New Funding Regime for Public Sector Plans", contemplates changes to assist pension plans in dealing with the volatility in the level of funding that may be caused by the current solvency funding requirements. The paper cites the main factor affecting pension plans from a solvency perspective is the state of current market conditions, which are short-term versus long-term actuarial assumptions used to determine the funding requirements for pension plans.

The consultation paper includes a list of 11 questions for response or comment. The following are the Municipal Employees' Pension Commission's responses.

1. Do you agree with the list of plans which will be subject to the new rules?

The Municipal Employees' Pension Commission (the Commission) notes that Municipal Employees' Pension Plan is appropriately included in the list of public sector plans in Appendix A of the document. The Commission is not in a position to comment on the comprehensiveness of the list of public sector plans contained in the appendix.

However, the Commission would add that a public sector plan must be in compliance with *The Pension Benefits Act, 1992* (the PBA), in order to be eligible for the alternative funding requirements. If any particular plan is not currently in compliance with the PBA, that plan would be ineligible for the alternative funding rules until it fully complies with the PBA.

2. Do you agree with the principles on which the new funding rules are based?

The Commission agrees that the three principles outlined in the document are appropriate.

The Commission notes that with respect to the first principle, volatility is a concern due to the high level of funding required in recent years. Plan sponsors are primarily concerned with how volatility has impacted the stability and level of contributions to fund the plan. In the context of statutory plans such as the Municipal Employees' Pension Plan (MEPP), changes in contribution levels require amendments to regulation, which creates a lag between the implementation of contribution increases and meeting requirements to fund deficiencies in MEPP.

3. Under Extended Solvency Amortization, is a ten year period for amortizing solvency deficiencies the appropriate length of time?

The Commission is of the view that for public sector plans and for MEPP in particular, solvency-based funding is inappropriate. For instance, solvency funding can create significant volatility in contribution rates. Such volatility stems largely from the discount rate being directly tied to the volatile bond yield curve. Hence, the period over which solvency deficiencies are amortized does not drive the volatility of solvency funding. Therefore, the period over which solvency deficits are amortized will not provide adequate relief from such economic volatility even if the amortization period was in excess of 15 years. It therefore seems appropriate that solvency funding should be eliminated in favour of funding on an enhanced going concern basis.

4. Under Extended Solvency Amortization, should the going concern valuation be strengthened by requiring more conservatism in the assumptions?

No, the going concern valuation for MEPP should not be strengthened by requiring more conservative assumptions. With respect to requiring more conservatism in the assumptions for MEPP, it should be noted that:

1. given the current low yield rates on fixed income securities, the solvency test results in an arguably excessive level of margin in the funding basis. Such margins are far in excess of reasonable margins that would be included in a reasonable going concern basis for MEPP; and
2. the Commission has a detailed funding policy that addresses funding levels and the contribution levels required to maintain the plan on a fully-funded basis.

Some public sector pension plans included in Appendix A have implemented funding policies similar to MEPP's, while others have less prescriptive funding policies or do not have funding policies in place.

Given the diverse nature of the public sector pension plan group, it does not seem reasonable to impose more conservative assumptions that apply generically to all plans. Plans that do not have funding policies or have less prescriptive policies could be held to a stricter standard of conservatism, as opposed to plans with well-designed funding policies that have already built in assumptions with the appropriate level of conservatism.

5. Under Enhanced Going Concern, is a ten year period for amortizing unfunded liabilities the appropriate length of time?

The Commission agrees that ten years seems a reasonable length of time for amortizing unfunded liabilities in pension plans.

As noted earlier, for statutory public sector plans such as MEPP, a requirement to begin increased funding within a year of the valuation date (leaving the funding to be done over

the remaining nine years) may not be practical given that the process to change the funding contribution rate requires regulatory changes. These plans may require a longer deferral period, in some cases by as much as two years.

6. Do you have any comments at this time on appropriate best estimate assumptions and appropriate margins for public sector plans?

The Commission does not have a recommendation concerning best estimate assumptions and appropriate margins for public sector plans.

The very nature of the differences between plans in terms of plan membership and plan design, investment beliefs and investment policy mix, and the funding policy design where funding policies exist, would suggest that a single prescriptive approach to best estimate assumptions and margins is unfeasible. If the SFSC is considering prescriptive measures for best estimate assumptions and margins, the Commission is of the view that plan actuaries are in the best position to determine what best estimate assumptions and margins are appropriate on a plan-specific basis.

The Commission has invested a significant amount of time and effort into the development of an appropriate funding policy for MEPP. This funding policy includes items such as:

- the development of funding objectives, priorities, funding targets and ranges all documented in a written funding policy;
- in consultation with the plan actuary, the development of best estimate assumptions; and
- the development of appropriate margins included in the funding basis which have been designed to meet the funding objectives and priorities of the plan.

Given the above, we believe that this funding policy is appropriate for MEPP and that additional regulation under the PBA is not required and in fact, could interfere with the intended operation of the funding policy.

7. Do you agree that benefit improvements should be restricted in an insolvent plan, and if so:

- 1) Is a threshold solvency ratio of 0.90 appropriate?**
- 2) Should the restriction apply under both Extended Solvency Amortization and Enhanced Going Concern?**

In general, the Commission agrees that benefit improvements should be restricted in an insolvent plan, and that pension plans should endeavour to return to fully funded status before any benefit improvements are considered.

However, since the Commission believes that the appropriate basis upon which public sector plans should be funded is the going concern basis, with a reasonable amortization period for the recovery of unfunded liabilities, if restrictions are placed on benefit improvements based on the financial status of the plan, such restrictions should be based on the going concern financial position rather than the solvency ratio.

With respect to the Municipal Employees' Pension Plan, the Commission's funding policy requires that the funding target levels of above 115 per cent and below 125 per cent be achieved before the Commission considers granting additional allowances to retired members. Furthermore, a ratio of 140 per cent or above is required before temporary benefit improvements to any class of members, and the granting of additional allowances for retired members can be considered by the Commission. The Commission believes that a well-considered funding policy is a more reasonable basis to regulate benefit improvements based on the financial status of the plan.

8. Do you agree that plan amendments that provide different benefits on plan termination than on a going concern basis should no longer be accepted by SFSC?

The Commission recognizes that *The Municipal Employees' Pension Act* does not contain a provision for winding up MEPP. If the plan was wound up, the enabling legislation would determine the benefit entitlements of members, which may be different than those that would be received on termination of membership in MEPP.

9. Do you agree that amounts held back due to a transfer deficiency should be transferred within five years?

The Commission is of the view that hold backs should no longer be required with the elimination of the need to fund the solvency deficiency under the Enhanced Going Concern option.

10. At a later date, should SFSC consider requiring annual valuations for all defined benefit plans, if the solvency ratio falls below a prescribed amount?

No, the current requirement for triennial valuations is adequate. Introducing annual valuations will only add to the volatility of the funding requirements and increase the administrative burden. Interim valuations and extrapolations can be used by public sector plans to monitor the funding of the plans. If SFSC has concerns about a particular plan, it can direct more frequent valuations pursuant to s. 11(4)(b) of the PBA.

11. Which option do you feel best meets the principles, Extended Solvency Amortization or Enhanced Going concern? Are there any flaws in either option?

The Commission supports the Enhanced Going Concern option as most appropriate for public sector pension plans, and the option that best satisfies the principles that have been established in developing the new rules.

Issues that SFSC should consider under this option include:

- In comparison, the volatility and rigidity inherent in the current and proposed Solvency Funding basis presents significant and realistically unmanageable challenges for the Commission in achieving the funding objectives of the plan. This challenge is created by placing undue weight on the objective of benefit security and thereby removing the ability to also provide for contribution stability and appropriate use of going concern surpluses of the plan.
- The risk of insolvency of MEPP is extremely low, as the funding of the plan is backed by the solvency of numerous municipalities in Saskatchewan. The real question is the risk of the collective solvency of those municipalities. As such, the Commission believes it is unrealistic to strive for risk-free pension obligations based on the extremely low risk of the insolvency of MEPP.
- As stated in Question 8, *The Municipal Employees' Pension Act* does not contain a provision wind-up for the plan, and in the event that MEPP is wound up, the enabling legislation would determine the benefit entitlements of members, which may be different than those that would be received on termination of membership. The requirement for a solvency valuation and related solvency funding for a plan that does not have wind-up benefits defined seems inappropriate.
- The requirement for statutory public sector pension plans to increase funding under the accelerated schedule of payments one year after the valuation date may not be practical, given that regulatory changes are required to change the level of contribution rates. Amendments to change contribution rates can take up to two years causing a lag between when the payments are required and when the increased contributions are received.
- In considering the appropriate level of conservatism to use in setting discount rates and margins, the Commission would welcome an approach that recognizes the differences between plans in respect to the nature of the plan demographics, plan design, as well as investment policy and funding policy design. The Commission is of the view that plan actuaries are in the best position to determine what the appropriate assumptions are and is pleased to learn that the SFSC is consulting with the Canadian Institute of Actuaries on this issue.



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Leah Fichter, Director
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30 April 2012

Dear Ms. Fichter:

We welcome the opportunity to provide comments in response to the consultation paper "New Funding Regime for Public Sector Plans" (the Paper).

As explained in the Paper, the government of Saskatchewan is interested in establishing new funding rules for all public sector and publicly funded plans that are registered under *The Pension Benefits Act, 1992*. The Saskatchewan Financial Services Commission (SFSC) is seeking input before making recommendations to the government.

Overview

The Paper sets out two proposed approaches for meeting the objective to reduce funding volatility while providing for adequate funding over the long term. Our main observation is that the suitability of one or the other of the two approaches for managing volatility will vary by plan and over time. Furthermore, the assessment of adequate funding is a relative one; neither the current regime nor the proposed options will ensure full funding. We believe the intention of the proposals is to try to manage volatility without lessening the long term potential for the funding rules to produce well funded plans. In order to truly assess whether this objective is met, modelling of the long term effect of the proposed rules compared to the current rules would be required.

Our main concern is that the one-size for all approach cannot target the objectives as well as could be done if the rules vary to suit different risk profiles. Some plans have lower risk of benefit loss, because they have lower risk of being wound up. For such plans, solvency funding is commensurately less important, but controls on benefit improvements might be warranted nevertheless as a cost containment measure. Other plans have very mature liabilities, and any realistic attempt to control volatility should address asset strategies as well as valuation rules.

The balance of our response summarizes each section of the Paper followed by our more detailed comments.

Definition of Public Sector Plans

The Paper

The proposal is to include plans registered under the Act that are established for employees of provincial government agencies, school boards, health care providers, universities and municipalities. The plans are listed in Appendix A of the Paper.

Comment

We have no issue with the definition or the list. However, we encourage the SFSC to examine different types and degrees of risk and consider differences in the rules for sub classes of plans.

Rationale for the Change

The Paper

The rationale for the proposals is to deal with volatility in the level of required funding. The key source of volatility is solvency funding because it reflects current market conditions rather than long-term actuarial assumptions. Public sector plans have a unique challenge because it is difficult to react quickly to changing funding requirements due to their budgeting and, where applicable, collective bargaining processes.

Comment

While solvency funding is perceived to be a key source of funding volatility, it is not the only source and is not an equally strong source of volatility for all of the public sector plans. Volatility can be just as great for going concern funding, especially for mature plans or cost shared plans that do not use margins (or use small margins) in the going concern valuation.

Another key source of volatility is plan assets. Asset strategies can also affect intergenerational fairness. The Paper does not discuss the role of asset strategies at all. We encourage the SFSC to consider measures that encourage or require appropriate asset strategies that address volatility, the nature of plan liabilities and intergenerational fairness.

There is an underlying assumption in the proposals that solvency pressures will ease up or disappear in the long term. Caution is warranted here because it is possible that conditions may not correct for an extended period of time.

Principles Followed in Developing the New Rules

The Paper

Three principles inform the proposals:

1. The rules must help to manage volatility;
2. The rules must not add undue risk to accrued benefits and must result in adequate funding over the long term; and
3. The rules must be simple and must not add administrative burden or complexity to valuation reports.

Comment

We understand the intention in articulating these three principles is that the changes should not reduce funding over time, but should smooth the level of funding required from year to year. We have no issue with the principles in general, but note that the degree to which they are addressed by the proposals would vary significantly by plan. The definition of undue risk and adequate funding over the long term will also vary significantly by plan.

Two Proposed Options

The Paper

Although two options are presented in the Paper, it is envisioned that one set of rules will apply to all public sector plans.

Comment

Both options will have different degrees of impact for the various plans. Affected plans should be able to choose one or the other. While having an option does not simplify the rules on one hand, it increases flexibility of managing risk on the other hand. We believe the latter takes precedence over the former.

Option One – Extended Solvency Amortization

The Paper

Option One extends the current five year solvency amortization to ten years. Unfunded liabilities would continue to be funded over fifteen years.

The first transition valuation under the new rules would calculate a new solvency deficiency without requiring payments related to prior solvency deficiencies (a fresh start). Solvency assets would include the present value of ten years of unfunded liability payments. For plans that are still in the three year period of temporary solvency relief, the present value of remaining notional payments could be deducted from the new solvency deficiency.

In subsequent valuations there would not be a fresh start. Each solvency deficiency would be funded separately. Solvency assets would include the present value of remaining payments established in the transition valuation and ten years of unfunded liability payments.

Comment

A ten year period is consistent with similar measures in other jurisdictions. However, we mention this comparison with one important caveat: other jurisdictions have a requirement for full funding on plan termination, which is not the case in Saskatchewan. Any lengthening of the amortization period adds risk to benefits, but to different degrees according to a plan's risk of termination and funded status.

The Paper asks whether going concern funding should also be strengthened. We see no reason to strengthen going concern funding when solvency funding is required. The solvency basis for funding is, in effect, a margin.

Option 2 – Enhanced Going Concern

The Paper

This option eliminates solvency funding while still requiring the valuation and disclosure of the solvency position, and decreases the amortization of new going concern unfunded liabilities from fifteen years to ten years.

Funding of solvency deficiencies, whenever established, would cease. Plans would be required to disclose a fresh start solvency deficiency and the payments that would be required to fund it over five years. Solvency assets would include the present value of five years of unfunded liability payments. For plans that are still in the three year period of temporary solvency relief, the present

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Saskatchewan Financial Services Commission

value of remaining notional payments could be deducted from the new solvency deficiency. The plan's solvency ratio would be based on the solvency valuation, would be used to determine any transfer deficiency, and this would be used to determine when benefit improvements are allowed.

Prior unfunded liabilities would continue to be funded over fifteen years. Unfunded liabilities established under the new rules would be amortized over ten years.

Comment

Selection of a ten year period is somewhat arbitrary, but there is no particular reason to adjust it. For some plans, in particular those that have mature liabilities and a significant level of asset/liability mismatch, enhanced going concern funding will not necessarily help to control volatility.

We do not think disclosure of the payments that would be required to fund a solvency deficiency over five years is useful. It would be a complex feature of the valuation with no obvious benefit. An explanation of the solvency ratio (the degree to which benefits would have to be reduced if the plan were wound up and the deficiency not funded) should suffice.

Application and Effective Date

The Paper

The new rules would apply to all public sector plans automatically, for valuations with an effective date of December 31, 2012 or later.

Comment

We do not see any difficulty with this effective date.

Best Estimate Discount Rate and Margin

The Paper

The SFSC expects to provide direction to all defined benefit plans in 2012 on setting margins for adverse deviations in going concern valuations. For public sector plans SFSC wants input on level of margins taking into account the principles set out in the Paper.

Comment

If there is no solvency funding, then whether or not a margin should be required or is appropriate is a matter that varies by plan and over time. Margin requirements are linked to who bears risk and the priority of objectives.

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Saskatchewan Financial Services Commission

If a margin is always required, the active members bear the risk of funding to provide that margin. If a margin is never required, risk is distributed to non-active members.

The degree of risk borne by each generation of active members depends on the risk sharing structure of the plan (that is, whether inactive members share any risk), the investment strategy and the level of asset/liability mismatch risk, and the maturing pattern of the pension plan. For plans where these risks are borne solely by active members, in order to balance plan security and sustainable contribution levels, it is important to have some flexibility to reduce margin in times of financial stress.

We therefore believe that there should be flexibility for a plan to have no margin, especially where active plan members are funding on a cost shared basis and where fairness between generations is at risk. We note that it is better to have a requirement for full funding on plan termination if no margin is required.

Benefit Improvements

The Paper

It is felt that improving benefits while a plan is insolvent is counter to the objective of adequate funding over the long term. Benefit improvements would not be allowed if the solvency ratio is less than 0.90, unless contributions are made immediately to bring the ratio to at least 0.90. Existing collectively bargained increases would be exempt. SFSC is considering restricting benefit improvements for all defined benefit plans.

Comment

Restrictions on benefit improvements make sense for risk management, for both a going concern and a solvency environment. It should be clear what types of improvements are caught by the restriction, and whether the restrictions to apply equally to accrued versus future service.

The 0.90 threshold is reasonable but slightly higher than thresholds being set for the same purposes in some other jurisdictions. To the extent that the threshold is below 1.00, there is a presumption that conditions will correct and/or that contributions being made will eventually result in full funding.

Use of Surplus Assets

The Paper

Surplus assets, defined as experience gains, identified in a going concern valuation would have to be used first to reduce any outstanding balance of unfunded liability, then to reduce solvency deficiency payments, before employer contributions for normal cost could be reduced. Cost shared plans would not be subject to this rule.

Comment

It is not clear when an ordinary contribution holiday for normal cost would be available based on a plan's true surplus position (defined as having no solvency deficiency or unfunded liability with excess assets sufficient to pay for normal cost). It would be more straightforward to do what some other jurisdictions are doing, which is to set a funded threshold at which an ordinary contribution holiday is available, rather than to base the rule on experience gains, changes to plan provisions and changes to actuarial assumptions.

Benefit Exclusions in Solvency Valuation

The Paper

SFSC will no longer accept plan amendments that provide for benefits on plan termination that differ from those provided while the plan is a going concern.

Comment

We agree that plan provisions providing lower benefits on plan termination should no longer be permitted. However, plans that provide target benefits should be exempted. Plan provisions that improve benefits on plan termination should be allowed, perhaps only if fully funded.

Implementation of Contribution Increases

The Paper

A one year delay for implementing contribution increases, from the date of the valuation, will be permitted. Under the extended solvency amortization option, the delay will increase the annual solvency payment as it is amortized over nine years and must still be completed within ten years from the valuation date. Similarly, under the enhanced going concern option, payments for unfunded liability must still be completed within ten years from the valuation date.

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Comment

It is not clear whether the one year delay being proposed would apply only to cost shared plans. We support a one year delay for all plans. Also, it would be useful if the rules allow a contribution increase to be phased in. For example, a similar Ontario rule allows incremental increases of at least one third of the total increase in each of three years, with an actuarial equivalence test. Having the ability to phase contribution rates in is particularly important for plans that charge deficiency payments as a percent of payroll.

Transfer Deficiency

The Paper

Current transfer deficiency rules, which require the unfunded portion of a commuted value transfer to be held back for up to five years unless a contribution is made to fund it, would stay in place. The purpose of these rules is to keep former members who transfer out in a similar position to other members in terms of the risk to benefits associated with underfunding. Although the rationale for the five year hold back is to match the solvency amortization period, extending the hold back to ten years (under the extended amortization option) would be impractical.

Comment

Transfer restrictions can be a relatively blunt and ineffective tool for dealing with the risks of underfunding to members, but we understand the objective behind them for plans with a higher risk of plan termination.

We support eliminating this practice for the Enhanced Going Concern option as we understand that former terminated members will receive their outstanding balance within 5 years without any special payment made. We do not understand how this practice supports your principle #2 in any way and is contrary to principle #3. In the absence of elimination, we suggest adding a threshold (e.g., cumulative lump sum transfer less than 5% of assets in the year) where the full transfer can be made.

We note that some plan sponsors may want to have the option of maintaining the transfer deficiency holdbacks, particularly if commuted value payments are based on a much lower interest rate than the going concern basis arising from intergenerational equity pressures.

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Saskatchewan Financial Services Commission

Frequency of Filing Valuations

The Paper

The three year valuation cycle would remain. Consideration will be given at a later date to requiring annual valuations if the solvency ratio is below a prescribed level, for all defined benefit plans.

Comment

Moving to an annual cycle would not ease volatility or make budgeting less challenging, so it is consistent with the objectives of the Paper to maintain the three year cycle. In general, we support an annual requirement where there are solvency concerns.

Asset Smoothing

The Paper

Asset smoothing would be allowed, as is currently the case, for going concern and solvency valuations.

Comment

Asset smoothing helps to stabilize contributions, so it is consistent with the objectives to continue to allow it. It would tend to be less important where ten year solvency amortization is allowed.

Disclosure

The Paper

In addition to disclosure already required, the SFSC is considering added requirements to provide information about the new funding rules.

Comment

This proposal makes sense.

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Leah Fichter, Director
Saskatchewan Financial Services Commission

Which Option Best Meets the Objectives

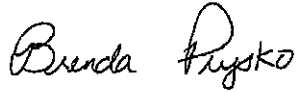
The Paper

The SFSC is interested to hear which option best meets the objectives identified in the Paper. Are there any flaws in either option?

Comment

For some plans one option will work toward the objectives better than the other. Accordingly, we suggest that plans should be able to choose between options.

Sincerely,



Brenda Pysko, FSA, FCIA
Partner

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Saskatoon Board of Education
Response to Consultation Paper
New Funding Regime for Public Sector Plans

April 9, 2012

QUESTION 1

Do you agree with the list of plans which will be subject to the new rules?

We agree with the list of pension plans. However, we would add that in order to be eligible for the alternative funding requirements a public sector plan must be in compliance with the Pension Benefits Act.

QUESTION 2

Do you agree with the principles on which the new funding rules are based?

We agree with the principles outlined in the consultation paper.

QUESTION 3

Under Extended Solvency Amortization, is a ten year period for amortizing solvency deficiencies the appropriate length of time?

We do not believe that funding on a solvency basis is appropriate for public sector plans in Saskatchewan. Since the volatility inherent in the solvency basis is mainly due to the prescribed bond yields and not the length of amortization, we feel that there is no appropriate amount of time for amortizing solvency deficiencies.

QUESTION 4

Under Extended Solvency Amortization, should the going concern valuation be strengthened by requiring more conservatism in the assumptions?

No. Although we believe pension plans should include a certain level of conservatism in their going-concern assumption basis for valuation purposes, we also believe that the appropriate level of margin or conservatism should be a decision made by the plan sponsors, in consultation with their actuary, and should be governed by a well written funding policy.

QUESTION 5

Under Enhanced Going Concern, is a ten year amortization period for amortizing unfunded liabilities the appropriate length of time?

Yes. We feel that a ten year amortization period is a reasonable amount of time over which to amortize any unfunded liabilities. Note that this is generally the term period on bank loans acquired by the Saskatoon Board of Education in the past for other capital projects.

QUESTION 6

Do you have any comments at this time on appropriate best estimate assumptions and appropriate margins for public sector plans?

See Question 4.

QUESTION 7

Do you agree that benefit improvements should be restricted in an insolvent plan, and if so:

- *Is a threshold solvency ratio of 0.90 appropriate?*
- *Should the restriction apply under both Extended Solvency Amortization and Enhanced Going Concern?*

Given our views that public sector pension plans should be funded on a going-concern basis only, we do not believe that it makes sense to restrict benefit improvements for an insolvent plan if it is fully funded on a going-concern basis and is not subject to solvency funding rules. Having said that, we do believe that benefit improvements should be restricted based on the going-concern funded ratio.

QUESTION 8

Do you agree that plan amendments that provide different benefits on plan termination than on a going concern basis should no longer be accepted by SFSC?

To provide plan sponsors with the maximum amount of flexibility within their plan designs, we believe that the SFSC should continue to allow these types of amendments under the Extended Solvency basis. We note that these types of amendments would not be necessary under the Enhanced Going Concern basis.

QUESTION 9

Do you agree that amounts held back due to a transfer deficiency should be transferred within five years?

For members transferring their entitlement out of the Plan, we do not feel that it is appropriate to hold back money based on a solvency ratio if the plan is not subject to solvency funding. Given our views that public sector pension plans should be funded on a going-concern basis only, we feel that a more appropriate method would be to hold back money based on the going-concern funded ratio. In any case, we feel that the holdback period should be no longer than five years.

QUESTION 10

At a later date, should SFSC consider requiring annual valuations for all defined benefit plans, if the solvency ratio falls below a prescribed amount?

No, the current requirement for triennial valuations is adequate. Introducing annual valuations will only add to the volatility of the funding requirements of the plan and increase the administrative burden and costs for the plan. Interim valuations and extrapolations can be used by public sector plans to monitor the funding of the plans.

QUESTION 11

Which option do you feel best meets the principles, Extended Solvency Amortization or Enhanced Going concern? Are there any flaws in either option?

We strongly feel that the Enhanced Going Concern basis is the appropriate basis upon which public sector plans should be funded.



April 26, 2012

Saskatchewan Financial Services Commission
Suite 601, 1919 Saskatchewan Drive
Regina, SK
S4P 4H2

Attention: Leah Fichter, Director, Pensions Division

SaskTel is pleased to provide comment on the SFSC Discussion Paper – Solvency Relief for Public Plans.

Detailed commentary, including SaskTel views on the '11 Questions', can be found in the attachment to this letter. These comments reflect SaskTel's direct concern as the sponsor of the SaskTel Pension Plan as well as general commentary on overall public sector plan solvency relief.

It is important to note that the SaskTel position on this issue includes the following key points:

1. An acknowledgment that solvency payment relief is necessary to overcome the current volatility in discount rates.
 - Solvency funding payments have a major impact on the corporation. They impact the funds available for input to corporate programs, projects and ongoing operating activities
 - A significant concern is that funds injected into the plan for solvency purposes will result in a surplus condition (in all surplus/deficit methodologies) when interest (discount) rates eventually rise.

This 'stranded capital' would be much better utilized in the present to contribute to the business activities of SaskTel that support its ongoing financial sustainability, its contribution to the Government of Saskatchewan, and, to its pensioners.

2. An appreciation for both options – either one will provide a measure of relief for SaskTel.

May 1, 2012

3. A strong preference for the option to base deficit funding payments on the Enhanced Going Concern method.
- As noted by our Actuary in their valuations of our plan, the Going Concern method is the key measure of the plan's ability to meet current and future obligations to plan members.
 - This methodology is not subject to the same degree of volatility in interest rates.
 - SaskTel is financially sound and Solvency deficits, calculated under the assumption that the plan is being wound up, are not as relevant as surpluses/deficits calculated under the long term assumptions of the Going Concern method.
 - The SaskTel Pension Plan is in a surplus position from a Going Concern point of view.

SaskTel is committed to maintaining the health of the SaskTel Pension Plan and the underlying pension promise to its members. This commitment has been demonstrated historically and is ensured on a go-forward basis by the underlying strong financial status of the corporation.

It is important that permanent solvency relief be implemented so that the SaskTel Pension Plan is funded to the appropriate degree and so that corporate business programs are not hindered by excessive funding due to volatility of interest rate conditions.

Thank you for your consideration.



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SaskTel Response to SFSC's '11 Questions'

QUESTION 1 - Do you agree with the list of plans which will be subject to the new rules?

SaskTel agrees with the inclusion of the SaskTel Pension Plan on the list of plans which will be subject to the new funding rules.

1. SaskTel has both the ability and the commitment to meet its obligations to its pensioners and its pension plan.
 - SaskTel is a financially strong corporation, able to meet its commitments to its pensioners and the long term funding required to maintain the financial health of the plan.
 - SaskTel has demonstrated its commitment to its pensioners and its pension plan over the 84 year history of the plan - significant funds have been contributed and all sponsor requirements, as formalized in the Plan Text, have been met.
 - SaskTel will continue to meet all its commitments to its pension plan.
2. The SaskTel Pension Plan is a well-managed plan that is well positioned to meet its current and future obligations to its members.
 - It continues to be in a surplus position from a 'Going Concern' point of view. With the exception of 2003 valuation, it has always had a going concern surplus.
 - The plan has a strong governance structure, including a Statement of Investment Policies and Goals and a Governance Policy. These policies are reviewed annually to ensure ongoing relevance and to ensure all governance requirements have been met.
 - The SaskTel Pension Plan Board of Directors, in conjunction with the Actuary, has historically built conservatism into the assumptions used in funding valuations.
 - The plan has implemented an LDI strategy to reduce the risk in the Pension Plan.
 - The SaskTel Pension Plan provides a meaningful and generous benefit promise to its members. Although there are further benefit improvements allowed (from regulatory and/or income tax standpoints), none will be considered that place the plan in a deficit position of any sort.

SaskTel has no issues with the plans listed from a conceptual point of view.

- Public sector plans are long term in nature.
- These plans generally have the backing of government and/or other agencies that have the means and commitment to fulfill their obligations and commitments to plan members.

SaskTel believes, however, that any plans being considered for inclusion in the new funding regime should be fully compliant with current Pension Benefits Act requirements, including funding requirements, and should not be in a financially weak or unhealthy position.

- Future financial commitments to plan members should not be in jeopardy.
- In particular, new regulations should not be restrictive or developed such that they will penalize healthy plans that have always been in compliance with legislation and regulations.

QUESTION 2 - Do you agree with the principles on which the new funding rules are based?

SaskTel agrees with the principles outlined in this document.

1. The rules must provide a means of managing volatility.
 - Solvency funding payments have had a major impact on SaskTel and other sponsoring organizations. They impact the funds available for input to corporate programs, projects and ongoing operating activities
 - The SaskTel Pension Plan is in a surplus position from a Going Concern point of view. A significant concern is that funds injected into the SaskTel Pension Plan, for solvency purposes only and because of volatility in interest/discount rates, will prove to be unnecessary and will result in a significant surplus condition (in all surplus/deficit methodologies) when discount rates eventually rise.

This 'stranded capital' would be much better utilized in the present to contribute to the business activities of SaskTel that support its ongoing financial sustainability, its contribution to the Government of Saskatchewan and its pensioners.
2. The rules must not introduce undue risk to the accrued benefits of plan beneficiaries, and must result in an adequate level of funding over the long term.
 - SaskTel is committed to maintaining its pension promise to the members of the SaskTel Pension Plan. New funding rules should

not jeopardize this promise nor the pension promise to the members of any pension plan included in the new funding regime.

3. The rules must be simple to understand and apply. They should not measurably increase the administrative burden for the plan administrator, or the level of complexity in the preparation, presentation, and review of an actuarial valuation report.
 - Simplicity is important from both an application point of view as well as a transparency point of view. Rules must be easily applied by plan administrators and clearly understood by plan members.
 - Plans are all challenged at this time to keep their administrative costs at a minimum. The new regulations need to ensure that plans do not incur additional costs.

QUESTION 3 - Under Extended Solvency Amortization, is a ten year period for amortizing solvency deficiencies the appropriate length of time?

The increase in amortization period helps to make the plan more affordable by spreading solvency funding over additional periods.

- The impact of volatility in underlying discount rates is somewhat reduced as less cash is injected between valuations.
- SaskTel recognizes that true and permanent deficiencies need to be funded in order to maintain the financial health of the plan and 10 years would be more appropriate in achieving a reasonable balance between affordability and responsibility.

SaskTel, however, would like to see the elimination of solvency funding for public sector plans.

- SaskTel is financially sound and Solvency deficits, calculated under the assumption that the plan is being wound up, are not as relevant as surpluses/deficits calculated under the long term assumptions of the Going Concern method.
- As previously noted, solvency funding has a material impact on the corporation. Funds used to address solvency deficiencies, particularly those caused by volatility in interest rates, have been could have been used for the achievement of business programs and ongoing operations.
- Although the extended funding period provides a degree of relief, the impact of volatility can still be significant, as noted in the following example from SaskTel's 2010 valuation (note: SaskTel elected to participate in the 3 year moratorium on solvency funding payments).

The result would still be a significant impact to the corporation and a significant amount of stranded capital when interest rates rise in the future.

Note: Estimated solvency payments are based on a Solvency deficit in 2010 valuation of 161,618,000 and a discount rate of 4.5%.

	10 year amortization Annual payment	5 year amortization annual payment
2010 valuation	\$20,425,000	\$36,899,000

QUESTION 4 - Under Extended Solvency Amortization, should the going concern valuation be strengthened by requiring more conservatism in the assumptions?

Solvency funding assumes imminent windup and has conservative assumptions such as largest possible payout to the member, annuity purchase discount rates and maximum commuted values.

Accordingly, given that Solvency valuations already ensure conservatism, SaskTel believes no further conservatism is required in the Going Concern assumptions.

QUESTION 5 - Under Enhanced Going Concern, is a ten year amortization period for amortizing unfunded liabilities the appropriate length of time?

SaskTel believes the true measure of the plan's health is the Going Concern valuation.

- As noted by our Actuary in their valuations of our plan, the Going Concern method is the key measure of the plan's ability to meet current and future obligations to plan members.
- Surpluses/deficits calculated under this methodology are long term in nature and are more appropriate than those calculated under the Solvency method, where it is assumed that the plan is being wound up at that date.

SaskTel is committed to maintaining the financial health of its plan through the appropriate degree of funding through the life of the plan.

- Given the long term nature of the plan and SaskTel's commitment, the 10 year period being proposed is an acceptable, but minimum, period to appropriately fund the plan.

QUESTION 6 - Do you have any comments at this time on appropriate best estimate assumptions and appropriate margins for public sector plans?

SaskTel believes each plan needs independent flexibility in establishing best estimates and margins.

- The flexibility and independence in setting assumptions is required as a result of the uniqueness of each plan and the circumstances influencing it.
- Assumptions and margins are established based on the risks, the benefit promise and other circumstances that are unique to each plan.

Accordingly, although SaskTel believes in, and has practiced, conservatism in the management of its plan, we do not believe in common assumptions and estimates for all plans in the new funding regime.

QUESTION 7 - Do you agree that benefit improvements should be restricted in an insolvent plan, and if so is a threshold solvency ratio of 0.90 appropriate? Should the restriction apply under both Extended Solvency Amortization and Enhanced Going Concern?

SaskTel supports the principle that the Saskatchewan Financial Services Commission should be able to restrict benefit improvements in plans that are in deficit positions.

- It is important that plans not move into financially insecure situations through actions and decisions of their own accord.
- Benefit improvements in such cases may very well be favourable to plan members in the short term but unfavourable in the long term should the plan prove to be fiscally unsustainable.

SaskTel believes that this right of the Commission should apply to whatever methodology is chosen as the basis for the new funding regime.

SaskTel also recognizes, however, that each plan is unique and has differing circumstances. Accordingly, although we support the Commission's right to restrict benefit improvements based upon the fiscal health of the plan, we do not support a blanket restriction based upon a specific ratio.

We believe a valuation should be completed prior to the approval of any benefit improvement. This would provide sufficient information to the regulator to determine if the benefit improvement is affordable

QUESTION 8 - Do you agree that plan amendments that provide different benefits on plan termination than on a going concern basis should no longer be accepted by SFSC?

Yes, SaskTel believes that plan amendments that provide different benefits on plan terminations than on a going concern basis should no longer be accepted by the Commission.

- Pensioners have based their retirement plans based on the going concern benefit promise.
- SaskTel is committed to upholding the pension promise to plan members and to abiding by the terms agreed upon in the Plan Text.

QUESTION 9 - Do you agree that amounts held back due to a transfer deficiency should be transferred within five years?

SaskTel will not comment on this item.

- This proposal has minimal relevance to the SaskTel Pension Plan as all plan members will achieve 35 years of service this year and it is unlikely that there will be anymore transfers from the plan.

QUESTION 10 - At a later date, should SFSC consider requiring annual valuations for all defined benefit plans, if the solvency ratio falls below a prescribed amount?

SaskTel's believes the Commission should have the right to selectively request annual valuations.

- This should be limited to plans that have a history of large solvency and going concern deficits or that have fundamental deficiencies in their underlying financial structure.
- Plans that are more conservative and only have deficits due to market volatility should not be required to do this.
- All plans should not have to increase administration costs as a result of a few plans that truly require annual review by the Commission.

Accordingly, SaskTel would not support annual valuations for all plans in solvency deficit positions but do support the right of the Commission to request/demand valuations based upon risk.

QUESTION 11 - Which option do you feel best meets the principles, Extended Solvency Amortization or Enhanced Going concern? Are there any flaws in either option?

SaskTel has a measure of appreciation for both alternatives being proposed by the Commission.

- Both provide a degree of relief from volatility of market conditions, particularly interest rates.
- Both provide a degree of improvement in ensuring the maintenance of the pension promise to pensioners.
- Both are effective in ensuring no further administrative complexity.

SaskTel believes, however, that the Enhanced Going Concern option is clearly the most suitable method upon which to base the new Public Sector Funding regime. As previously stated:

- The Actuary, in their valuations of our plan, affirms that the Going Concern method is the key measure of the plan's ability to meet current and future obligations to plan members.
- This methodology is not subject to the same degree of volatility as key assumptions are based upon conservative estimates of long term expectations. Short term fluctuations would not cause inappropriate decisions and actions, including the contribution of excess funds.
- SaskTel, like many other plan sponsors under consideration, is financially sound and committed to maintaining the pension promise to its retired employees. As such, Going Concern valuations are more relevant than Solvency valuations that are calculated under the assumption that the plan is being wound up at that date.
- The Enhanced Going Concern option, with its conservative 10 year requirement for funding deficits, provides an appropriate level of mandatory funding and thus ensures the underlying financial viability of the plans under regulation.

Conversely, SaskTel believes that the Extended Solvency Amortization still has significant flaws that make it inappropriate for our corporation and for other financially healthy public sector bodies and their respective plans.

- It still operates under the basic Solvency premise that the plan is being wound up at that date. This is not relevant to the SaskTel Pension Plan nor to other financially healthy plan sponsors in the public sector.
- It still uses assumptions that are extremely conservative. Discount rates based upon annuity markets are both low and impractical. Financial

markets do not have capacity to handle mass annuitizations and thus basing a discount rate on this premise is inappropriate.

- As previously stated:
 - Solvency funding has a material impact on the corporation. Funds used to address solvency deficiencies, particularly those caused by volatility in interest rates and by extremely conservative assumptions, could have been used for the achievement of business programs and ongoing operations.
 - Although the extended funding period provides a degree of relief, the impact of volatility can, and as shown in the example above, will prove to be extremely significant.
 - The Extended Solvency Amortization method, and the volatility still inherent in it, does not adequately protect against excess funding and the ultimate 'stranding' of capital.

SaskTel firmly believes the assumptions of the Going Concern method are the best representation in the long term. As these assumptions are realized, in particular the discount rates used to value pension obligations, any cash injections required by the extremely conservative, point-in-time Solvency methodology will result in large and unnecessary surpluses.

When this happens, this stranded capital would have been much better utilized in the business programs and activities that SaskTel depends upon to support itself, its stakeholder...and its pensioners.

Conclusion

SaskTel appreciates the Commission's efforts to reduce volatility, and its impacts, to pension plans in the public sector.

As noted throughout this response, SaskTel believes the Going Concern methodology is the only appropriate way to ensure fair and sustainable levels of funding and that this method is the most appropriate way to ensure the pension promise to members of these plans.

As such, SaskTel strongly supports the Enhanced Going Concern option as presented by the Saskatchewan Financial Services Commission.

[REDACTED]
[REDACTED]
[REDACTED]

April 30, 2012

Pensions Division
Saskatchewan Financial Services Commission
Suite 601
1919 Saskatchewan Drive
Regina SK S4P 4H2

RE: Consultation Paper – New Funding Regime for Public Sector Plans

Attention: Leah Fichter, Director, Pensions Division, SFSC

This submission is in response to your request for comments regarding proposed funding changes to Public Sector Pension Plans in Saskatchewan.

I am a member of the Saskatchewan Telecommunications Pension Plan. There are currently less than 100 members and just over 2,000 former members in the Pension Plan. It is a closed plan. It is a mature plan. In 5 months all members will have attained full benefit entitlement. Substantially all of the benefits to be paid by the plan have already been accrued.

This is an individual submission. These comments relate only to the Saskatchewan Telecommunications Pension Plan. The comments will only address Questions 1 and 2 of the Request for Comments.

General Comments

The stated objectives of The Pension Benefits Act, 1992 are:

- To safeguard accrued pensions from undue loss
- To ensure the equitable treatment of plan members

Pension regulators must also ensure that pension regulation does not impose undue hardship on plan sponsors as this in itself could jeopardize the accrued benefits of members and former members. It is a role of balance.

Successful plan sponsors must also assume a role of balance to their stakeholders and to ensure that all their obligations can be met.

The comments in this submission are based on the premise of balance.

Question 1

Do you agree with the list of plans which will be subject to the new rules?

Comments

The Saskatchewan Telecommunications Pension Plan should not be included in the List of Public Sector Plans as detailed in Appendix A.

- SaskTel is considered a Government Business Enterprise, which is described by the IPSASB
 - is an entity with the power to contract in its own name
 - has been assigned the financial and operational authority to carry on a business
 - sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery
 - is not reliant on continuing government funding to be a going concern (other than purchases of output at arm's length)
 - is controlled by a public sector entity.

While they may also have Public Policy objectives, GBEs are differentiated from other forms of government agencies that are established to pursue purely non-financial objectives. This is what differentiates the SaskTel Pension Plan from the other plans on the list. SaskTel identifies this in the SaskTel 2011 Annual Report – “SaskTel is a full service communications provider and, as such, faces a variety of competitors in every facet of our business. Competition in the telecommunications industry continues to intensify...”

- SaskTel can be considered Public Sector only in that it is owned by the Government of Saskatchewan. The owner could decide to sell, merge or privatize the corporation as has happened with most former state owned telecommunications companies world wide. Accrued Benefits in a plan that was allowed to follow relaxed funding rules could be jeopardized in that case.
- SaskTel operates in the telecommunications industry. Other pension plan sponsors that operate in this industry in Canada are regulated by the Federal Pension Benefits Standards Act. Two of the prominent players in the industry, BCE and Telus have demonstrated balance in the last two to three years as they have made substantial voluntary contributions to reduce the Solvency deficit in their pension plans while returning increasing amounts of equity to their owners and growing their businesses. The Federal Regulations have recently been amended to provide additional protection to plan members and retirees. If SaskTel were to be included in this list it would further widen the gap in regulation between participants in the same industry. It would also conflict with CAPSA's role to harmonize regulation of pension plans.

Question 2

Do you agree with the principles on which the new funding rules are based?

Comments

I am in agreement with the principles, but I will comment on why changes should not be applied to the SaskTel Pension Plan and why doing so would violate the second principle.

1. The rules must provide a means of managing volatility.

- To assume that the current financial market volatility and low long term interest rates are cyclical in nature rather than structural is not a universally held view. If current market conditions persist for a lengthy period of time the deferral of pension obligations by healthy corporations may prove to be costly to pension plan beneficiaries. If we are in a "New Normal", then pension plans should be funded accordingly.
- Options already exist to manage volatility. One that has been used by the SaskTel Pension Plan Sponsor was to elect to have an Actuarial Valuation done on Dec. 31, 2007 when one was not required to be done for two more years. One can assume that this was done to avoid having to fund the potentially larger solvency deficiencies that could have resulted following the 2008 financial market turmoil. The potential for future opportunistically timed valuations still exists and may be utilized again in the future.
- Would the SaskTel Pension Plan sponsor suffer undue hardship if the solvency funding rules were not changed? In 2011 the plan sponsor elected to take the three year moratorium from funding the solvency deficit calculated in the Dec. 31, 2010 actuarial valuation. The annual payments would have been approximately \$30M each year for 5 years. In the first year of relief, 2011, Net Income was \$154M of which \$138.6M was paid as a Dividend to the owner (90% Payout Ratio). 2010 Net Income was \$155.2M with a dividend payout of \$139.7M (90% Payout Ratio).
- Another option that is now allowed by the Federal Pension Benefit Regulator is to allow plan sponsors to secure properly structured letters of credit in lieu of making solvency payments to the pension fund, up to a limit of 15% of plan assets. This is an example of a balanced approach to reduce funding volatility while limiting the risk to the accrued benefits of plan beneficiaries. If the plan sponsor's financial position is strong, the cost should not be high. In the case of the SaskTel Pension Plan, the sponsor could further reduce costs by having the owner provide a guarantee as they do with their debt financings.

2. The rules must not introduce undue risk to the accrued benefits of plan beneficiaries, and must result in an adequate level of funding over the long term.

- The SaskTel Pension Plan had a solvency deficit of \$161,618,000 and a solvency ratio of 85% as of the actuarial valuation date of Dec. 31, 2010. There was a further significant deterioration in the solvency funded position of the plan in 2011. As there are currently no Terminal Funding requirements under Saskatchewan pension regulation, any further extension of solvency funding relief or solvency funding elimination would put the accrued benefits at substantial risk. The possibility of plan termination exists.
- There is a risk that is more than negligible of the Plan Sponsor becoming insolvent at some future time. To quote from the SaskTel 2011 Annual Report
 - “The industry continues to evolve, but aggressive competition has caused revenue growth rates to slow and margins to shrink.”.....”Massive investment in infrastructure and equipment by the incumbent providers is required to remain relevant given the considerable increase in competition.”
 - “SaskTel is embarking on our largest planned capital expenditure in the company’s history. Reinvesting in networks, products, services and systems, as well as increased competitive pressure on pricing and margins will result in lower net income and return on equity, and a higher debt ratio for the next few years.” The Target debt ratio is to increase to 47.9% in 2012 (from 37.6% in 2011).

3. The rules must be simple to understand and apply. They should not measurably increase the administrative burden for the plan administrator, or the level of complexity in the preparation, presentation, and review of an actuarial valuation report.

- If the Saskatchewan Telecommunications Plan were not included in the list, there would be no effect.
- If Letters of Credit were allowed to fund (or partially fund) solvency deficiencies, and a financially strong corporation chose to use them as a tool to manage funding volatility, the cost should not be burdensome while accrued pension benefits would achieve a degree of protection.

Summary

Due to the nature of the business of SaskTel (the Fund Sponsor) and the industry they operate in, and the potential for ownership change, the Saskatchewan Telecommunications Pension Plan should not be on the list of plans that would be affected by the proposed changes to the funding regime for public sector plans.

Further, it must be recognized that the Plan is a closed, mature plan and that substantially all of the benefits to be paid by the plan have already been accrued. Expected 2012 contributions to the plan (as per the SaskTel 2011 Annual Report) are \$0.1 Million from the Corporation.

In the absence of Full Terminal Funding of Pension Plans on Plan Termination in Saskatchewan, no changes should be considered until such exists.

Respectfully submitted,

[REDACTED]

[REDACTED]

Member, Saskatchewan Telecommunications Pension Plan



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April 30, 2012

Leah Fichter
Pensions Division
Saskatchewan Financial Services Commission
Suite 601, 1919 Saskatchewan Drive
REGINA SK S4P 4H2

Dear Ms. Fichter:

RE: Submissions responding to the consultation paper on new funding regime for Public Sector Pension Plans (the “consultation paper”)

By virtue of this letter, please accept the Saskatchewan Federation of Labour’s (SFL) endorsement of the submission by the Saskatchewan Division of the Canadian Union of Public Employees (CUPE Saskatchewan) as the SFL’s official submission to the Saskatchewan Financial Services Commission.

As you may know, the SFL represents nearly 100,000 working people across the province from 37 affiliated unions and over 600 individual locals. Accordingly, the Federation is proud to serve as the voice of working people in Saskatchewan on the issue of pensions, and on many other issues.

Though we endorse every recommendation that CUPE Saskatchewan has put forward in its submission to the Commission, we would like to draw particular attention to the importance of Recommendations #3 and #4:

Recommendation #3: a third option should be considered by the SFSC, being a permanent exemption from solvency funding for public sector plans that demonstrate stability of public sector plan sponsors and joint governance of the plan. This option should be available by election and may have certain conditions that must be met to remain eligible for exemption.

Recommendation #4: Extended amortization periods in respect of solvency deficiencies are appropriate for all plans (including some public sector plans) when provided on a temporary basis. Changes to going concern funding rules are not appropriate for this option.

Like CUPE Saskatchewan, we believe that the two options presented within the Consultation Paper – extended solvency amortization and enhanced going concern – make no reference to the possibility of providing a permanent exemption from solvency funding, a possibility that would afford greater flexibility to plan trustees and governance boards, where it is deemed appropriate.

Furthermore, we agree that extended amortization periods, as they relate to solvency deficiencies, are absolutely appropriate in certain cases and on a temporary basis.

In addition to voicing our support for the CUPE Saskatchewan submission, I would like to take this opportunity to impart that certain of the SFL's affiliated unions have raised concerns about the scope and breadth of the definition for "public sector," as it relates to the identification of public sector pension plans, for the purposes of consultation on a new funding regime. Some affiliates feel, as we do, that only pension plans that receive funding directly from government should constitute "public sector" plans and, therefore, be subject to the potential for legislative changes to their funding regime.

As you will know, the list of pension plans attached to the Consultation Paper as "Appendix A" includes plans that are funded by other sources, such as those for arms-length Crown Corporations. As you can no doubt appreciate, exposure to risk varies greatly between the myriad pension plans listed in "Appendix A." The plan for employees of a Crown Corporation, which operates as a for-profit business in a competitive environment, and a plan for executive government officials, for example, represent different degrees of commensurate risk. Because of the concern that affiliates have expressed over the "public sector" designation, we recommend that a consultation process be established to hear the concerns of plan administrators, whose plans do not receive direct government funding, before any changes to the funding regime are implemented.

We would like to thank the Saskatchewan Financial Services Commission for the opportunity to provide submissions on the development of a new funding regime for public sector plans, an issue of great concern for working people throughout Saskatchewan.

Sincerely,



Larry Hubich
President

cc Aina Kagis, Regional Director, CUPE Sask.
Susan Saunders, CEP
SFL Executive Council



Executive Offices

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March 26, 2012

Leah Fichter
Director, Pensions Division
Saskatchewan Financial Services Commission
Suite 601, 1919 Saskatchewan Drive
REGINA, SK S4P 4H2

Dear Ms Fichter:

Re: Consultation Paper – New Funding Regime for Public Sector Plans

Attached is our response to your consultation paper as it relates to the Saskatchewan Government Insurance Superannuation Plan. The response was reviewed and approved by the Superannuation Pension Committee. In addition, at its meeting on March 22, the SGI Board of Directors approved the following recommendation:

That the Board direct management to respond to the Saskatchewan Financial Services Commission – Pension Division's consultation paper indicating SGI's recommendation that the SGI Superannuation Plan be funded on the Enhanced Going Concern Basis, as recommended by the Pension Committee and Management.

Please contact me if you have any questions on the attached response, or require additional information.

We look forward to our continuing dialogue on this very important issue.

Sincerely,



Jeff Stepan, CA, CFA
Chief Financial Officer

cc: Ed Helm, Chair Superannuation Pension Committee

Attachment: Saskatchewan Government Insurance Superannuation Plan Response to
Consultation Paper

Saskatchewan Government Insurance Superannuation Plan

Response to Consultation Paper

New Funding Regime for Public Sector Plans

March 22, 2012

Response to Questions

The following are our responses to the eleven questions posed in the Consultation Paper. Since we believe that Question 11 is the primary question in regards to the appropriate funding basis for the SGI Superannuation plan and all public sector plans in Saskatchewan we have answered it first. We then answer the remaining questions in the order presented in the consultation paper.

QUESTION 11

Which option do you feel best meets the principles, Extended Solvency Amortization or Enhanced Going concern? Are there any flaws in either option?

SGI firmly believes that the Enhanced Going Concern basis is the appropriate basis upon which its Superannuation plan and other public sector plans should be funded.

SGI's plan currently has a written funding policy which is based on the following primary purpose:

"The purpose of this [funding] policy is to establish a framework for the sound financial management of the Saskatchewan Government Insurance Superannuation Plan (the plan)."

The funding policy also has the following five objectives:

- 1. to reasonably limit the likelihood of a dramatic increase in the future funding requirements of SGI;*
- 2. to reasonably limit the likelihood of developing an excessive amount of surplus in the plan which cannot be accessed by SGI;*
- 3. to manage any unfunded liability, deficit or surplus of the plan in a reasonable manner and over a reasonable period of time;*
- 4. to manage the plan's finances so that the plan's funding moves toward a sole reliance on the invested capital of the plan and investment returns thereon as the plan's active membership base diminishes; and*
- 5. to the extent possible after the other funding objectives of the plan have been met: to use the surplus of the plan to provide annual ad hoc increases at a consistent level that can reasonably be expected to be provided over the remaining lifetime of the retired members of the plan."*

In order to meet the plan's primary funding purpose and each of its funding objectives, the funding policy has been designed around the following principle components:

1. The going concern funding basis;
2. Best estimate actuarial assumptions;
3. Specific margins incorporated into the actuarial liabilities and the current service cost of the plan;
4. The recovery of going concern unfunded liabilities over a reasonable period of time (currently no longer than 15 years); and
5. The reasonable use of going concern surpluses as documented in the funding policy of the plan.

In comparison, the volatility and rigidity inherent in the current and proposed Solvency Funding basis presents significant and realistically unmanageable challenges for SGI in achieving the primary funding purpose and funding objectives of the plan. This challenge is created by placing undue weight on the objective of benefit security and thereby removing the ability to also provide for contribution stability and appropriate use of going concern surpluses of the plan.

SGI is established and continued pursuant to *the Saskatchewan Government Insurance Act*, and is an agent of the Crown. As such, both its assets, and ultimately its liabilities, are assets and liabilities of the Government of Saskatchewan. The solvency risk, then, for the Plan, is extremely low. In this context, it is in our view unrealistic to strive for risk-free pension obligations based on the risk of the insolvency of the provincial government.

In summary, we believe that any solvency funding basis is inappropriate for the SGI pension plan in particular and that similar reasoning can likely be applied to all other public sector plans in Saskatchewan.

QUESTION 1

Do you agree with the list of plans which will be subject to the new rules?

We agree with the list of pension plans. However, we would add that in order to be eligible for the alternative funding requirements a public sector plan must be in compliance with the PBA. If any particular plan is not currently in compliance with the PBA they would be ineligible for the alternative funding rules until they fully comply with the PBA.

QUESTION 2

Do you agree with the principles on which the new funding rules are based?

We agree with the principles outlined in the consultation paper with the addition of the principle that the funding basis should support the stability of the contributions of public sector plans.

QUESTION 3

Under Extended Solvency Amortization, is a ten year period for amortizing solvency deficiencies the appropriate length of time?

As we do not believe that solvency funding is appropriate for the SGI Superannuation plan and all other public sector plans, we believe that the period over which solvency deficits are amortized will not provide adequate relief from the excessive volatility inherent in the solvency funding methods, even if the amortization period was in excess of 15 years.

QUESTION 4

Under Extended Solvency Amortization, should the going concern valuation be strengthened by requiring more conservatism in the assumptions?

No. Given the current low yield rates on fixed income securities, the solvency test results in an arguably excessive level of margin in the funding basis. Such margins are far in excess of reasonable margins that would be included in a reasonable going concern basis.

QUESTION 5

Under Enhanced Going Concern, is a ten year amortization period for amortizing unfunded liabilities the appropriate length of time?

Given that the solvency position of the plan will not affect the funding requirements under the Enhanced Going Concern basis, we understand that there may be some concern over the financial condition of public sector pension plans in Saskatchewan. As such, adopting a 10 year amortization period in conjunction with a going concern funding basis is a reasonable concession to maintain the financial security of the public sector pension system in Saskatchewan.

QUESTION 6

Do you have any comments at this time on appropriate best estimate assumptions and appropriate margins for public sector plans?

Best estimate assumptions and margins should be set by the parties responsible for setting the funding contributions of each pension plan (i.e. the plan sponsor or plan administrator). These should be determined in accordance with a written funding policy that provides for target funding levels and ranges.

QUESTION 7

Do you agree that benefit improvements should be restricted in an insolvent plan, and if so:

- *Is a threshold solvency ratio of 0.90 appropriate?*
- *Should the restriction apply under both Extended Solvency Amortization and Enhanced Going Concern?*

The appropriate basis upon which public sector plans should be funded is the going concern basis, with a reasonable amortization period for the recovery of unfunded liabilities. Hence if restrictions are placed

on benefit improvements based on the financial status of the plan, such restrictions should be based only on the going concern financial position and not on the solvency ratio.

In the case of the SGI Superannuation Plan, the funding policy provides the following:

"Granting ad hoc increases to retired members will generally only be considered if, after assuming a consistent level of ad hoc increase is granted each year in the future, the plan can be expected to maintain the contingency reserve in strategy number 4 [5% margin over going concern actuarial liabilities which includes margins], without the need for additional funding from SGI."

We believe that a more reasonable basis to regulate benefit improvements is based on the establishment of a written funding policy which directly addresses when and how benefit improvements can be provided. Such a policy should be based on the risks inherent in the going concern financial status of each plan in question.

QUESTION 8

Do you agree that plan amendments that provide different benefits on plan termination than on a going concern basis should no longer be accepted by SFSC?

The benefit policy of the pension plan should be set by the plan sponsor. As long as the benefits provided on plan termination are within the minimum requirements of the PBA they should be allowed. Benefits that are provided on a going concern basis which are not provided on plan termination basis should be allowed based on the benefit policy of the plan sponsor.

QUESTION 9

Do you agree that amounts held back due to a transfer deficiency should be transferred within five years?

Our view is that the funding of public sector plans should be based on the going concern funding basis. The following two criteria should be assessed against each plan:

1. The going concern funding basis that is used by the particular pension plan should have a reasonable and appropriate assumption for the ongoing payment of lump sum benefits on death, termination and/or retirement; and
2. the particular pension plan will not be in danger of termination, wind up or conversion to a defined contribution plan for the foreseeable future.

If the plan in question meets these criteria, it can be argued that any lump sum payments made from the plan are being funded in the same way as all other pension benefits payable from the plan. Hence there is no need to apply any form of "holdback" on lump sum benefits paid from the plan.

Since this is the situation for the SGI Superannuation plan (and likely the case for all or a larger number of the public sector plans named in the consultation paper), it is our view that transfer deficiency holdbacks should not be applied.

QUESTION 10

At a later date, should SFSC consider requiring annual valuations for all defined benefit plans, if the solvency ratio falls below a prescribed amount?

No, the current requirement for triennial valuations is adequate. Introducing annual valuations will only add to the volatility of the funding requirements of the plan and increase the administrative burden. Interim valuations and extrapolations can be used by public sector plans to monitor the funding of the plans.

Additional Comments

We fully support the following additional items proposed in the Consultation Paper:

1. Allowing asset smoothing to continue for both solvency and going concern funding; and
2. The need to have clear provisions to allow delays in implementing contribution rate increases in the fashion proposed in the consultation paper.

SHEPP Employer Partner Committee
Response to Consultation Paper
New Funding Regime for Public Sector Plans
April 30, 2012

The Saskatchewan Financial Services Commission (SFSC) released a Consultation Paper entitled *New Funding Regime for Public Sector Plans*.

The SFSC states in the Consultation Paper that the government of Saskatchewan is interested in establishing new funding rules for all public sector and publicly funded defined benefit pension plans registered under *The Pension Benefits Act, 1992* (the Act) (“public sector plans”). Prior to making recommendations to government regarding the details of the public sector funding rules, the SFSC is interested in hearing from the public. The Board of Trustees of the Saskatchewan Healthcare Employees’ Pension Plan (SHEPP) welcomes this opportunity to respond to the Consultation Paper.

Response to Questions

The following are SHEPP’s Employer Partner Committee responses to the eleven questions posed in the Consultation Paper. Note we have answered the questions out of order. In our view, Question 11 is the primary question, so we have answered it first. We next answer the various questions that relate to the appropriate funding of plans under the Enhanced Going Concern basis (which flow from Question 11). The remainder of the questions are then addressed at the end of the document.

Questions Regarding Appropriate Funding Basis

QUESTION 11

Which option do you feel best meets the principles, Extended Solvency Amortization or Enhanced Going concern? Are there any flaws in either option?

SHEPP's Board of Trustees firmly believes that the Enhanced Going Concern basis is the appropriate basis upon which SHEPP and other public sector plans should be funded.

SHEPP Trustees have spent significant time and energy in the development of the Plan's current funding strategy. The result of this effort is a funding action plan that has been in place since November 2008. A review of that plan is the first order of business of every Board meeting agenda.

With the support of the SHEPP Asset-Liability Working Group, our integrated asset-liability management team consisting of SHEPP management, the Plan's investment advisor and the Plan's actuary, the Board took action in early 2010 to revise our funding policy to ensure that it is up to the task of guiding us to achieve a historic funding recovery. That funding policy forms the foundation of our funding action plan.

As the pension plan of choice for Saskatchewan's publicly funded healthcare employers and the unions that represent the majority of their employees, there is no reasonable prospect of SHEPP being terminated. Therefore, funding SHEPP to the level needed to discharge its liabilities in the event of such a termination is inappropriate and unnecessary. Tying up hundreds of millions of dollars in the SHEPP trust fund to be available in the event of a hypothetical plan termination does not serve the broader public interest.

SHEPP accepts that public sector plans must be subject to a principled and rational set of funding rules that are based on meaningful measurements of the financial health of such plans. SHEPP accepts that the going concern funding rules do produce meaningful measurements of the financial health of public sector plans such as SHEPP, and that it is in the public interest to have public sector plans funded in accordance with such rules. This belief is reflected in SHEPP's funding policy, which expresses our strong belief that the Plan actuary and the Trustees, working together, are in the best position to determine the funding requirements of the Plan based on the results of a going concern valuation of the SHEPP's funded status. In particular, we strive to understand the industry and members that we serve, to operate from a baseline of best estimate assumptions that meaningfully represent what we expect the future to hold for us and to build in margins that appropriately reflect the risks faced by the Plan. We have absolutely no reason to believe that Plan windup or the termination of Plan membership by a participating employer with more than fifty of our over 33,000 active Plan members is in our future, and we govern ourselves accordingly.

Our funding policy is focused on the following three objectives (in order of priority):

- 1) The primary objective of the funding policy is the maintenance of the appropriate level of security of all benefits of the Plan. This is maintained through the establishment and funding of actuarial liabilities on a going concern basis which includes adequate margins to meet this objective, as set by the Board.
- 2) The secondary funding objective is the stability of contribution rates. While the Board is not averse to increasing contributions and will do so if required to maintain benefit security, the Board strives to set contribution rates that can be expected to be maintained over an extended period of time. To help achieve this objective, a margin for adverse deviations is included in the going concern funding contributions of the Plan.
- 3) The tertiary funding objective of the funding policy is to consider the utilization of any surplus that may be developed in the future on a going concern basis. Consideration will be given to using such surplus in areas such as (in no particular order of priority):
 - Building up margins and reserves that will allow the Plan to sustain certain amounts of volatility (such as investment volatility);
 - Adopting more conservative investment strategies that may reduce the investment volatility of the Plan; and/or
 - Providing ad hoc benefit improvements that are both affordable and sustainable over the long term of the Plan.

In order to meet these three objectives, the funding policy has been designed around the following principle components:

- 1) The going concern funding basis;
- 2) Best estimate actuarial assumptions;
- 3) Specific margins incorporated into the actuarial liabilities and the current service cost of the Plan;
- 4) The recovery of going concern unfunded liabilities over a reasonable period of time (currently no longer than 15 years); and
- 5) The reasonable use of going concern surpluses as documented in the funding policy of the Plan.

The Extended Solvency Amortization option is based on the assumption that public sector plans such as SHEPP would continually be in a state of plan windup where pension obligations were continuously being settled by commuted value transfers and annuity purchases. In reality, SHEPP's 33,000 active members will continue to accrue credited service and higher contributory earnings so that they can build larger pension entitlements. Funding these pensions as they come due has been and will continue to be SHEPP's real funding challenge.

The issue then becomes that in the case of the solvency funding scenario, the only rational asset mix would be a portfolio made up of fixed income securities and annuities underwritten by various

insurance companies. This promotes (and even forces) public sector plans into an asset mix structure that makes the provision of the pension promise artificially unaffordable, when the prospect of such plans being terminated can effectively be ignored.

The volatility and rigidity inherent in the current and proposed Solvency Funding basis presents significant and realistically unmanageable challenges for public sector plans. It does so by placing undue weight on the objective of having sufficient assets on hand to fund a theoretical plan windup, thereby removing the ability to also provide for contribution stability and appropriate use of going concern surpluses.

QUESTION 2

Do you agree with the principles on which the new funding rules are based?

We agree with the principles outlined in the consultation paper with the addition of the principle that the funding basis should support the stability of the contribution rates of public sector plans.

QUESTION 5

Under Enhanced Going Concern, is a ten year amortization period for amortizing unfunded liabilities the appropriate length of time?

Given that under the Enhanced Going Concern basis the solvency position of a public sector plan will not affect its funding requirements, we understand that there may be some concern over the financial condition of public sector plans. Adopting a 10-year amortization period in conjunction with a going concern funding basis is a reasonable concession to maintain confidence in the financial security of the public sector pension system in Saskatchewan.

QUESTION 6

Do you have any comments at this time on appropriate best estimate assumptions and appropriate margins for public sector plans?

We do not believe that there is a "one size fits all" answer to this question. Rather, best estimate assumptions and margins should be set by the parties responsible for setting the contribution rates for each pension plan (i.e. the plan sponsor or plan administrator). These should be determined in

accordance with a written funding policy tailored to the unique circumstances of that plan, and that provides for target funding levels and ranges.

SHEPP has put significant time and effort into the development of an appropriate funding action plan, which included:

- The development of funding objectives, priorities, funding targets and ranges all documented in a written funding policy;
- In consultation with the Plan actuary, the development of best estimate assumptions; and
- The development of appropriate margins included in the funding basis which have been designed to meet the funding objectives and priorities of the Plan.

Given the above, we believe that this funding action plan is appropriate for SHEPP and that additional regulation under the Act is not required.

Questions Regarding Extended Solvency Amortization

QUESTION 3

Under Extended Solvency Amortization, is a ten year period for amortizing solvency deficiencies the appropriate length of time?

Solvency based funding provides an incentive to adopt an investment strategy that severely limits the amount of benefits that can be provided under such plans, and can create significant volatility in contribution rates. The period over which solvency deficiencies are amortized does not drive the volatility of solvency funding. Solvency funding volatility is driven by the fluctuating solvency discount rates. Therefore, the period over which solvency deficits are amortized will not provide adequate relief from such volatility even if the amortization period was in excess of 15 years

QUESTION 4

Under Extended Solvency Amortization, should the going concern valuation be strengthened by requiring more conservatism in the assumptions?

No. Given the current low yield rates on fixed income securities, the solvency test results in what is generally accepted as an excessive level of margin in the funding basis. Such margins are far in excess of reasonable margins that would be included in a reasonable going concern basis. There is thus no need to add even more conservatism in the assumptions.

Questions Regarding Restrictions Based on Solvency Ratio

QUESTION 7

Do you agree that benefit improvements should be restricted in an insolvent plan, and if so:

- *Is a threshold solvency ratio of 0.90 appropriate?*
- *Should the restriction apply under both Extended Solvency Amortization and Enhanced Going Concern?*

The appropriate basis upon which public sector plans should be funded is the going concern basis, with a reasonable amortization period for the recovery of unfunded liabilities. Hence if restrictions are placed on benefit improvements based on the financial status of the Plan, such restrictions should be based on the going concern financial position rather than the solvency ratio.

In the case of SHEPP, the funding policy indicates that benefit improvements will only be considered once the Plan has achieved:

- 1) Full benefit security (i.e. a going concern position where assets exceed at least 105% of the going concern liabilities of the Plan); and
- 2) The contribution rates are expected to be stable over the long term of the Plan.

We believe that the above is a more reasonable basis to regulate benefit improvements based on the financial status of the Plan.

QUESTION 10

At a later date, should SFSC consider requiring annual valuations for all defined benefit plans, if the solvency ratio falls below a prescribed amount?

No, the current requirement for triennial valuations is adequate. Introducing annual valuations will only add to the volatility of the funding requirements and increase the administrative burden. Interim valuations and extrapolations can be used by public sector plans to monitor the funding of the plans. If SFSC has concerns about a particular plan, it can direct more frequent valuations pursuant to s. 11(4)(b) of the Act.

QUESTION 9

Do you agree that amounts held back due to a transfer deficiency should be transferred within five years?

Amounts held back due to a transfer deficiency should be held back for a period consistent with the maximum amortization period under the funding regime. As such, it is our view that transfer deficiency should be transferred within 10 years under the Enhanced Going Concern funding basis.

Remaining Questions

QUESTION 8

Do you agree that plan amendments that provide different benefits on plan termination than on a going concern basis should no longer be accepted by SFSC?

The benefit policy of the pension plan should be set by the plan sponsor. As long as the benefits provided on plan termination are within the minimum requirements of the Act they should be allowed. Benefits that are provided on a going concern basis which are not provided on plan termination basis should be allowed based on the benefit policy of the plan sponsor.

QUESTION 1

Do you agree with the list of plans which will be subject to the new rules?

We agree with the list of pension plans. However, we would add that in order to be eligible for the alternative funding requirements a public sector plan must be in compliance with the Act. If any particular plan is not currently in compliance with the Act they would be ineligible for the alternative funding rules until they fully comply with the Act.

Additional Comments

We fully support the following additional items proposed in the Consultation Paper:

1. Allowing asset smoothing to continue for both solvency and going concern funding; and
2. The need to have clear provisions to allow delays in implementing contribution rate increases in the fashion currently exercised by SHEPP.



SHEPP

SASKATCHEWAN HEALTHCARE
EMPLOYEES' PENSION PLAN

April 26, 2012

Ms. Leah Fichter
Director, Pensions Division
Saskatchewan Financial Services Division
Suite 601
1919 Saskatchewan Drive
Regina, Saskatchewan
S4P 4H2

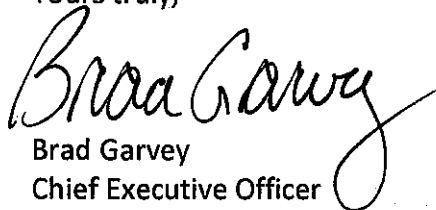
Dear Ms. Fichter:

Re: New Funding Regime for Public Sector Plans

On behalf of the Board of Trustees of the Saskatchewan Healthcare Employees' Pension Plan, I am pleased to enclose the Board's response to the Commission's consultation paper, New Funding Regime for Public Sector Plans.

If you have any questions please do not hesitate to call me at 751-8316.

Yours truly,


Brad Garvey
Chief Executive Officer

Copy: Murray Campbell, Lawson Lundell
Dave Larsen, Aon Hewitt



SHEPP

SASKATCHEWAN HEALTHCARE
EMPLOYEES' PENSION PLAN

SHEPP

Response to Consultation Paper

New Funding Regime for Public Sector Plans

April 25, 2012

The Saskatchewan Financial Services Commission (**SFSC**) released a Consultation Paper entitled *New Funding Regime for Public Sector Plans*.

The SFSC states in the Consultation Paper that the government of Saskatchewan is interested in establishing new funding rules for all public sector and publicly funded defined benefit pension plans registered under *The Pension Benefits Act, 1992* (the **Act**) ("**public sector plans**"). Prior to making recommendations to government regarding the details of the public sector funding rules, the SFSC is interested in hearing from the public. The Board of Trustees of the Saskatchewan Healthcare Employees' Pension Plan (**SHEPP**) welcomes this opportunity to respond to the Consultation Paper.

Response to Questions

The following are SHEPP's responses to the eleven questions posed in the Consultation Paper. Note we have answered the questions out of order. In our view, Question 11 is the primary question, so we have answered it first. We next answer the various questions that relate to the appropriate funding of plans under the Enhanced Going Concern basis (which flow from Question 11). The remainder of the questions are then addressed at the end of the document.

Questions Regarding Appropriate Funding Basis

QUESTION 11

Which option do you feel best meets the principles, Extended Solvency Amortization or Enhanced Going concern? Are there any flaws in either option?

SHEPP's Board of Trustees firmly believes that the Enhanced Going Concern basis is the appropriate basis upon which SHEPP and other public sector plans should be funded.

SHEPP Trustees have spent significant time and energy in the development of the Plan's current funding strategy. The result of this effort is a funding action plan that has been in place since November 2008. A review of that plan is the first order of business of every Board meeting agenda.

With the support of the SHEPP Asset-Liability Working Group, our integrated asset-liability management team consisting of SHEPP management, the Plan's investment advisor and the Plan's actuary, the Board took action in early 2010 to revise our funding policy to ensure that it is up to the task of guiding us to achieve a historic funding recovery. That funding policy forms the foundation of our funding action plan.

As the pension plan of choice for Saskatchewan's publicly funded healthcare employers and the unions that represent the majority of their employees, there is no reasonable prospect of SHEPP being terminated. Therefore, funding SHEPP to the level needed to discharge its liabilities in the event of such a termination is inappropriate and unnecessary. Tying up hundreds of millions of dollars in the SHEPP trust fund to be available in the event of a hypothetical plan termination does not serve the broader public interest.

SHEPP does accept that public sector plans must be subject to a principled and rational set of funding rules that are based on meaningful measurements of the financial health of such plans. SHEPP accepts that the going concern funding rules do produce meaningful measurements of the financial health of public sector plans such as SHEPP, and that it is in the public interest to have such plans funded in accordance with such rules. This belief is reflected in SHEPP's funding policy, which expresses our strong belief that the Plan actuary and the Trustees, working together, are in the best position to determine the funding requirements of the Plan based on the results of a going concern valuation of the SHEPP's funded status. In particular, we strive to understand the industry and members that we serve, to operate from a baseline of best estimate assumptions that meaningfully represent what we expect the future to hold for us and to build in margins that appropriately reflect the risks faced by the Plan. We have absolutely no reason to believe that Plan windup or the termination of Plan membership by a participating employer with more than fifty of our over 33,000 active Plan members is in our future, and we govern ourselves accordingly.

Our funding policy is focused on the following three objectives (in order of priority):

- 1) The primary objective of the funding policy is the maintenance of the appropriate level of security of all benefits of the Plan. This is maintained through the establishment and funding of actuarial liabilities on a going concern basis which includes adequate margins to meet this objective, as set by the Board.
- 2) The secondary funding objective is the stability of contribution rates. While the Board is not averse to increasing contributions and will do so if required to maintain benefit security, the Board strives to set contribution rates that can be expected to be maintained over an extended period of time. To help achieve this objective, a margin for adverse deviations is included in the going concern funding contributions of the Plan.
- 3) The tertiary funding objective of the funding policy is to consider the utilization of any surplus that may be developed in the future on a going concern basis. Consideration will be given to using such surplus in areas such as (in no particular order of priority):
 - Building up margins and reserves that will allow the Plan to sustain certain amounts of volatility (such as investment volatility);
 - Adopting more conservative investment strategies that may reduce the investment volatility of the Plan; and/or
 - Providing ad hoc benefit improvements that are both affordable and sustainable over the long term of the Plan.

In order to meet these three objectives, the funding policy has been designed around the following principle components:

- 1) The going concern funding basis;
- 2) Best estimate actuarial assumptions;
- 3) Specific margins incorporated into the actuarial liabilities and the current service cost of the plan;
- 4) The recovery of going concern unfunded liabilities over a reasonable period of time (currently no longer than 15 years); and
- 5) The reasonable use of going concern surpluses as documented in the funding policy of the plan.

The Extended Solvency Amortization option is based on the assumption that public sector plans such as SHEPP would continually be in a state of plan windup where pension obligations were continuously being settled by commuted value transfers and annuity purchases. In reality, SHEPP's 33,000 active members will continue to accrue credited service and higher contributory earnings so that they can build larger pension entitlements. Funding these pensions as they come due has been and will continue to be SHEPP's real funding challenge.

The issue then becomes that in the case of the solvency funding scenario, the only rational asset mix would be a portfolio made up of fixed income securities and annuities underwritten by various insurance companies. This promotes (and even forces) public sector plans into an asset mix structure that makes the provision of the pension promise artificially unaffordable, when the prospect of such plans being terminated can effectively be ignored.

The volatility and rigidity inherent in the current and proposed Solvency Funding basis presents significant and realistically unmanageable challenges for public sector plans such as SHEPP. It does so by placing undue weight on the objective of having sufficient assets on hand to fund a theoretical plan windup, thereby removing the ability to also provide for contribution stability and appropriate use of going concern surpluses.

QUESTION 2

Do you agree with the principles on which the new funding rules are based?

We agree with the principles outlined in the consultation paper with the addition of the principle that the funding basis should support the stability of the contribution rates of public sector plans.

QUESTION 5

Under Enhanced Going Concern, is a ten year amortization period for amortizing unfunded liabilities the appropriate length of time?

Given that under the Enhanced Going Concern basis the solvency position of a public sector plan will not affect its funding requirements, we understand that there may be some concern over the financial condition of public sector plans. Adopting a 10-year amortization period in conjunction with a going concern funding basis is a reasonable concession to maintain confidence in the financial security of the public sector pension system in Saskatchewan.

QUESTION 6

Do you have any comments at this time on appropriate best estimate assumptions and appropriate margins for public sector plans?

We do not believe that there is a “one size fits all” answer to this question. Rather, best estimate assumptions and margins should be set by the parties responsible for setting the contribution rates for each pension plan (i.e. the plan sponsor or plan administrator). These should be determined in accordance with a written funding policy tailored to the unique circumstances of that plan, and that provides for target funding levels and ranges.

SHEPP has put significant time and effort into the development of an appropriate funding action plan, which included:

- The development of funding objectives, priorities, funding targets and ranges all documented in a written funding policy;
- In consultation with the plan actuary, the development of best estimate assumptions; and
- The development of appropriate margins included in the funding basis which have been designed to meet the funding objectives and priorities of the plan.

Given the above, we believe that this funding action plan is appropriate for SHEPP and that additional regulation under the Act is not required.

Questions Regarding Extended Solvency Amortization

QUESTION 3

Under Extended Solvency Amortization, is a ten year period for amortizing solvency deficiencies the appropriate length of time?

Solvency based funding provides an incentive to adopt an investment strategy that severely limits the amount of benefits that can be provided under such plans, and can create significant volatility in contribution rates. The period over which solvency deficiencies are amortized does not drive the volatility of solvency funding. Solvency funding volatility is driven by the fluctuating solvency discount rates. Therefore, the period over which solvency deficits are amortized will not provide adequate relief from such volatility even if the amortization period was in excess of 15 years

QUESTION 4

Under Extended Solvency Amortization, should the going concern valuation be strengthened by requiring more conservatism in the assumptions?

No. Given the current low yield rates on fixed income securities, the solvency test results in what is generally accepted as an excessive level of margin in the funding basis. Such margins are far in excess of reasonable margins that would be included in a reasonable going concern basis. There is thus no need to add even more conservatism in the assumptions.

Questions Regarding Restrictions Based on Solvency Ratio

QUESTION 7

Do you agree that benefit improvements should be restricted in an insolvent plan, and if so:

- *Is a threshold solvency ratio of 0.90 appropriate?*
- *Should the restriction apply under both Extended Solvency Amortization and Enhanced Going Concern?*

The appropriate basis upon which public sector plans should be funded is the going concern basis, with a reasonable amortization period for the recovery of unfunded liabilities. Hence if restrictions are placed on benefit improvements based on the financial status of the plan, such restrictions should be based on the going concern financial position rather than the solvency ratio.

In the case of SHEPP, the funding policy indicates that benefit improvements will only be considered once the plan has achieved:

- 1) Full benefit security (i.e. a going concern position where assets exceed at least 105% of the going concern liabilities of the plan); and
- 2) The contribution rates are expected to be stable over the long term of the plan.

We believe that the above is a more reasonable basis to regulate benefit improvements based on the financial status of the plan.

QUESTION 10

At a later date, should SFSC consider requiring annual valuations for all defined benefit plans, if the solvency ratio falls below a prescribed amount?

No, the current requirement for triennial valuations is adequate. Introducing annual valuations will only add to the volatility of the funding requirements and increase the administrative burden. Interim valuations and extrapolations can be used by public sector plans to monitor the funding of the plans. If SFSC has concerns about a particular plan, it can direct more frequent valuations pursuant to s. 11(4)(b) of the Act.

QUESTION 9

Do you agree that amounts held back due to a transfer deficiency should be transferred within five years?

Amounts held back due to a transfer deficiency should be held back for a period consistent with the maximum amortization period under the funding regime. As such, it is our view that transfer deficiency should be transferred within 10 years under the Enhanced Going Concern funding basis.

Remaining Questions

QUESTION 8

Do you agree that plan amendments that provide different benefits on plan termination than on a going concern basis should no longer be accepted by SFSC?

The benefit policy of the pension plan should be set by the plan sponsor. As long as the benefits provided on plan termination are within the minimum requirements of the PBA they should be allowed. Benefits that are provided on a going concern basis which are not provided on plan termination basis should be allowed based on the benefit policy of the plan sponsor.

QUESTION 1

Do you agree with the list of plans which will be subject to the new rules?

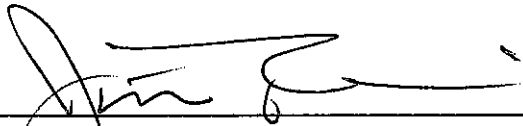
We agree with the list of pension plans.

Additional Comments


We fully support the following additional items proposed in the Consultation Paper:

1. Allowing asset smoothing to continue for both solvency and going concern funding; and
2. The need to have clear provisions to allow delays in implementing contribution rate increases in the fashion currently exercised by SHEPP.

Submitted on Behalf of the SHEPP Board of Trustees:



Jim Tomkins, Chair



Andrew Huculak, Vice-Chair



April 24, 2012

LEAH FICHTER, DIRECTOR
PENSIONS DIVISION
SASKATCHEWAN FINANCIAL SERVICES COMMISSION
601-1919 SASKATCHEWAN DR
REGINA SK S4P 4H2

Dear Ms. Fichter:

Re: Consultation Paper – New Funding Regime for Public Sector Plans

Further to your correspondence of January 26, 2012, we are pleased to respond to the consultation paper provided. Thank you for this opportunity to contribute to the discussion and provide our feedback.

This letter includes the Saskatchewan Teachers' Federation's response to each of the 11 questions set out in the consultation paper. As with other public sector pension plans, the Saskatchewan Teachers' Retirement Plan (STRP) is experiencing the challenges of this economic period. Two points in particular that we wish to emphasize in our response include the solvency relief option and the transfer deficiency.

SOLVENCY RELIEF OPTION

As a reminder, the Saskatchewan Teachers' Retirement Plan contains a provision whereby accrued benefits must be reduced to address any solvency deficiencies of the ongoing plan. As outlined in our letter of October 21, 2011 we are very concerned about reducing accrued benefits when windup of the STRP is not likely.

Therefore, lengthening the amortization solvency period as described in the Extended Solvency Amortization option does not provide the members of our plan with any relief from benefit reduction. The Plan and current plan members would be adversely impacted with this option. Currently the solvency valuation requires us to reduce benefits for an event which is not likely to occur (i.e. plan windup). Requiring current members to subsidize future members by overfunding the Plan at present either by increasing contributions or decreasing benefits more than the going concern valuation would warrant is counter to our desired principles. Attending to intergenerational fairness is important. Although we appreciate the desire for conservatism relating to funding, we simply don't believe that the solvency valuation for a plan like STRP is the best approach to achieve conservatism.

APRIL 24, 2012
LEAH FICHTER, DIRECTOR
PENSIONS DIVISION
SASKATCHEWAN FINANCIAL SERVICES COMMISSION
PAGE 2

Alternatively, the Enhanced Going Concern option presented in the paper is beneficial to the STRP. From our perspective, this option best aligns with the principles suggested in the consultation paper. We would concur that this option protects benefits while promoting fairness between plan members.

TRANSFER DEFICIENCY

Assuming that the Enhanced Going Concern option is chosen and solvency funding is eliminated; we do not understand how withholding any solvency deficiency amount from members who elect a lump sum transfer satisfies principles #2 and #3 in section 4 of the paper. We understand that those members will receive the outstanding balance within five years without any special payment made to the fund and so we suggest that the current transfer deficiency rules do not support principle #2.

Applying the transfer deficiency hold back rule is actually contrary to principal #3. Furthermore, the administration of these rules is cumbersome and makes communication to members desiring a transfer difficult.

For the STRP, transfers are not a material amount relative to the size of plan assets. Additionally, at the present time other participating provinces of the reciprocal agreement are permitting transfers without solvency deficiency restrictions. However, continuing to hold our plan to restrictions that our affiliate plans are not held to may have negative implications for the STRP, most importantly, the Plan may be required to opt out of the reciprocal transfer agreement. From our perspective, this would be detrimental to our plan members, particularly when labor mobility within the teaching profession is desired by teachers individually and the affiliate plans to which they belong.

RESPONSES TO THE CONSULTATION PAPER

Question 1 Do you agree with the list of plans which will be subject to the new rules?

Response

We are not aware of other plans that should be covered.

Question 2 Do you agree with the principles on which the new funding rules are based?

Response

We agree. Including an additional principle regarding fairness, including intergenerational fairness, would be desirable.

Question 3 Under Extended Solvency Amortization, is a ten year period for amortizing deficiencies the appropriate length of time?

Response

For the reasons previously expressed in this correspondence, this option is not beneficial to the STRP.

Question 4 Under the Extended Solvency Amortization, should the going concern valuation be strengthened by requiring more conservatism in the assumption?

Response

Since the STRP would not benefit by this option, we do not believe we should be required to fund the Plan more conservatively.

Question 5 Under Enhanced Going Concern, is a ten year period for amortizing unfunded liabilities the appropriate length of time?

Response

We believe it is reasonable to strengthen going concern funding, should solvency funding be eliminated. Shortening the amortization period is one option; however it does increase the volatility of the contribution levels. A better alternative would be to increase the margin (e.g. decrease in discount rate). Note that other jurisdictions have not shortened the period of amortization (e.g. Manitoba and Alberta) when solvency funding is not required.

APRIL 24, 2012
LEAH FICHTER, DIRECTOR
PENSIONS DIVISION
SASKATCHEWAN FINANCIAL SERVICES COMMISSION
PAGE 4

Question 6 Do you have any comments at this time on the appropriate best estimate assumptions and appropriate margins for public sector plans?

Response

As has been the practice of the STRP actuaries, we believe in and utilize individual best estimate assumptions and an explicit and transparent margin for adverse deviation. To better satisfy the principles set out in section 4, we would suggest that the margin should be fluid and not static from valuation to valuation, yet should attempt to balance intergenerational equity. We believe each plan sponsor should have a funding policy that provides direction for the actuarial basis and guidance regarding both surplus and deficit situations.

Question 7 Do you agree that benefit improvements should be restricted in an insolvent plan, and if so, is the threshold solvency ratio of 0.90 appropriate? Should the restrictions apply under both Extended Solvency Amortization and Enhanced Going concern?

Response

We believe it is appropriate to restrict improvements in an insolvent plan under either option. We have no opinion regarding whether 0.90 is appropriate.

Question 8 Do you agree that plan amendments that provide different benefits on plan termination than on a going concern basis no longer be accepted by SFSC?

Response

If a plan is required to fund on a solvency basis, for an event that is a remote possibility (plan windup), we believe that this option should be maintained. Amending the Plan to provide different benefits on termination may be considered more equitable than overfunding the Plan due to the solvency valuation.

Question 9 Do you agree that the amount held back due to a transfer deficiency should be transferred within 5 years?

Response

For the option Enhanced Going Concern, if solvency funding were to be eliminated, the hold back provision for 5 years should be eliminated as well.

APRIL 24, 2012
LEAH FICHTER, DIRECTOR
PENSIONS DIVISION
SASKATCHEWAN FINANCIAL SERVICES COMMISSION
PAGE 5

Question 10 At a later date, should SFSC consider requiring annual valuations for all defined benefit plans, if the solvency ratio falls below a prescribed amount?

Response

Since the market volatility that began in 2008, the financial position of the STRP has been estimated on an annual basis. The results of these estimates and projections have been presented to and considered by the STRP Board. We believe it is prudent to continue with this practice. However, requiring annual valuations instead of allowing the Board to voluntarily file between triennial valuations actually increases volatility and adds to the cost of the Plan, which is contrary to the principles set out on page 2.

Question 11 Which option do you feel best meets the principles, Extended Amortization or Enhanced Going Concern? Are there any flaws in either option?

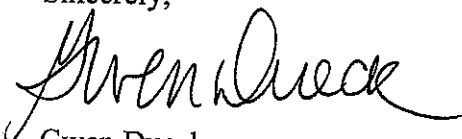
Response

Of these options, only the Enhanced Going Concern option is beneficial to the STRP. The enhanced amortization period reduces the flexibility of the STRP Board and thus increases the volatilities over the going concern contributions of the current funding rules. We do not support a reduced 10 year period. As previously noted, we believe a better alternative would be to increase the margin which can be achieved by decreasing the discount rate.

Finally, as previously agreed, we would like to schedule a meeting with you to discuss details of our October 21, 2011 request and this letter. Please contact us at your earliest convenience to determine possible meeting dates.

In the meantime please contact Ryan Glass, STRP Plan Manager or myself, should you have any questions or require additional information regarding this response.

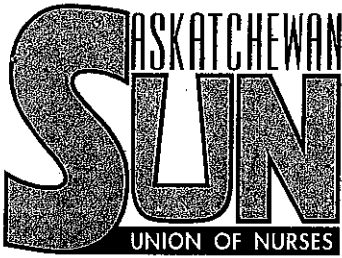
Sincerely,



Gwen Dueck
STF General Secretary

GD/lph

cc: Andrea Gareau, Chairperson, STRP Board of Directors
Ryan Glass, Plan Manager, STRP
Dino Trudeau, Actuary Mercer (Canada) Inc.



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Healthy Members, Healthy Union, Healthy Communities

April 30, 2012

Ms. Leah Fichter
Pensions Division
Saskatchewan Financial Services Commission
Suite 601, 1919 Saskatchewan Drive
Regina, Saskatchewan
S4P 4H2

Dear Ms. Fichter:

**Submission Responding to the Consultation Paper
on New Funding Regime for Public Sector Pension Plans
(the "Consultation Paper")**

The Saskatchewan Union of Nurses would like to thank the Saskatchewan Financial Services Commission for the opportunity to provide a submission on the development of a new funding regime for public sector plans.

Attached please find the submission on behalf of SUN.

Yours truly,

A handwritten signature in cursive script that reads "Rosalee Longmoore".

Rosalee Longmoore RN
SUN President

Enclosure

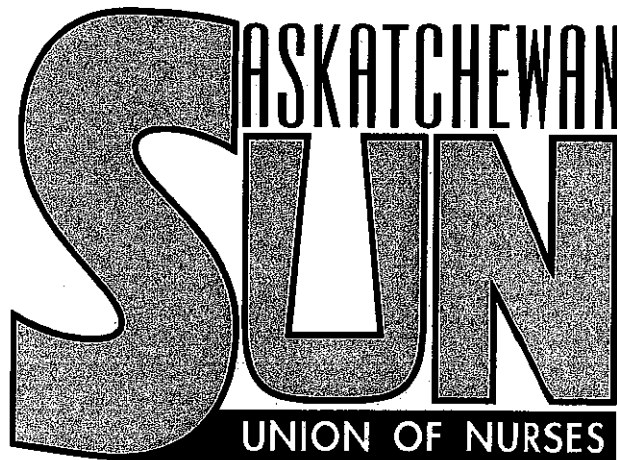
SUBMISSION TO

THE SASKATCHEWAN FINANCIAL SERVICES COMMISSION

PENSIONS DIVISION

CONSULTATION PAPER – NEW FUNDING REGIME FOR PUBLIC SECTOR PLANS

Saskatchewan Union of Nurses



The Saskatchewan Union of Nurses appreciates the opportunity to respond to the Saskatchewan Financial Services Commission's ("SFSC") consultation paper. The Saskatchewan Union of Nurses represents over 9000 Registered Nurses, Registered Psychiatric Nurses, and Registered Nurse Practitioners across Saskatchewan. Our members participate in several defined benefit pension plans in Saskatchewan. Our members are directly affected by proposals to change the funding rules established for these plans.

We are supportive of the SFSC's proposal to provide permanent relief from solvency funding for public sector plans in Saskatchewan. We believe that exempting public sector plans from the solvency funding standard is consistent with pension policy and regulation across Canada. However, the Consultation Paper proposes the most conservative going concern funding rules in Canada in circumstances where they are not clearly justified. In the current market conditions and economic environment, and when pension plans are already under stress, we do not believe that introducing more conservative going concern funding rules is necessary or prudent policy.

QUESTION 1

Do you agree with the list of Public Sector Plans that will be subject to the new rules?

We submit that any changes to the Saskatchewan Pension Benefits Act shall apply to all public sector plans. We agree with the list of plans that will be subject to the new rules. We submit that plans listed in Appendix "A" be provided with the option to remain in the existing funding regime (with options for temporary solvency relief) or to elect permanent solvency relief. Ideally, we believe that plans should have more than one option to permit maximum flexibility.

Recommendation #1: Public sector plans should be provided with permanent solvency relief.

QUESTION 2

Do you agree with the principles on which the new funding rules are based?

Solvency funding requirements were created for the traditional private sector, defined benefit single employer pension plan that is vulnerable to insolvent wind-up if the employer sponsor fails. However, solvency rules are far less appropriate for multi-employer plans and most public sector plans. Solvency funding measures do not have a purpose in the public and multi-employer plan space. For most public sector plan sponsors, the risk of insolvency is very low.

If the basic assumption and purpose of solvency funding does not apply to public sector plans, then the risks associated with relaxing or eliminating the solvency funding standard are not material. We believe that removing solvency funding rules does not require reciprocal requirements for funding conservatism as the absence of solvency funding does not place member benefits at greater risk since there is a very low (or non-existent) risk of sponsor insolvency.

The Consultation Paper also identifies “fairness to plan members” as a goal of solvency funding, and asserts that one of the risks of relaxing solvency funding is to jeopardize fairness among members. This is cited as a reason to inject additional conservatism into plan funding obligations, including making going concern funding rules more conservative. Strengthening going-concern funding rules that offset and possibly eliminate the benefit of relaxing solvency funding rules is contradictory. This direction is not consistent with emerging standards in other Canadian jurisdictions.

Other provinces have experienced solvency relief for years in either a temporary or permanent format. If some Canadian public sector pension funds are less-well-funded than others, it does not dictate that this is due to solvency relief. Given the different regulatory schemes across the country and the highly unusual market conditions of the past five years, we do not believe that the funding status of plans is directly attributable to relaxed solvency funding rules.

Recommendation #2: The SFSC should recognize two equally important rationales for providing relief from solvency funding for public sector plans: the management of contribution volatility and low risk of sponsor insolvency in many public sector plans.

The Consultation Paper enumerates three principles and asks if stakeholders agree with these principles. These principles are:

1. The rules must provide a means of managing volatility.
2. The rules must not introduce undue risk to the accrued benefits of the plan beneficiaries, and must result in an adequate level of funding over the long term.
3. The rules must be simple to understand and apply. They should not measurably increase the administrative burden for the plan administrator, or the level of complexity in the preparation, presentation and review of an actuarial valuation report.

SUN supports each of these principles. However, we do not believe that this list of principles encompasses all the relevant principles that the SFSC should take into consideration in creating a new funding regime for public sector plans. We believe that principles informing this process should also include two equally important principles:

4. The rules should be appropriate and proportional to the nature and structure of the public and broader public sector plans.

5. Where the rules expose the plan to increased funding-related risks, the rules should require or encourage both sponsors and plan beneficiaries to have joint responsibility for all material administrative and sponsor decisions.

We believe that it is both possible and desirable to ensure there is sufficient flexibility in public sector pension plan regulation to permit different funding regimes for different types of plans. Pension regulations should take into account individual strengths and differences, to coordinate the selection of the applicable funding rules in consideration of the governance of a plan.

The second additional principle that we believe should apply is where a plan selects a funding regime that relaxes solvency funding or otherwise exposes members to some degree of risk, the condition of that election should be that plan beneficiaries participate actively in the governance of the plan and the management of that risk.

Recommendation #3: We submit that the SFSC should consider two additional principles that inform the development of a funding regime for public sector plans, that:

1. **The rules should be appropriate and proportional to the nature and structure of the public and broader public sector plans.**
2. **Where the rules expose the plan to increased funding-related risks, the rules should require or encourage both sponsors and plan beneficiaries to have joint responsibility for all material administrative and sponsor decisions.**

QUESTION 3

Under extended solvency amortization is a ten year period for amortizing solvency deficiencies the appropriate length of time.

We do not agree that a concurrent reduction of the going concern amortization period to ten years is an appropriate measure as a result of permanent solvency relief. A simple assessment of the impact of this change to going concern funding rules would be an increase in going concern contributions of about 30% for the 10-year period. This reduces the effectiveness of a solvency exemption without a corresponding benefit. This option relieves funding pressure for one aspect of solvency, but concurrently demands another different conservative funding requirement. The outcome, of option 2 with the 10 year amortization period mitigates the positive impact of solvency relief. The rationale for the selection of 10 years as an amortization period for going concern unfunded liabilities is not clearly identified in the Consultation Paper.

This 10 year amortization would create the most restrictive going concern funding rules in Canada. We do not see a clear justification for this measure where the risk of sponsor insolvency is low or non-existent.

We note that other provincial jurisdictions have continued to permit 15 year amortization of this form of deficiency for most solvency-exempt plans. In some jurisdictions, going concern amortization periods are shorter for specific types of plan structure or for specific plan sectors within the public sector space. The SFSC is proposing the most conservative going concern funding rules in the context of the strongest regional economy in country.

For these reasons, we propose an alternative third option that should be made available to public sector plans in Saskatchewan.

Alternate Option 3: SUN Proposes permanent solvency relief for eligible public sector plans without any changes to amortization periods. We believe that a viable and appropriate third option that must be considered is the total elimination of the solvency funding requirement for public sector plans.

We believe that public sector plans electing this form of relief should be required to establish that they are sponsored by stable public sector employers or have robust joint governance of the plan. If the removal of solvency requirements causes concern regarding adequate funding there are other options.

In several jurisdictions across Canada, pension policy has sought to address specific risks perceived to accompany the relaxation or elimination of solvency funding, such as the risk of inappropriate use of contribution holidays or benefit improvements while a plan is under-funded on a solvency basis.

We submit that the most appropriate way to address these risks is to place specific conditions on the provision of permanent solvency relief, instead of addressing these risks through more general restrictions on going concern funding rules. We submit that the three most important conditions that the SFSC should consider placing on a permanent exemption from solvency funding are:

- Joint governance - the plan administrator must be a committee or board of trustees at least one-half of whom are representatives of beneficiaries of the plan.
- Enhanced disclosure - members and retirees should receive enhanced disclosure summarizing the impact of permanent solvency relief on an on-going basis.
- Restrictions on contribution holidays and benefit improvements - other jurisdictions have prohibited contribution holidays funded by going concern surplus and limited the ability to make benefit improvements where the impact would reduce the solvency funded ratio below certain thresholds.

In general, we submit that there should be sufficient flexibility in the funding regime to permit plan sponsors to elect to remain within the traditional funding regime, including the ability to elect temporary solvency relief measures, or to elect permanent exemptions from solvency funding rules (on the conditions attached to those elections).

Recommendation #4: A third option should be considered by the SFSC, being a permanent exemption from solvency funding for public sector plans that demonstrates stability of public sector plan sponsors and joint governance of the plan.

QUESTION 4

Under Extended Solvency Amortization should the going concern valuation be strengthened by requiring more conservative in the assumptions?

Whether solvency relief is temporary or permanent, we do not believe that it is appropriate to require more conservative going concern assumptions, as this would have the effect of reducing the impact of the solvency relief. If going concern assumptions are made more conservative, the effect would be to increase contributions on a going concern basis. The net effect of these changes could vary significantly on each plan – depending on which assumptions are made more conservative or what other conditions are placed on plans that elect this relief. This may mitigate some of the positive effect of the elimination of solvency calculations without necessarily addressing any of the broader array of factors that affect plan funding.

We note that in implementing temporary solvency relief, policy-makers and regulators across the country have never required permanent changes to going concern methods and assumptions.

QUESTION 5

Under enhanced going concern is a ten year period for amortizing unfunded liabilities the appropriate length of time?

Where public sector plans are not at appreciable risk of underfunded termination due to sponsor insolvency, the appropriate basis upon which to fund the plan is the traditional going concern funding basis with an amortization period of 15 years. There is no demonstrable reason for a 10 year amortization. As we stated above, a basic measure of the impact of this change of contributions on a going concern basis would be about 30%. This may have significant impact

on some Saskatchewan public sector plans in itself. Some plans may be able to absorb this increase, while others will be put under pressure to adjust other going concern assumptions to assist in absorbing this impact. We believe this will lead to unintended outcomes and will create a significant disincentive to the use of more conservative going concern assumptions and other methods for prudently administering a plan, such as the establishment and use of contingency reserves or contribution margins.

If the SFSC is concerned that the methods and assumptions employed in a going concern funding valuation are appropriate or that funding on this basis (only) may be insufficient, the SFSC can consider placing other conditions on the election of this form of relief. Other jurisdictions have included targeted conditions on solvency relief, such as:

- Limiting the use of contribution holidays funded out of surplus determined on a going concern basis.
- Requiring accelerated funding of certain plan amendments (based on the determined funding ratios of the plan).
- Requiring "terminal funding" of plans if they are wound-up during the period of solvency relief.

We submit that it would be appropriate to consider the imposition of each or any of these conditions as a requirement of plans that elect to become exempt from solvency funding rules, without other changes to the going concern funding rules.

Recommendation #5: Eliminating solvency funding for public sector plans is an appropriate option. Changes to going concern funding rules are not an appropriate element or condition of this option. Specific risks associated with this option may be addressed by attaching specific conditions to this option.

QUESTION 6

Do you have any comments on appropriate best estimate assumptions and appropriate margins for public sector plans?

This section of the paper discusses the provision of direction for margins (provisions for adverse deviation) in establishing a discount rate for a going concern valuation. We believe that this is properly a decision of the plan administrator, and is best determined by the administrator in consultation with the plan advisors and taking into consideration plan-specific features and conditions. In short, this is a governance decision that is best made by the plan's administrator.

Each plan has different considerations that will be relevant to determining the margins for conservatism that may be included in a going concern valuation. In our experience, plans will create margins that reflect the plan's asset mix, maturity, potential for growth and other factors. We believe that these are best determined and managed by decisions of the administrator of the plan.

Recommendation #6: The determination of an appropriate margin for conservatism in going concern assumptions is best controlled by the plan administrator in consultation with advisors and taking into account the plan-specific circumstances.

QUESTION 7

Do you agree that benefit improvements should be restricted in an insolvent plan if so: Is a threshold solvency ratio of 0.90 appropriate? Should the restriction apply under both extended solvency, amortization and enhanced going concern.

This section of the document discusses restrictions on benefit improvements. It proposes that, during any period of solvency relief, any benefit improvement that would have the effect of reducing the solvency ratio below 0.9 would be required to be pre-funded (such that the solvency ratio did not fall below 0.9) or would be void. As stated above, we support three conditions being attached to an exemption from solvency funding without changes to the going concern funding rules.

However, we submit that the threshold of 0.9 is both too conservative and calculated on the wrong basis. A plan's funded ratio can fluctuate over short periods of time without necessarily reflecting long-term trends in the plan's health. This is the volatility that the solvency relief is intended to mitigate. We do not believe it would be appropriate to restrict otherwise-desirable amendments to benefits by short-term fluctuations on an inapplicable funding measurement.

We submit that the appropriate funded ratio to apply to any restrictions on benefit improvements is the going concern funded ratio.

Recommendation #7: Where a condition on the provision of permanent solvency exemptions is established, the appropriate funded ratio is the going concern funded ratio, and this appropriate threshold should be established by the specific plan.

In relation to surplus, we agree that the plan sponsor(s) and/or administrator should have the option to apply going concern surplus to both employer and employee contributions to reduce current service costs. We submit that going concern surplus, if approved, be applied to both employer and employee contributions to a plan.

Recommendation #8: In plans that elect a solvency exemption, surplus should be permitted to be applied to reduce employer and employee contributions to current service costs at both the discretion of the administrator and with the consent of members. In any event, such surplus application to reduce employer or employee contributions should be subject to strict disclosure obligations.

QUESTION 8

Do you agree that plan amendments that provide different benefits on plan termination than on a going concern basis should no longer be accepted by the SFSC?

This section discusses particular plan provisions that reduce benefits on termination. The effect of these plan provisions is that certain benefits (those reduced on termination) are not required to be funded on a solvency basis. This encourages plan sponsors to underfund, since sponsors would not be responsible to pay for certain benefits on termination.

We believe that the elimination of the requirement for public sector plans to fund on a solvency basis (but to fund on a 15-year going concern basis) would eliminate the use of these provisions in plans. We do not support the reduction of benefits on plan termination.

QUESTION 9

Do you agree that amounts held back due to a transfer deficiency should be transferred within five years?

The consultation paper discusses the effect of extending a solvency amortization period (or reducing a going concern amortization period) on the period of time over which a transfer of a commuted value out of the plan must be paid.

We support the Consultation Paper's position. We do not believe it is reasonable for administrators to pay out commuted values over more than five years, and we do not believe this is fair to the former member of the plan. The five year period is an appropriate balance between the short term risk of underfunding and both fairness and administrative simplicity.

Recommendation #9: Commuted value transfers from a plan should be permitted over no more than five years.

QUESTION 10

At a later date, should SFSC consider requiring annual valuations for all defined benefit plans, if the solvency ratio falls below a prescribed amount?

In terms of the frequency of filing valuations, we believe that there should be no change to the current three year cycle. However, the Superintendent, in his/her discretion may order more frequent valuations. We support enhanced disclosure to plan members and retirees as we believe that it is as a fundamental expectation and obligation.

QUESTION 11

Which option do you feel best meets the principles, extended solvency amortization or enhanced going concern? Are there any flaws in either option?

We believe that funding for solvency for a public sector pension is an unnecessary allocation of funds. We support a third option that is permanent solvency relief without the restraint of a shortened amortization period. A shortened amortization period of 10 years would tie up funds that could be more readily be utilized for many other viable options rather than setting aside solvency funds for an event that will never take place. Tying up millions of dollars for an unlikely hypothetical plan termination, would unnecessarily remove those funds from workplace budgets.

For convenience, we have attached a summary of our recommendations to the SFSC.

Summary of SUN Recommendations

Recommendation #1: The SFSC should recognize two equally important rationales for providing relief from solvency funding for public sector plans: the management of contribution volatility and low risk of sponsor insolvency in many public sector plans.

Recommendation #2: We submit that the SFSC should consider additional principles that direct the development of a funding regime for public sector plans, that:

1. The rules should be appropriate and proportional to the nature and structure of the public and broader public sector plans.
2. Where the rules expose the plan to increased funding-related risks, the rules should require or encourage both sponsors and plan beneficiaries to have joint responsibility for all material administrative and sponsor decisions.

Recommendation #3: The SFSC should consider permanent exemption from solvency funding for public sector plans that demonstrate stability of public sector plan sponsors and joint governance of the plan. Funding should continue to be based on a going concern ongoing, cost base only. This option should be available by election and may have certain conditions that must be met to remain eligible for relief.

Recommendation #4: Eliminating solvency funding for public sector plans is an appropriate option. Changes to going concern funding rules are not an appropriate element or condition of this option. Specific risks associated with this option may be addressed by attaching specific conditions to this option.

Recommendation #5: Public sector plans should be provided with the option to remain in the current funding regime or elect permanent solvency relief.

Recommendation #6: The determination of an appropriate margin for conservatism in going concern assumptions is best controlled by the plan administrator in consultation with advisors and taking into account the plan-specific circumstances.

Recommendation #7: In relation to conditions regarding benefit improvements with permanent solvency relief, we believe that the appropriate threshold below which benefit improvements are to be pre-funded should be determined by the plan.

Recommendation #8: In contributory plans that elect a solvency exemption, surplus should be permitted to be applied to reduce employer and employee contributions to current service costs at both the discretion of the administrator and with the consent of members. In any event, such surplus application to reduce employer or employee contributions should be subject to strict disclosure obligations.

Recommendation #9: Commuted value transfers from a plan should be permitted over no more than five years.

TPAS

4001 Argyle Street
Regina, SK.
S4S 3L5

April 10th, 2012

Leah Fichter, Director Pensions
Pensions Division
Saskatchewan Financial Service Commission
Suite 601, 1919 Saskatchewan Drive
Regina, SK. S4P 4H2
email: leah.fichter@gov.sk.ca

Re: Repealing the "Solvency deficiency requirements for public defined benefit pensions."

Leah Fichter,

Our organization represents 2174 members of the SaskTel defined benefits pension. As you have asked for input to the possibility of repealing the solvency deficiency requirements for publicly funded pensions including crown corporations, we are, herein, providing our position.

Our first observation is the assumption that all "**publicly**" funded pensions are backed by the provincial or city government and therefore are at minimal risk of not being funded. Even if the government should change, there is a legal responsibility on behalf of the then current administration to ensure that pensions are paid in full.

Crown corporations on the other hand are **NOT** publicly funded, but are funded by the earnings of the crowns. One can say that if the crowns are unable to financially meet their pension obligations, the province would step in and make up any short fall.

This all sounds well and good, except for the fact that crowns can and have been privatized. If this occurs, the fall back to the provincial coffers for bailout no longer exists.

Now this particular administration may have no intention of privatizing any of the crowns, but there is no guarantee that this administration will stay in power forever. When a new government is elected, all bets are off.

In addition, it is our understanding that most if not all crown corporations, have opted for cash contribution pension plans and that their existing defined benefit plans are now closed and will no longer require huge financial injections of cash due to the dwindling obligations to its aging members. Consider this along with the three year contribution holiday that most, if not all, crowns are now embarking upon, and the financial obligations to the crowns are minimal, including adjusting to the variances in the markets.

Due to these scenarios, it is our organization's position that crown corporation funded defined benefit pension plans retain the requirement to fund these pensions using the current solvency deficiency methodology.

If you have questions or require clarification, please feel free to contact me at:

Tel: 586-8048 email: rhockings@sasktel.net

Below are the answers to your specific questions.

Sincerely,

R. S. Hockings – President TPAS (Telephone Defined Benefits Association)

QUESTION 1

Do you agree with the list of plans which will be subject to the new rules?

ANSWER 1

No! Crown corporations should be excluded.

QUESTION 2

Do you agree with the principles on which the new funding rules are based?

ANSWER 2

Only for "publicly" funded plans, not crowns.

QUESTION 3

Under Extended Solvency Amortization, is a ten year period for amortizing solvency deficiencies the appropriate length of time?

ANSWER 3

It depends on whose position you're taking. The organization would probably think that it's insufficient while the beneficiaries would think it's too long. I believe the SFSC's first responsibility is to the beneficiaries, not the organizations.

QUESTION 4

Under Extended Solvency Amortization, should the going concern valuation be strengthened by requiring more conservatism in the assumptions?

ANSWER 4

Absolutely!

QUESTION 5

Under Enhanced Going Concern, is a ten year amortization period for amortizing unfunded liabilities the appropriate length of time?

ANSWER 5

It depends on whose position you're taking. The organization would probably think that it's insufficient while the beneficiaries would think it's too long.

QUESTION 6

Do you have any comments at this time on appropriate best estimate assumptions and appropriate margins for public sector plans?

ANSWER 6

We have no comment on appropriate best estimate assumptions but think 5% to 10% would be an appropriate margin.

QUESTION 7

Do you agree that benefit improvements should be restricted in an insolvent plan, and if so: Is a threshold solvency ratio of 0.90 appropriate? Should the restriction apply under both Extended Solvency Amortization and Enhanced Going Concern?

ANSWER 7

We believe that benefit improvements should be allowed unless it reduces the threshold solvency ratio to less than 0.90. This should apply to all approaches to plan funding.

QUESTION 8

Do you agree that plan amendments that provide different benefits on plan termination than on a going concern basis should no longer be accepted by SFSC?

ANSWER 8

Benefits that were promised on an on going basis should be provided on termination, including those plans which have already applied for termination. We believe there is a moral obligation to provide those benefits that were promised to the beneficiaries during the life of the plan, regardless of termination.

QUESTION 9

Do you agree that amounts held back due to a transfer deficiency should be transferred within five years?

ANSWER 9

Yes, if not sooner.

QUESTION 10

At a later date, should SFSC consider requiring annual valuations for all defined benefit plans, if the solvency ratio falls below a prescribed amount?

ANSWER 10

If the solvency ratio falls below 0.90 there should be a requirement for annual filing.

QUESTION 11

Which option do you feel best meets the principles, Extended Solvency Amortization or Enhanced Going concern? Are there any flaws in either option?

ANSWER 8

Having only a superficial understanding and not being totally versed in the details and consequences of either approach, we are hesitant to recommend either. However, from our current perspective, the Extended Solvency Amortization looks more appealing.

April 30, 2012

David Wild, Superintendent
Chairperson and Superintendent of Pensions
Saskatchewan Financial Services Commission
601 – 1919 Saskatchewan Drive
Regina, SK S4P 4H2

Dear Mr. Wild:

In January 2012, I wrote to the Honourable Don Morgan, Minister of Justice and Attorney General, regarding the concerns facing Saskatchewan pension plans and specifically the University of Regina's defined benefit pension plans. Soon after, the pension consultation paper, "*New Funding Regime for Public Sector Plans*," was released.

The University of Regina's Pension and Benefits Committees – the Academic and Administrative Benefits Committee (AABC) and the Non-Academic Benefits Committee (NABC) – reviewed and have recently responded to the consultation paper. As you will appreciate, the response represents a collaborative exercise as the AABC and the NABC have University management, union/association and retiree representation.

At this time, I would like to communicate the University of Regina's support for the responses provided by the Committees. I would also like to add that even if the "Enhanced Going Concern" option forms part of the funding regime for public sector plans, the budgets of Saskatchewan universities will be significantly impacted as a result of the pension obligations. As you are aware, we maintain that solvency constraints lack relevance for universities.

We therefore eagerly await the outcome of the consultation process currently being undertaken, and the incorporation of these legislative changes.

Yours sincerely,



Vianne Timmons

cc. Human Resources Department (Pension and Benefits)

March 30, 2012

Ms. Leah Fichter, Director
Saskatchewan Financial Services Commission
Suite 601, 1919 Saskatchewan Drive
Regina, SK S4P 4H2

Dear Ms. Fichter:

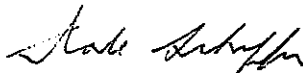
Re: Response to Consultation Paper – New Funding Regime for Public Sector Plans

We are appreciative of the opportunity to comment on the recently released pension paper regarding a new funding regime for public sector plans. Please find attached the response on behalf of the Non-Academic Benefits Committee.

Competitive pension benefits are necessary for our compensation strategy to recruit and retain employees and for supporting the financial well-being of our retiring employees, therefore we as a Committee, working with professional advisors are committed to fulfilling the going concern pension funding obligations.

We respectfully request that you consider our responses and we look forward to the timely implementation of the new funding regime.

Sincerely,



Dale Schoffer, Associate Vice-President and
Chair Non-Academic Benefits Committee

Enc.

c.c. Aon Hewitt
NABC members
Human Resources (Pension and Benefits)

CONSULTATION PAPER – NEW FUNDING REGIME FOR PUBLIC SECTOR PLANS

1. Do you agree with the list of plans which will be subject to the new rules?

Yes. In particular, we are in agreement that the Pension Plan for Academic and Administrative Employees of the University of Regina and The University of Regina Non-Academic Pension Plan form part of the list of public sector plans to which the funding regime be applied. We believe that every plan on the list should be in compliance with *The Pension Benefits Act 1992*.

2. Do you agree with the principles on which the new funding rules are based?

Yes. The principles appear to provide a means of managing volatility, do not introduce undue risk to the accrued benefits of the plan beneficiaries, promote an adequate level of funding over the long term, and are simple to understand and apply. They reflect the generally accepted standards currently in place for Saskatchewan pension plans.

3. Under Extended Solvency Amortization, is a ten year period for amortizing solvency deficiencies the appropriate length of time?

The University has expressed to Government on several occasions its view that the solvency test should be eliminated for large public institutions whose pension plans are unlikely to be terminated.

4. Under Extended Solvency Amortization, should the going concern valuation be strengthened by requiring more conservatism in the assumptions?

See Question 3.

5. Under Enhanced Going Concern, is a ten year period for amortizing unfunded liabilities the appropriate length of time?

Yes. We understand why it may be appropriate to implement a shorter amortization period for unfunded going-concern liabilities if solvency payments are eliminated; ten years seems reasonable, but we would not support a shorter period. Recent developments tend to re-enforce the notion that the current economic cycle may be shaping up to be vastly different from those of the recent past. It is anticipated the road back to “normal” may be long, slow and marked by excessive volatility along the way. Therefore taking a longer term view, we are concerned about overfunding pension plans in the shorter term. We understand that other jurisdictions are considering the possibility of allowing a plan to hold plan sponsor’s liability contributions in a special reserve within the plan, all or part of which may be refunded to the sponsor if the special payments turn out not to be needed.

6. Do you have any comments at this time on appropriate best estimate assumptions and appropriate margins for public sector plans?

The University continues to adhere to the principles subscribed to in the past which include: looking to the longer term, providing benefits that are affordable and sustainable; and having stable contribution rates. These principles, together with the support of a sound governance structure, professional advisors and dedicated pension committee members will enable us to continue providing competitive pension benefits.

We understand that the Saskatchewan Financial Services Commission, in co-operation with other pension regulatory authorities and the Canadian Institute of Actuaries, will be confirming the funding requirements for Saskatchewan pension plans. Our view is that recognition must be given to the particular characteristics of each plan. Therefore, it would be appropriate to have a range of acceptable best estimate assumptions and appropriate margins, developed in consultation with the actuarial profession, to ensure enough flexibility to reflect these plan characteristics.

7. Do you agree that benefit improvements should be restricted in an insolvent plan?

Yes. We are of the view that when a plan is in a deficit position, only in the rarest of situations should improvements be allowed; therefore would have no issue if a threshold solvency ratio of 90% were imposed.

8. Do you agree that plan amendments that provide different benefits on plan termination than on a going concern basis should no longer be accepted by SFSC?

We do not have any comments in this regard.

9. Do you agree that amounts held back due to a transfer deficiency should be transferred within five years?

The question of how long a transfer deficiency should be held back is secondary to the issue of how transfer values and corresponding transfer deficiencies should be calculated. Should a terminated member wish to exercise his/her right to portability under the Pension Benefits Act, then the amount ultimately paid out should align with the long-term funding target (i.e. the going-concern reserve) not the solvency liability. To the extent this reserve is not fully funded then we agree that the unfunded portion should be held back. In such a situation, a five year period would seem reasonable in the context of a 10 year amortization period for any going-concern deficits.

10. At a later date, should SFSC consider requiring annual valuations for all defined benefit plans; if the solvency ratio falls below a prescribed amount?

The University of Regina's pension committees annually review the financial position of their plans. Therefore it is our view that filing of plan valuations should be left to the discretion of the respective Boards/Committees. The SFSC currently has and should continue to be able to exercise its right to request a valuation when warranted.

11. Which option do you feel best meets the principles, Extended Solvency Amortization or Enhanced Going concern? Are there any flaws in either option?

It is our view the Enhanced Going Concern better aligns with the principles on which the rules are being developed. Further, Enhanced Going Concern simply seems to be more appropriate for public-sector plans, like those of the University of Regina, which are unlikely to be terminated. Under current circumstances, many plans have much larger solvency deficits than going-concern deficits. From the University's perspective, Extended Solvency Amortization could well lead to very large and unnecessary special contributions to its plans.

March 30, 2012

March 30, 2012

Ms. Leah Fichter, Director
Saskatchewan Financial Services Commission
Suite 601, 1919 Saskatchewan Drive
Regina, SK S4P 4H2

Dear Ms. Fichter:

Re: Response to Consultation Paper – New Funding Regime for Public Sector Plans

We are appreciative of the opportunity to comment on the recently released pension paper regarding a new funding regime for public sector plans. Please find attached the response on behalf of the Academic and Administrative Benefits Committee.

As a Committee, working with professional advisors, we are committed to fulfilling the going concern pension funding obligation for members of the Defined Benefit Component of the Pension Plan for Academic and Administrative Employees of the University of Regina.

We respectfully request that you consider our responses and we look forward to the timely implementation of the new funding regime.

Sincerely,



Larry Miller, Chair
Academic and Administrative Benefits Committee

Enc.

c.c. Aon Hewitt
AABC members
Human Resources (Pension and Benefits)

CONSULTATION PAPER – NEW FUNDING REGIME FOR PUBLIC SECTOR PLANS

1. Do you agree with the list of plans which will be subject to the new rules?

Yes. In particular, we are in agreement that the Pension Plan for Academic and Administrative Employees of the University of Regina and The University of Regina Non-Academic Pension Plan form part of the list of public sector plans to which the funding regime be applied. We believe that every plan on the list should be in compliance with *The Pension Benefits Act 1992*.

2. Do you agree with the principles on which the new funding rules are based?

Yes. The principles appear to provide a means of managing volatility, do not introduce undue risk to the accrued benefits of the plan beneficiaries, promote an adequate level of funding over the long term, and are simple to understand and apply. They reflect the generally accepted standards currently in place for Saskatchewan pension plans.

3. Under Extended Solvency Amortization, is a ten year period for amortizing solvency deficiencies the appropriate length of time?

The University has expressed to Government on several occasions its view that the solvency test should be eliminated for large public institutions whose pension plans are unlikely to be terminated.

4. Under Extended Solvency Amortization, should the going concern valuation be strengthened by requiring more conservatism in the assumptions?

See Question 3.

5. Under Enhanced Going Concern, is a ten year period for amortizing unfunded liabilities the appropriate length of time?

Yes. We understand why it may be appropriate to implement a shorter amortization period for unfunded going-concern liabilities if solvency payments are eliminated; ten years seems reasonable, but we would not support a shorter period. Recent developments tend to reinforce the notion that the current economic cycle may be shaping up to be vastly different from those of the recent past. It is anticipated the road back to “normal” may be long, slow and marked by excessive volatility along the way. Therefore taking a longer term view, we are concerned about overfunding pension plans in the shorter term. We understand that other jurisdictions are considering the possibility of allowing a plan to hold plan sponsor’s liability contributions in a special reserve within the plan, all or part of which may be refunded to the sponsor if the special payments turn out not to be needed.

6. Do you have any comments at this time on appropriate best estimate assumptions and appropriate margins for public sector plans?

The University continues to adhere to the principles subscribed to in the past which include: looking to the longer term, providing benefits that are affordable and sustainable; and having stable contribution rates. These principles, together with the support of a sound governance structure, professional advisors and dedicated pension committee members will enable us to continue providing competitive pension benefits.

We understand that the Saskatchewan Financial Services Commission, in co-operation with other pension regulatory authorities and the Canadian Institute of Actuaries, will be confirming the funding requirements for Saskatchewan pension plans. Our view is that recognition must be given to the particular characteristics of each plan. Therefore, it would be appropriate to have a range of acceptable best estimate assumptions and appropriate margins, developed in consultation with the actuarial profession, to ensure enough flexibility to reflect these plan characteristics.

7. Do you agree that benefit improvements should be restricted in an insolvent plan?

Yes. We are of the view that when a plan is in a deficit position, only in the rarest of situations should improvements be allowed; therefore would have no issue if a threshold solvency ratio of 90% were imposed.

8. Do you agree that plan amendments that provide different benefits on plan termination than on a going concern basis should no longer be accepted by SFSC?

We do not have any comments in this regard.

9. Do you agree that amounts held back due to a transfer deficiency should be transferred within five years?

The question of how long a transfer deficiency should be held back is secondary to the issue of how transfer values and corresponding transfer deficiencies should be calculated. Should a terminated member wish to exercise his/her right to portability under the Pension Benefits Act, then the amount ultimately paid out should align with the long-term funding target (i.e. the going-concern reserve) not the solvency liability. To the extent this reserve is not fully funded then we agree that the unfunded portion should be held back. In such a situation, a five year period would seem reasonable in the context of a 10 year amortization period for any going-concern deficits.

10. At a later date, should SFSC consider requiring annual valuations for all defined benefit plans; if the solvency ratio falls below a prescribed amount?

The University of Regina's pension committees annually review the financial position of their plans. Therefore it is our view that filing of plan valuations should be left to the discretion of the respective Boards/Committees. The SFSC currently has and should continue to be able to exercise its right to request a valuation when warranted.

11. Which option do you feel best meets the principles, Extended Solvency Amortization or Enhanced Going concern? Are there any flaws in either option?

It is our view the Enhanced Going Concern better aligns with the principles on which the rules are being developed. Further, Enhanced Going Concern simply seems to be more appropriate for public-sector plans, like those of the University of Regina, which are unlikely to be terminated. Under current circumstances, many plans have much larger solvency deficits than going-concern deficits. From the University's perspective, Extended Solvency Amortization could well lead to very large and unnecessary special contributions to its plans.

March 30, 2012



Office of the Vice-President (Finance and Resources)
E284 – 105 Administration Place
Saskatoon, SK S7N 0A2

April 11, 2012

Mr. David Wild, Superintendent
Pensions Division
Saskatchewan Financial Services Commission
601 - 1919 Saskatchewan Drive
Regina, SK S4P 4H2

Dear Mr. Wild:

We are pleased to provide our response (attached) to the questions raised in the consultation paper, "*New Funding Regime for Pensions*". The responses are very similar to those discussed with you during our meeting of February 7, 2012. It was helpful to have an opportunity to have your perspective on the questions, and we do appreciate you taking the time.

The university response reflects the outcome of our consultation with senior leaders, including: the Board, Deans' Council, and Planning and Priorities Committee of Council. In addition, the response will be shared with our pension committees. During our discussion you mentioned that the university may be called upon to provide additional information to inform decision makers about the implications of the two funding tests proposed in the consultation paper. As you know, this is an extremely important issue for the university, and as a result, we are most agreeable to providing any support and information that would be helpful to decision makers.

As we assess the implications of the provincial budget, the magnitude of the additional pension contributions weighs heavily in determining the scale of budget measures (e.g. generating additional revenue through additional students, eliminating services/programs) that will be required. Continued weak investment returns during 2011 coupled with stubbornly low long term bond rates, has resulted in further deterioration of the financial position of our defined benefit pension plans. Given the prevailing economic turmoil, the outlook for 2012 is also uncertain. As the three-year moratorium on solvency relief payments concludes on December 31, 2012, we remain keenly interested in the form of pension funding requirements for public sector plans for the longer term. Based on current financial projections, the potential payment requirements for the University of Saskatchewan are significant, possibly as much as \$30 million annually. Given this, the timing and shape of the solvency relief decision are critical as we will need to consider how to accommodate the required payments effective with the fiscal year 2013/14.

Accordingly, we anxiously await the outcome of the consultation process that your office has undertaken and the resulting legislative changes. In the event that you are able to provide assurance at this stage that the extended solvency option is not under consideration, that would be welcome news and would provide additional clarity to our budget planning process.

During previous meetings with your office, we reviewed various actions/directions pursued as part of our pension strategy and analysis. Significant effort has been, and continues to be, focused on various strategies, including: estimating financial position and projected payments; exploring and negotiating plan changes to lead to greater risk sharing of contributions; and lending additional rigour and discipline to our processes through implementation of funding policies and governance document review.

I would like to take this opportunity to advise you that effective April 15, I will be taking an administrative leave for the next year. This leave will provide time for me to focus on a number of local and international research projects in collaboration with the Johnson-Shoyama School of Public Policy as well as allow for an opportunity to step back, recharge and re-engage. While I am on leave, Greg Fowler, who has been appointed as Acting Vice-President (Finance and Resources), will carry out my responsibilities.

Should you or your staff have any questions regarding the university's response to the consultation paper, please feel free to contact either Laura Kennedy, Associate Vice-President (Financial Services) at 966-6627 or laura.kennedy@usask.ca; or Heather Fortosky, Director, Pensions Office, at 966-6276 or heather.fortosky@usask.ca.

I know that the U of S team is dedicated to working with your office to explore solutions that will address your concern of sustainability of the pension promise, and our concerns regarding the test by which sustainability is judged. As always, we remain committed to working with you, our stakeholders and Board, to find a prudent and balanced solution to our pension challenges.

I do hope the process of pension funding reform goes smoothly, and will monitor developments with a great deal of interest from another corner of the university.

Sincerely,



Richard Florizone
Vice-President (Finance and Resources)

- c. Leah Fichter, Director, Pensions, Saskatchewan Financial Services Commission
- Peter MacKinnon, President, University of Saskatchewan
- Greg Smith, Chair, Finance and Investment Committee, U of S Board of Governors
- Laura Kennedy, Associate Vice-President (Financial Services) and Controller, University of Saskatchewan
- Heather Fortosky, Director, Pensions Office, University of Saskatchewan



Response to Consultation Paper
New Funding Regime for Public Sector Plans
 April 2012

Question 1: Do you agree with the list of plans which will be subject to the new rules?

Yes. The three U of S defined benefit plans are included in the list. Given the different funding arrangements for the public sector, the size of the plans with professional administrators and attention to governance, it makes sense to treat public sector plans differently than the private sector. All the plans listed appear to be public sector plans.

Question 2: Do you agree with the principles on which the new funding rules are based?

We agree with the principles outlined, and would suggest adding the following which we believe would be important to all public sector plans:

- Pension Plan Contributions must be stable and reasonably estimable, and support the long term sustainability of the organization.
- Pension plan costs should not present an undue hardship for the employee and employer.

Question 3: Under Extended Solvency Amortization, is a ten year period for amortizing solvency deficiencies the appropriate length of time?

We do not believe solvency funding is appropriate for public sector plans in Saskatchewan. The choice of whether the amortization period is 10 or 15 years is not the central issue, but rather the unpredictability of solvency funding requirements due to fluctuating settlement rates. The issue is using short-term market conditions to value long-term liabilities. However, if solvency funding rules prevail, then we think the ten year period is not long enough to control the volatility in the funding levels. Given the volatility of the discount rate, and the current stubbornly low bond rates, the solvency test results in significant volatility and contribution uncertainty. This creates challenges in terms of establishing realistic budget projections, and within a time frame that is manageable. For example, based on projected plan results for 2012, under this ten year solvency payment option, the university could be faced with a \$30 million annual payment obligation.

Question 4: Under Extended Solvency Amortization, should the going concern valuation be strengthened by requiring more conservatism in the assumptions?

No. Given the magnitude of the required solvency payments, the question of additional going concern margin is of such immaterial consequence, that it is almost irrelevant.

Question 5: Under Enhanced Going Concern, is a ten-year period for amortizing unfunded liabilities the appropriate length of time?

Although this reduced payment amortization period creates an additional payment burden for the university (about \$2 million annually), we appreciate that given the financial condition of pension plans, there is heightened concern regarding security of the system, and that this requires a more conservative approach. Accordingly, we think that adopting the Enhanced Going Concern option with a ten year payment period is reasonable. To allow organizations time to accommodate the resulting increased payments, an option that could be considered is transitioning to the reduced amortization period over a period of time.

We also agree that the change in amortization periods should only apply to “new deficits” incurred since our most recent valuation of December 31, 2009.

Question 6: Do you have any comments at this time on appropriate best estimate assumptions and appropriate margins for public sector plans?

Organizations should establish a funding range and a target level for their pension plans. During 2009, funding policies were implemented for each of the university’s plans based on an agreed range for plan assets of between 105 per cent and 120 per cent of “best estimates” liabilities. Within that range our ideal position is 110 per cent. The Canadian Association of Pension Supervisory Authorities (CAPSA) recently issued Guideline No. 7, which recommends adoption of a funding policy and provides guidance regarding the elements to be included. Although CAPSA does not articulate or comment on the appropriate going-concern margin range level, the university does feel that the current funding policy ranges for each of the plans is reasonable given the nature of our organization and market volatility.

Question 7: Do you agree that benefit improvements should be restricted in an insolvent plan, and if so:
• *is a threshold solvency ratio of 90 appropriate?*
• *should the restriction apply under both Extended Solvency Amortization and Enhanced Going Concern?*

Although we disagree with the Solvency test, if the Extended Solvency test is applied, then yes, generally we agree that benefit improvements should be restricted in an insolvent plan. If the solvency test is applied then it does not seem logical that benefit improvements could be paid if the plan was insolvent, with the test being 100 per cent solvency. If the solvency threshold ratio was less than 100 per cent, an organization could be in the position of improving benefits while also holding back funds because of the insolvency holdback. This result does not seem logical. However, it is possible that given the very low discount rates, an organization could be in the position of having a solvency deficit, while also having a significant going-concern surplus.

If the Enhanced Going Concern option is adopted, then we do not believe the solvency test is applicable. For the University of Saskatchewan, the establishment of a funding policy with a funding range provides a stable yardstick against which to measure whether benefit improvements are possible. In accordance with our funding policies, if assets exceed 120 per cent of plan liabilities then benefits can be improved or investment risk can be reduced.

Question 8: Do you agree that plan amendments that provide different benefits on plan termination than on a going concern basis should no longer be accepted by SFSC?

We agree with the proposed change. Without the proposed change, employees could be in a very uncertain position in terms of security of their pension benefit.

Section 14: Implementation of Contribution Increases

This section proposes the option of a one year's delay in required payments (coupled with a one year reduction in the amortization period) under either the going concern or solvency payment option.

We fully support this change as it provides additional time to consider how the required payments can be accommodated within our budget plan.

Question 9: Do you agree that amounts held back due to a transfer deficiency should be transferred within five years?

We think the five year period is reasonable. Although the 5 year period is somewhat arbitrary, we feel extending it beyond 5 years would be detrimental to the employee. In addition, the 5 year period aligns with other jurisdictions and will simplify administration for plan sponsors dealing in multi-jurisdictions.

Under current legislation these payments are to be made every month, in our view this frequency results in excessive administrative time and complexity. In keeping with the principle of not increasing the administrative burden, we suggest that twice yearly payments be made in advance. For example, transfer deficiency payments due to members in the first 6 months of the year would be paid on January 1st of the same year, and payments due to members in the last 6 months of the year would be paid on July 1st of that same year. We also point out that other jurisdictions who have exempted public sector funding have not required a holdback of any amount for transfers out of the Plan.

Question 10: At a later date, should SFSC consider requiring annual valuations for all defined benefit plans, if the solvency ratio falls below a prescribed amount?

No, we do not agree with the solvency test, and therefore we disagree with annual valuations based on a solvency test result. In addition, in our view annual valuation is not consistent with the principle of managing volatility, and it would introduce undue risk to plan sponsors as well as increase the administrative burden. The ability to allow plan sponsors to choose when to file during the three year inter-valuation period provides the plan sponsor with another tool to help manage the volatility in the funding levels of the plan and provides accommodation for bargaining changes that occur during the period.

Question 11: Which option do you feel best meets the principles, Extended Solvency Amortization or Enhanced Going concern? Are there flaws in either option?

The Enhanced Going concern option best meets the principles.

There are flaws with the Extended Solvency option. The solvency test is based on the assumption that we are winding up and off-loading our pension obligations by purchasing long-term bonds. The risk of insolvency of the university is a remote risk. As well, the solvency test is overly harsh given current stubbornly low long-term bond rates. Because of the estimated financial impact of the solvency test, the budgetary accommodations required, would place the U of S at a competitive disadvantage to other universities who are not required to address similar payment requirements (in particular when compared to western universities).

Arguably, the budgetary uncertainty and volatility with associated repercussions introduced by the solvency constraint poses a much greater threat to employment, and accordingly to pension security. We believe it is problematic to strive for risk-free pension obligations, while creating significant financial risk for a large portion of the work force.

Significant efforts continue to be expended by the U of S to ensure that our pension plans are sustainable and affordable, to uphold our commitments and deliver on the "past pension promise". In addition, we want to ensure that our pension contributions are aligned with our compensation strategy for recruitment and retention of employees, and that contributions are predictable and affordable in the context of all other university priorities.

The volatility and rigidity implicit in the current solvency test presents challenges to achieving these goals, and in fact, negates the impact of actions we have taken, particularly the implementation of funding policies and the search for a target benefit pension plan design for our Non-Academic Plan.

Concluding Comments:

We appreciate the opportunity to comment on this critically important public policy decision. Should you require further information regarding the comments provided or the projected financial implications, we would be most agreeable to either providing the requested information or meeting with you.