Submission to the Financial and Consumers Affairs Authority (FCAA) of Saskatchewan

A Review of the Pension Funding Framework for Single Employer Defined Benefit Plans in the Private Sector

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Introduction

Unifor welcomes this opportunity to provide our submission to the Financial and Consumers Affairs Authority (FCAA) of Saskatchewan in response to '**A Review of the Pension Funding Framework for Single Employer Defined Benefit Plans in the Private Sector'** consultation paper. The paper provides stakeholders a timely opportunity to consult with the pension regulator in the review of the current pension funding framework for single employer Defined Benefit plans in the private sector and other complementary reform measures applicable to all Defined Benefit plans.

Unifor formed through the merger of two predecessor unions: the Communications, Energy and Paperworkers (CEP) Union and the Canadian Auto Workers (CAW) Union, and is now Canada's largest private sector union with over 315,000 members. Both founding unions of Unifor had a proud history of negotiating and defending decent workplace Defined Benefit pensions for our members.

Unifor represents over 8,500 members employed within provincially regulated industries throughout the Province of Saskatchewan and contributing to the economic prosperity of the Province in many key economic sectors such as Information & Technology, Telecommunications, Energy, Water, Fertilizer and Agri-business, Hospitality and Mining, amongst others in this province. Notable bargaining relationships with employers in the Province include: Consumers' Co-operative Refineries; Mosaic Potash Esterhazy Ltd; Nutrien Lanigan Potash; Saskatchewan Telecommunications; SaskEnergy; SaskPower Corporation; Information Systems Management; Delta Bessborough Hotel; Hotel Saskatchewan and Orano Canada Inc.

The pension plan arrangements provided with these employers, cooperatives and crown agencies certainly include Defined Benefit (DB) in the form of single employer pension plans (SEPP), but also jointly sponsored pension plans (JSPP), as well as defined contribution (DC) pension plans and employer matching RRSPs and other Capital Accumulation Plan (CAP) vehicles.

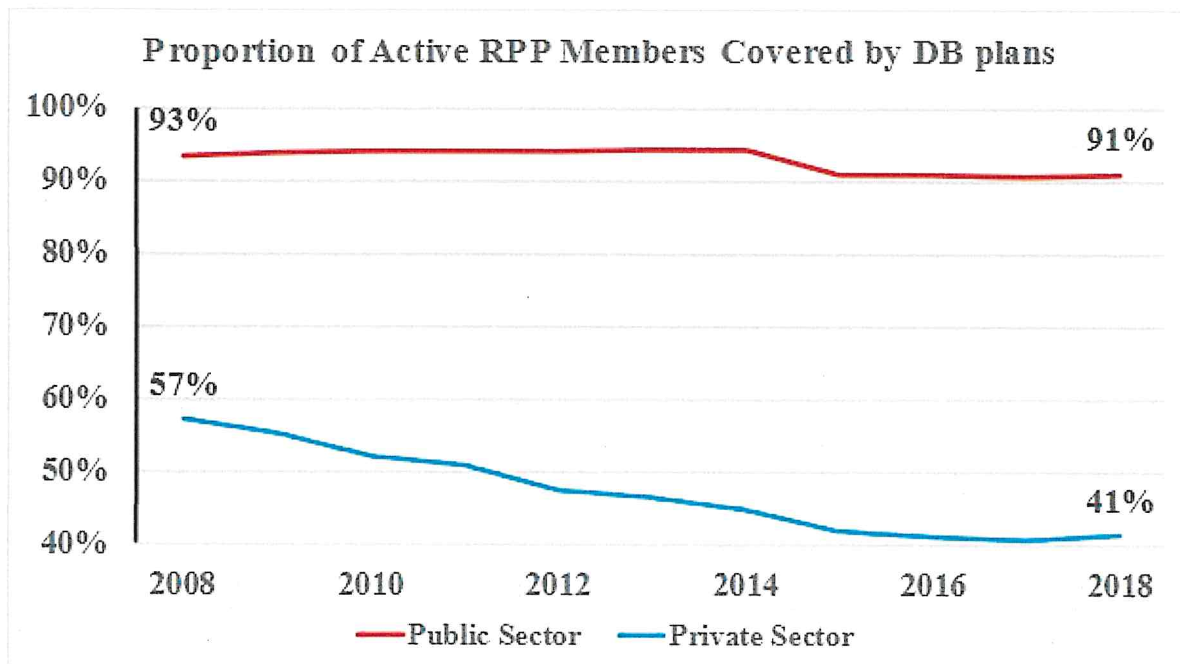
Current Pension Landscape

The consultation paper begins by acknowledging the key role occupational Defined Benefit pension plans play in Canada's broader retirement income system. These Defined Benefit pension plans provide lifetime income stability to retirees as well as serving as a tool to attract or recruit and retain employees. The pivotal role of solvency funding in ensuring that these Defined Benefit pension promise made under a single employer sponsored Defined Benefit pension plan specifically is indeed kept, can never be understated.

We also appreciate the consultation paper noting the more recent trend of employers seeking to close and wind up their Defined Benefit plans, or switching to less onerous (particularly in regards to the balance sheet implications)plans such as defined contribution plans. We are equally concerned that due to the very nature of defined contribution plans, these plans have not offered retirement income security as would a defined benefit plan. This is a critical challenge for single employer Defined Benefit pension plans (of which apparently only thirty-six (36) remain registered in Saskatchewan). We submit that innovation and reform in regards

to multi-employer pension plans such as target benefit plans or jointly sponsored Defined Benefit plans should be included in the scope of any review to address declining pension coverage issues:

OSFI's Factsheet, **Registered Pension Plans (RPP) and Other Types of Savings Plans – Coverage in Canada** speaks to shift from Defined Benefit (DB) plans to Defined Contribution (DC) plans and other similar plans. Overall, the proportion of active RPP members in DB plans has declined from 75% to 67% over the last ten years. While the reduction in DB coverage has been significant in the private sector (from 57% to 41%, it has also stabilized at 41% since 2016.



We were disappointed that the consultation paper's introduction would apparently anchor this review to the singular premise "to ease the funding burden and contribution volatility from low interest rates". We appreciate that similar recent reviews in other jurisdictions as noted in the consultation paper have also considered current rules regarding the funding of solvency deficits for SEPPs. These reviews were equally mindful of current low interest rates, and they also generally recognized that any reduction to the amount of solvency funding in a plan proportionally increases risk to benefit security for plan members and retirees.

Such review of current solvency funding rules in our submission must therefore also accept the obligation of reviewing additional collateral measures to ensure mitigation of the additional risks to benefit security. That is not simply a review of teaks to the solvency funding regime, such as prescribed requirements for provisions for adverse deviations (PfAD) and/or restrictions on an employer's ability to take contribution holidays which are insufficient to mitigate the additional risk to benefit security.

Our union has consistently called for any greater risk being assumed by plan members through relaxation of solvency funding rules to be 'insured' - in relation to the increased risk of plan failures or insolvency and particularly when solvency funding relief was offered and a potentially greater solvency deficiency created. Providing such insurance in the first instance (and increasing the PBGF maximum limit in Ontario) offers the most practical relief from the risk of insolvency when plan are in deficits and serves to effectively pool the risks to realizing the pension benefit promised.

We also insist on enhancing disclosure obligations for participating members, retirees and trade unions; and the addition of consent mechanisms to allow for those directly affected to assess and determine their willingness and consent to assume such greater risks. We also insist on demonstrated need – in the form of conditional or case-by-case approval - rather than sweeping uniform or permanent solvency funding relief that would allow the most negligent employers access to opportunities to further under-fund the pension plan.

Unifor has and will continue to support employer requests for solvency relief on an ad hoc basis in situations where such relief can play a role in ensuring continued support for jobs and protection for communities. However, the absence of consent requirements will only serve to eliminate the ability of unions as bargaining agents to play any bilateral role as equal partners in determining if the funding relief is appropriate in the specific circumstances at hand.

If solvency funding rules are permanently relaxed and consent provisions are removed, there is simply no guarantee that corporations will re-invest in facilities or maintain employment levels; an important point our union has made in earlier submissions to other jurisdictions considering reforms to solvency funding. We do not accept that modernizing the pension legislation to address solvency funding reform should be an occasion to disrupt the present balance in respect of ensuring the interests and benefit security of members and beneficiaries.

The insolvency of Sears Canada served as a sobering reminder of the real risks faced by plan members and retirees participating in single employer DB pension plans. Media reports at the time noted that the preferred shareholders had enriched themselves by recklessly diverting funds away from the corporate entity and turning their backs on a pension plan awash in deficits. Since 2010, Sears had paid $1.5 billion to shareholders – 5.5x times more than it would have cost to top up the Sears pension plan and its $267 million shortfall.

The Canadian Centre for Policy Alternatives (CCPA) report, The Lion's Share: Pension Deficits and Shareholder Payments among Canada's Largest Companies revealed $10.8 billion in pension deficits at Canada's biggest companies. At the same time, shareholder payouts among those companies increased from $31.9 billion in 2011 to $46.9 billion in 2016. In other words, Canada's largest companies paid out four times more to shareholders in 2016 than it would cost to have fully funded their pension plans.

Sears, Nortel and other examples illustrate the thoughtful relevance of pension legislation and accompanying Regulation that attempts a prudent balance in protecting all member and retiree entitlements within their workplace pensions. In our view, there should be express provisions in statute to prevent this type of mistreatment of the beneficiaries of workplace pension plans. Unifor would recommend that the Financial and Consumer Affairs Authority should have the authority and power to prohibit share buybacks and dividends should any single employer pension plan obtain solvency funding relief.

Finally we note that the consultation paper completely omits discussing whether an "insured arrangement" similar to the Pension Benefit Guarantee Fund (PBGF) as in Ontario, is in fact necessitated for the workplace Defined Benefit pension funds in the Province of Saskatchewan. Such a guarantee fund would serve to pool and socialize insolvency risks (as a unique risk of sponsor insolvency for single employer pension plans) and offers the most practical relief and benefit security to plan members' and beneficiaries pension entitlements.

We suggest that the OECD **Guidelines on Funding and Benefit Security in Occupational Pension Plans** be strongly embraced wherein a three-fold approach emphasizing prudent pre-funding; enhanced creditor rights and an insolvency or pension guarantee scheme as central to benefit security in occupational or workplace pension plans:

> *Occupational defined benefit pension plans should in general be funded through the establishment of a pension fund or through an insurance arrangement (or a combination of these mechanisms). Additional protection may be provided through the recognition of creditor rights to the pension fund or the plan members and beneficiaries and, in some cases, through insolvency guaranty schemes that protect pension benefits in the case of insolvency of the plan sponsor or the pension fund.*

Discussion Questions–Change the Way in Which Solvency Deficiencies Are Funded

1. If the solution is to modify solvency funding, which of the above options or combination of options do you feel provides the right balance between benefit security and affordability?

We appreciate that the consultation document recognizes that solvency funding rules are "*intended to provide a high degree of financial security for members who participate in a defined benefit pension plan, and for former members who will receive or are receiving a pension from a plan*".

At the same time, solvency funding rules themselves are not an express guarantee that a plan will be fully funded if the employer as plan sponsor chooses to terminate the plan or becomes insolvent, and to that end we call for continuation of full funding on termination as also provided in other Canadian jurisdictions as well as an insurance guarantee modelled on the Pension Benefit Guarantee Fund (PBGF) in Ontario.

The risk of insolvency is both material and particularly devastating as it impacts plan members, including retired members, when a plan is in an underfunded position at windup/termination and the plan sponsor is bankrupt or insolvent (absent super-priority or secured creditor status under federal legislation such as the Bankruptcy and Insolvency Act (BIA) or the Companies' Creditors Arrangement Act (CCAA) for pension beneficiaries).

It is our view that access to solvency funding relief should always be transient - based on demonstrated need; permissive and subject to the consent of members and retirees. It is also vital to appreciate the significant role of collective bargaining and negotiations that occur between unions and employers over solvency relief.

In the current business environment with global firms demanding much of bargaining units in exchange for investing in workplaces, negotiations over solvency funding can play a vital role in supporting jobs and protecting communities from employers acting to terminate or disinvest in their facilities. In situations, however where the minimum required employer solvency funding obligations are relieved without negotiation, there remain no counterpart guarantees that corporations will re-invest the resulting savings in their Canadian facilities placing active plan members in a double jeopardy.

The recent insolvency of Sears provides an important context for the discussion of solvency funding reform. Unifor members and retirees as participants in the Sears pension plan were both adversely impacted by the wind-up of the pension plan and the resulting CCAA proceedings. In our experience as bargaining agent, we observed that regardless of their financial situation, employers continue to be reluctant to make more than the minimum required contributions to any workplace pension plans they sponsor, whether that is on a going concern or solvency basis.

In the case of Sears, the employer paid hundreds of millions of dollars in dividends and share buybacks while taking advantage of available solvency relief measures. In our view, there should be express provisions in pension statutes to prevent this type of mistreatment of the beneficiaries of workplace pension plans. Unifor would recommend that the Superintendent should have the authority and power to prohibit share buybacks and dividends should the pension plan obtain any temporary solvency funding relief or other solvency relief options now under consideration.

We would recommend that any measures to provide solvency funding relief must provide at a minimum:

- A restriction on dividends or share repurchases;
- Limits to increases in executive compensation, including bonuses and stock options;
- A commitment by the plan sponsor to negotiate with plan participants any changes to the pension plan (e.g., contribution rates, ancillary benefits, and benefit calculations on a go-forward basis).

In addition disclosure and consent of plan beneficiaries must also be required as well as a demonstrated need for relief from solvency funding obligations as critical to the viability and continuing existence of the plan sponsor.

We would also point to recent measures in Ontario in conjunction with temporary funding relief measures that require plan sponsors to provide a statutory declaration for contribution deferrals[1] that they have not:

a. Declared or paid any amount, whether as a dividend or a return of capital, on any issued and outstanding share capital of the employer;
b. Bought back or otherwise purchased or redeemed any issued and outstanding share capital of the Employer;
c. Paid a bonus, however, described, whether non-discretionary or discretionary, and whether in cash or otherwise, to any executive of the employer;
d. Increased the compensation of any executive of the Employer;
e. Repaid the principal amount of any debt or other obligation of the Employer in excess of amounts previously scheduled and agreed to;
f. Paid or credited any amount as a loan or advance to or for the benefit of shareowners or executives

2. Are there other methods of modifying solvency funding which you feel should be considered?

We support a regulatory review to focus on the real risks facing pension plans: the risks facing both the specific industry and the specific solvency risk of the employer. For an employer at risk of insolvency, funding only their current service cost; going concern deficit, and any applicable PfAD over ten years, while only funding 85% of the solvency deficit as now required in some provincial jurisdictions is simply not acceptable to plan members and beneficiaries.

If in the opinion of the regulator, the pension plan faces significant specific risk due to employer insolvency or industry transition, or mistreatment by the plan sponsor, the regulator should be empowered to obligate the employer to expedite full funding of the solvency/wind-up deficit, and maintain any terminal full funding obligations.

We support providing temporary needs-based solvency funding relief while continuing to provide sufficient safeguards for pension plan members and beneficiaries. The lessons from the financial crisis in 2009 are instructive, especially the federal enactment of the Solvency Funding Relief Regulations (which expired in November 2019). These federal Regulations allowed employers to extend the amortization of solvency deficiencies from five years to ten, subject to the express consent of plan members and beneficiaries.

As necessary, OSFI also granted one-time funding relief measures to insolvent employers such as Canadian Press (2009) and Air Canada during its CCAA restructuring (2003-2004) in the context of the **Distressed Pension Plan Workout Scheme**. The workout scheme also serves as a unique statutory mechanism to allow an employer who sponsors a federally regulated 'active' pension plan with breathing room in which to negotiate and restructure potentially disabling pension solvency obligations.

[1] https://www.fsrao.ca/industry/pension-sector/pensions-forms/pf-111-dfc3

If there is clear evidence that solvency funding obligations are indeed onerous and potentially fatal to a company and therefore threaten the viability and solvency of the pension plan, on a case-by-case basis, there may be merit in providing for either a similar needs-based Distressed Plan workout scheme or enacting temporary and case-specific solvency funding relief Regulations.

3. If the period of time for funding solvency deficiencies is lengthened, what is the appropriate new time period?

We support regulatory engagement to enable a just transition to a low-carbon economy that minimizing negative impacts and addresses an equitable distribution of benefits and burdens of the transition. There is a period in time: namely now where, if there is significant bilateral support within industries in transition as is the case in the energy and resources sectors of this province, and negotiations result in a just transition agreement, solvency funding deficiencies may warrant being lengthened. The time frames for funding such pension solvency deficiencies is therefore of necessity contingent on the broader equitable resolve centered around the negotiated just transition measures.

Any arrangement addressing unfunded solvency liabilities in pension plans impacted by the low-carbon transition, or the broader digital transformation as well that is addressed through a tripartite process (unions and workers' organizations, employers' organizations, and government at all levels including federal, provincial, territorial, municipal, and Indigenous) should be respected.

This framework approach for enabling just transition measures achieved through tripartite negotiations should be a one-time, case specific approach. The approach should also ensure the social dialogue processes for transition are inclusive of non-tripartite groups (e.g., civil society, Indigenous NGOs, non-unionized workers, broader community members, etc.) in recognition that a fully funded pension is also lasting asset providing income security for the region and province. Conversely, an under-funded pension is a both a continuing social liability and source of income insecurity.

4. If SRAs are allowed, under what circumstances should the employer be allowed to withdraw payments that have been made into the account?

We would advocate that Solvency Reserve Accounts (SRA) should only be introduced as a temporary funding relief measure, and that they be established as an amendment to and within the same trust agreement as the originating pension fund. This would ensure administrative and operational simplicity as well as jurisdictional consistency and compatibility.

Given the stated purposes of introducing SRAs, the minimum required solvency ratio threshold should be more comparable to the CRA limits regarding going concern surplus rules – since there remains a need to ensure 'down-cycle' protection while encouraging incentive to improve the funded status of plans. The preferred state would be a stronger solvency funded status than the going concern funded status – given the longer timeframe and less contingent nature of the later.

There is also merit in limiting annual withdrawals from a SRA to one-fifth (1/5th) of the eligible surplus given that this would align with the approach in Alberta and British Columbia, and would mirror the 5-year amortization period allowed for solvency deficits. Certainly, greater regulatory consistency is desirable in addition to the obvious merits of aligning solvency reserve account balances with the same 5-year amortization period for solvency deficits.

We would stress that any proposal to permit SRAs needs to acknowledge the distinction between contributory and non-contributory defined benefit plans as there is an equitable claim from plan members that any surplus, "trapped" or otherwise arises in proportion to their contributions as well as those of the plan sponsor.

If the goal is a true funding symmetry with rules to permit clearer access to any plan surplus, we agree with the consultation document that important restrictions would need to apply to the statutory and regulatory framework in order to protect benefit security and balance considerations regarding surplus ownership and shared risk in respect of normal cost contributions.

Should a SRA framework be introduced, we would support continuation of any current limitations on a plan, with any contribution holiday or refund of surplus to the employer continuing to be limited to the amount of surplus in excess of the greater of: (a) two times the employer's current service cost, and (b) 25 per cent of the plan's solvency liabilities. Equally important, any refund of surplus must be applicable to all plan contributions.

Additionally a plan sponsor ought to continue to be required to establish such entitlement of access to the surplus within a Solvency Reserve Account under the plan trust documents. Further, the plan sponsor ought to seek the consent of the Superintendent of Financial Institutions for a refund from the SRA, and such consent only be granted when the Superintendent has been satisfied that a request to withdraw from the SRA has the express consent of two-thirds of the plan members and two-thirds of the group consisting of former members (i.e., retirees and vested deferred members).

5. If LOCs are allowed, should the amount be limited to a certain percentage of liabilities?

Based principally on the federal jurisdiction, we accept that the letter of credit limit of up to 15 per cent of plan liabilities and other stipulations and conditions around reliance on a letter(s) of credit ought to serve as a model for any statutory and regulatory change in Saskatchewan. We are not aware of any evidence that supports a compelling basis for proposing any alternative limit to the reliance on letters of credit limit and presume that the current level is an appropriate balancing of interests.

Discussion Questions–Partial Solvency Funding or No Solvency Funding

1. If the current solvency funding threshold of 100% is reduced to require only partial solvency funding, is a threshold of 85% appropriate?

We share the concern expressed in the consultation paper of the heightened risk in Saskatchewan of benefit reductions upon plan termination, and welcome this opportunity to provide further input around prospective structural changes to the funding framework – including options around interim or temporary solvency funding relief measures available to plan sponsors by election and presumably on a needs-based option.

We are mindful that any reduction to the current solvency funding threshold of 100% will increase risks to plan members, retirees and deferred members. The risk is even more significant as there is no statutory or regulatory requirement for full funding on termination in Saskatchewan. Furthermore, unlike Ontario, which features the Pension Benefits Guarantee Fund (PBGF), there is no comparable insurance program to assist beneficiaries in the event of a plan termination of an underfunded plan in Saskatchewan.

We would emphasize that the 85% threshold would only be appropriate if Saskatchewan requires full funding of pension plans at termination and joins Unifor in advocating for a national pension benefits guarantee fund.

2. What is the main risk(s) that a PfAD should mitigate?

We are mindful that a Provision for Adverse Deviation (PfAD) will not protect beneficiaries from the most significant risk they face as members of an employer-sponsored Defined Benefit (DB) plan. If an underfunded DB plan terminates, as may occur in the event of the insolvency of the plan sponsor, PfAD contributions will likely fall short of any solvency deficiency. Elimination or reduction of the solvency funding threshold of 100% exposes beneficiaries to risk that a going concern PfAD was not designed to and does not mitigate.

3. What do you feel is the best method of determining the level of PfAD?

First, we would emphasize our agreement with the consultation paper that "a PfAD is not a replacement for nor equivalent to solvency funding" and is certainly only "a buffer, in excess of a plan's going concern liabilities, which is added to a going concern valuation". We accept that the best method of determining the level of PfAD is at once both a practical method and a method that possesses the following desired properties:

- produces a higher margin for plans that adopt a riskier (higher equity exposure) investment policy; including asset mix and allocation considerations as well as the plan's risk management strategies
- is higher for mature plans than for less mature plans; and considers longevity experience and pensioner mortality, and plan design in relation to career earnings and early retirement opportunities

- considers the plan's discount rate assumptions relative to industry benchmarks and guidance
- considers the plan's asset/liability matching
- moves with long-term interest rates that fall within a specified range—a higher (lower) margin is applied when interest rates move up (down), and specifically addresses the variation between current interest rates and expected future long-term bond and interest rates.

4. Should the method of determining PfAD be different if there is no solvency funding required than if there is a certain level of solvency funding required?

While we note the limitations of the PfAD approach in protecting benefit security for plan beneficiaries in the event of the termination of an underfunded plan, we would recommend a more stringent PfAD if there is no solvency funding.

5. Should the PfAD have to be funded on current service contributions, even if the plan is in a going concern surplus?

If a PfAD is implemented due to the elimination or reduction of solvency funding obligations, we would insist that the plan sponsor fund the PfAD on current service contributions even if there the plan is experiencing a going concern surplus. Many plan sponsors will see a significant reduction in their solvency funding requirements if the solvency funding threshold is adjusted as proposed. Plan sponsors who are saving on solvency funding should incorporate the PfAD to the fullest possible extent.

6. If the period of time for amortizing going concern deficiencies is shortened, what is the appropriate period?

We reiterate that increasing the stringency of going concern funding requirements does not adequately protect against the increased risk of the proposed changes to solvency funding. If the solvency funding threshold is reduced or eliminated, particularly without requiring full funding on termination and establishment of a provincial, if not national PBGF, reducing the period of time for amortizing going concern deficiencies to 10 years is advisable but still an inadequate measure to enhance benefit security.

7. Are there other methods of enhancing going concern funding which should be considered?

We would reiterate that enhancing going concern funding requirements does not adequately protect against the increased risk of the proposed changes to solvency funding. In our view, a going concern valuation is a 'sunny days' approach wherein the actuary assumes indefinite plan continuation and relies on best-estimates assumptions.

The valuation sets out the target level for pension assets and future contributions that, together with future investment returns, would be expected to be sufficient to pay all of the pension benefits and expenses as they fall due. Contrast this to a solvency or

windup valuation which are simply 'settlement date' valuations that are presumably not necessarily the date of choice for a plan sponsor and in most probabilities reflects a 'rainy day' scenario, if not the perfect storm.

Even with a provision for adverse deviation or stabilization provision, as buffers or safety margins or enhanced conservatism on a going concern basis, there remains the risk of sponsor insolvency that only an insurance program such as Ontario's Pension Benefit Guarantee Fund (PBGF) in expressly designed to address by providing a foundational benefit floor for the promises by defaulting sponsors.

8. Are there any other features to the funding rules which should be considered, such as consolidation of unfunded liabilities?

Given the increased risk to benefit security in Saskatchewan and the absence of a program similar to Ontario's PBGF, modest and temporary adjustments to solvency funding thresholds in response to the various specific challenges facing pension plans are more suitable. Permanent changes to solvency funding that apply to all pension plans would unreasonably and inappropriately increase the risk to plan members and retirees.

We would encourage FCAA to consider retaining the requirement for full funding on termination, and that it would imprudent to copy reforms from other jurisdictions and apply them without express adaptation in Saskatchewan. We recommend that FCAA consider the merits of using the previously offered temporary relief measures (with a consent requirement) on a prospective basis.

Saskatchewan should also require consent from plan members and beneficiaries as a condition of relaxing solvency funding thresholds in recognition of the increased risk faced by plan members and retirees in the province. Indeed, if a sponsoring employer were to be relieved of the obligation to fully fund the plan in the event of termination, the plan beneficiaries should have an equal role in determining whether the risk associated with reducing solvency funding is appropriate and allocating that risk in the various stakeholders.

9. Are there any options from the previous section (Change the Way in Which Solvency Deficiencies Are Funded) which should be incorporated if only partial solvency funding is required, or if it is eliminated completely? In particular, would solvency reserve accounts and letters of credit be useful mechanisms if a solvency deficiency has to be funded only to a certain level?

Unifor has significant reservations about the implementation of Solvency Reserve Accounts. These accounts provide an opportunity for employers to access pension plan surplus more readily than is allowed for under existing legislation. We generally take the view that pension plan contributions, particularly those impressed within a trust, are to be allocated/directed in the interest of the plan's beneficiaries.

We would advocate that whenever Solvency Reserve Accounts are to be introduced as a temporary or more enduring funding relief measure, that they be established as an amendment to and within the same trust agreement as the originating pension fund.

This would ensure administrative and operational simplicity as well as jurisdictional consistency and compatibility.

We would stress that Solvency Reserve Accounts also need to acknowledge the distinction between contributory and non-contributory defined benefit plans as there is an equitable claim from plan members that any surplus, "trapped" or otherwise arises in proportion to their contributions as much as does those of the plan sponsor.

Discussion Questions–Full Funding on Plan Termination

1. Assuming the solvency funding framework is changed, are there any types of SEPPPs for which an employer should not have to fully fund a deficit if the plan is voluntarily terminated? For example, if members are required to contribute towards a solvency deficit, the framework could be structured so that only a portion of the deficit has to be funded by the employer if the plan is wound up.

The consultation paper raises an intriguing issue around the applicability of solvency funding relief and we would generally accept that all single employer defined benefit pension plans would be required to fully funded any unfunded liabilities on termination. To a certain extent, if the single employer plan is contributory, that member obligation is more typically a negotiated or contractual matter and the framework and legislative enactment should address the relief or release of members from any continuing contributory obligation at termination.

We would not otherwise distinguish between plans on the issue of their terminal funding obligations, save and except those public sector pension plans that are sponsored or jointly sponsored by entities or organization that face no material risk of insolvency and/or bankruptcy. We do expressly exempt any employer such as crown corporation SaskTel from this definition of a public sector pension plan sponsor that is operated on a commercial basis and otherwise dependent on sales revenue; whether or not actually shareholder owned.

There is certainly obvious merit in the balancing of risk and stakeholder interests to establish the funding framework on a go-forward basis. In that approach any existing solvency funding obligation would still be honoured pursuant to existing rules and only any future solvency funding obligation would (by sponsor election) be permitted to access any relief offered through the new solvency funding framework.

In this approach, if the plan sponsor elects to fund under the new framework, they would not necessarily be required to fully fund all accrued benefits as if the plan was being terminated. We are mindful that any new solvency funding framework may consist of only modest forms of relief such as permitting re-amortization of solvency deficiencies, that would not warrant a full funding of the prior solvency deficit requirement.

Given that the scope of the new framework is not yet known, there is merit in providing that where plan sponsors elect to access such new solvency relief measures that impact on existing solvency deficiency payments, and the plan is subsequently terminated, any deficiency identified in the termination report would still need to be funded either in one lump sum or over a period not exceeding five years.

2. Are there any options presented in "Two Main Approaches" which should not require the full funding condition, if the Regulations are amended to include only that option? For example, if the only change made to the Act or Regulations is to allow a longer period of time for amortizing a solvency deficiency, should full funding on plan termination still be a condition for electing the option?

We accept that the full funding condition does not apply as forcefully or as compelling in respect of solvency funding reform options that are temporary measures as approved by the regulator and term certain in application. However, neither option ought to invoke an exemption more generally from the full funding on termination obligation.

To that extent the suggested options provide for changes to the approach by way solvency deficiencies are funded; whether by temporary extension of amortization schedules or re-amortization of new solvency deficiencies, they do not warrant an immediate full funding of the solvency deficit requirement on plan termination to access the option – unless motive is impugned and the relief from any prior solvency funding obligation is reasonably the sole or predominant basis for the plan termination.

Neither the Solvency Reserve Account nor the Line of Credit option rise to this level either of requiring full funding on plan termination. We clearly accept either SRAs or LOCs as assets of the plan intended to fulfill the funding obligations and therefore relevant in settling at plan termination whether those obligations have been met – they cannot revert to the benefit of the plan sponsor until and unless provision has been made for the full funding of pensions or purchase of annuities and other benefits pursuant to the plan on windup.

We submit that the approach remains to consider the need for relief from solvency funding obligations as currently prescribed – not to release plan sponsors from the penultimate obligation of ensuring full funding at time of plan termination and windup. The true measure of benefit security for plan beneficiaries remains that the pension fund has sufficient assets to ensure that the promised benefits will be paid – and most critically if and when the plan should terminate.

Discussion Questions–Restrictions on Contribution Holidays

1. Should contribution holidays be restricted further than they are currently? If so, which method best protects member benefits?

We support enhancing the restrictions on contribution holidays consistent with preserving benefit security. Given that the existing risk to benefit security in Saskatchewan falls directly on plan members, in the absence of any insurance or risk pooling more generally, contribution holidays may simply increase the likelihood that a plan is not fully funded at termination. Furthermore if the existing solvency funding threshold is eliminated or reduced, employers should not have access to contribution holidays without a requirement for full funding on termination.

2. If a plan is required to be funded at a higher level than 100% on a solvency basis and/or a going concern basis before taking a contribution holiday, what is the appropriate level?

The determination of when it is appropriate for a plan sponsor to avail themself of a contribution holiday, is contingent on the nature of the plan sponsors (jointly sponsored plans having an internal governance mechanism to allow for calibration of risk) and the degree of socially acceptable risk taking. We agree that surplus assets must always be considered on both a going concern and a solvency basis and that no contribution holiday ought to take either the going concern funded ratio or the solvency ratio below 100%.

Certainly any intermittent or temporary solvency funding relief program warrants a review of the rules respecting contribution holidays, and would have more stringent rules that ongoing solvency funding obligations. In addition to the existing conditions, we agree that the following conditions as set out in the consultation paper, which are not mutually exclusive, should be considered:

- A plan would need to be funded above 105% on a solvency basis for the duration of the valuation period before a contribution holiday could be taken.
- A plan would need to be funded above 105% on a going concern basis for the duration of the valuation period before a contribution holiday could be taken.
- A margin above any possible required PfAD would be required before a contribution holiday could be taken.
- A plan would in any event not be permitted any contribution holiday in excess of the greater of: (a) two times the employer's current service cost, and (b) 25% of the plan's solvency liabilities.
- A plan would be required to treat all contributors equitably in respect of the benefits of any contribution holiday.

3. Should the ability to take a contribution holiday be determined on an annual basis, whereby a cost certificate would have to be filed each year to determine whether the plan remains in a surplus position?

We support an annual review and verification of the ability to take a contribution holiday, with a cost certificate filed each year demonstrating that the plan remains in the surplus position as outlined above or better. The plan sponsor ought to otherwise also continued to meet the precondition of being provided access to such surplus assets under the plan text and trust; (2) and of providing disclosure to members and former members in the prescribed manner in order to receive continuing Superintendent approval for the contribution holiday.

Discussion Questions–Annuity Discharge

1. If annuity discharge provisions are added to the Act, what are the appropriate conditions that a plan should have to meet in order to be eligible to qualify?

We would suggest that at a minimum, the specific conditions the consultation paper discussed should be met in order for an annuity discharge to be granted in addition to being subject to the ongoing obligation of meeting the requirements of the Act and Regulation; namely:

- Benefits provided under the annuity must be equivalent to those provided under the plan.
- If the plan was wound up within a certain number of years after a buyout, any former member's entitlement to surplus would remain for those who were affected by the buyout prior to any surplus distribution.
- The buyout cannot adversely impact the funded position of the plan.
- Affected members, retirees and deferred members should be given notice prior to the purchase of the annuities or prior to the discharge taking effect.

The heightened risk to benefit security in Saskatchewan requires that any annuity discharge provisions include and remain contingent on an effective insurance regime to backstop the risk of insurer insolvency, as is currently in place through Assuris.

Unifor supports annuity discharge provisions to the extent that benefit security will be enhanced for those who receive annuities while maintaining the security of the benefits of those members who opt to remain recipients of a monthly pension. Any annuity discharge provisions should also require full funding on plan termination for members who remain in the plan, and this obligation should extend to all single employer defined benefit plans, regardless of sector. Saskatchewan regulators could also indicate a commitment to the benefit security of those who are not included in an annuity purchase by joining Unifor's calls for a national PBGF.

Thank you for your attention to this submission.

As submitted on behalf of Unifor

CV:nmcope343

Mercer

Jared Mickall FSA, FCIA
Principal

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Financial and Consumer Affairs Authority
Pensions Division
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Email: pensions@gov.sk.ca

17 June 2021

Subject: Solvency Funding Review

To the Pensions Division:

Mercer (Canada) Ltd. ("Mercer") is a global human resources and actuarial consulting firm that advises Canadian pension plan sponsors and administrators regarding the funding and administration of their plans. Mercer is pleased to provide comments on the Consultation Paper: A Review of the Pension Funding Framework For Single Employer Defined Benefit Plans In the Private Sector And Other Complementary Reform Measures Applicable to All Defined Benefit Plans ("Solvency Funding Review") issued by the Financial and Consumer Affairs Authority on March 23, 2021. We are pleased to see that the Financial and Consumer Affairs Authority has requested feedback from stakeholders regarding these important issues.

General Comments

The greatest challenge facing Saskatchewan defined benefit ("DB") plan sponsors is the requirement to fund to 100% of a DB plan's liabilities on a solvency basis. Interest rates have been on a consistent decline over the last several years, resulting in higher solvency funding costs. In addition, solvency funding requirements are highly dependent on prevailing interest rates, and thus are volatile and unpredictable, in particular due to the short 5-year amortization period. These factors have motivated many plan sponsors to close their DB plans and offer defined contribution ("DC") plans in their place. DB plans have historically played an important role in improving the retirement income security of Saskatchewanians. This security will almost certainly be adversely affected by the decline in DB coverage we have seen over recent years.

For ongoing plans where a wind-up is not being contemplated, we feel that the 100% solvency funding requirement is too onerous. Now that Quebec, Ontario, British Columbia, Nova Scotia, and New Brunswick have adopted changes to their funding framework for DB plans, Saskatchewan employers who sponsor DB plans are at a competitive disadvantage compared with peer companies in these other jurisdictions.

The current dual requirements to fund a single-employer DB plan's going concern and solvency liabilities were initially adopted in Saskatchewan in the early 1990s. Prior to that, single-employer DB plans were subject to going concern funding requirements only. The introduction of solvency funding was meant to require additional funding in the short-term to increase the likelihood that a plan would be funded if it were terminated and the employer were bankrupt. That was a desirable policy objective and the cost to provide that short-term security was modest for plan sponsors at that time, given the relatively high level of interest rates and the fact that many plans were immature. However, for certain plans providing generous early retirement subsidies, solvency funding requirements proved to be substantial, even when interest rates were high.

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Since the early 1990s, interest rates have been on a consistent decline, reaching levels not seen since in over 70 years. Given the current low global economic growth expectations, exacerbated by the global pandemic, increases in interest rates appear unlikely in the foreseeable future. As well, most single-employer DB plans have become more mature, and pensioners are expected to receive their pensions for longer periods of time given improvements in life expectancy. The combination of all these factors has caused a single-employer DB plans solvency liability to be the main driver of contribution requirements for plan sponsors, far exceeding the cost of benefits established on a going concern basis. Other implications of solvency funding requirements are the significant volatility caused by the mark-to-market nature of a solvency valuation, and the pro-cyclical nature of the solvency funding requirements. We believe that reducing the level and volatility of funding requirements may encourage some plan sponsors to maintain their DB plans, resulting in improved retirement security for Saskatchewan members.

Given the challenges faced by DB plan sponsors, it is our opinion that a new legislative and regulatory framework for the funding requirements of DB Plans should be based on the following principles, so that organizations offering this type of plan can benefit from a supportive environment:

- Saskatchewan employers that sponsor DB pension plans must remain competitive with peer companies in other Canadian jurisdictions.
- Pension plan sponsors and members are not prepared to fund benefits that are fully guaranteed regardless of the economic and demographic context, due to the high cost of such guarantees. A reasonable compromise needs to be found between benefit security and the related cost. Such a framework must be supported by qualitative and quantitative analysis of the impact to all plan stakeholders.
- Funding rules must be permanent and predictable, and designed in a manner that avoids the need for them to be subject to frequent ad hoc amendments based on the prevailing economic conditions. However, they should make allowance for the fact that special arrangements could be needed for sponsors experiencing difficulty, and grant stakeholders a certain degree of flexibility to adapt their funding to their particular situation in the context of negotiations.
- Transparency must be a key objective of the review of the current funding rules if the reforms are to be successful. We believe that any new funding regime adopted in Saskatchewan, especially where benefit security may be less than the current regime, should be clearly communicated to plan members. That communication should provide the rationale for the new approach and explain its associated risks to plan members.

Our responses to the specific questions posed in the Solvency Funding Review in respect of the two main funding approaches for ongoing plans, funding on plan termination and contribution holidays are as follows:

Approach 1 — Change the Way in Which Solvency Deficiencies Are Funded

Discussion Questions – Change the Way in Which Solvency Deficiencies Are Funded

1. If the solution is to modify solvency funding, which of the above options or combination of options do you feel provides the right balance between benefit security and affordability?

   Mercer's view is that if the requirement to fund 100% of a DB plan's liabilities on a solvency basis while the plan is ongoing remains, then sufficiently lengthening the amortization period for funding solvency deficiencies (e.g., from 5 years to 15 years) may be adequate to address the level and volatility of contribution requirements

driven by valuation date mark-to-market solvency financial positions. Consolidating and re-amortizing solvency deficiencies as a stand-alone measure would not address the level and volatility of solvency deficit funding requirements, but would assist in meeting that objective when applied in combination with a sufficiently longer amortization period. However, the solvency financial positions would continue to be based on valuation date mark-to-market interest rates and asset valuations. As a result, solvency funding volatility would persist and the resulting level of solvency funding may continue to be too high for DB sponsors when compared to an enhanced going concern approach.

In addition, the introduction of solvency reserve accounts would be welcome and would address the very real problem of "funding asymmetry", when applied in combination the three other options. As a stand-alone measure, a solvency reserve account would be inadequate as solvency funding levels and volatility would persist.

Further, permitting the use of letters of credit in lieu of solvency funding would be a welcome feature; however, our understanding is that the use of letters of credit in Canada by single-employer pension plan sponsors has been limited.

2. Are there other methods of modifying solvency funding which you feel should be considered?

   Mercer supports a solvency funding level of 85%, in conjunction with an enhanced going concern approach to provide a better balance between benefit security and plan sustainability.

3. If the period of time for funding solvency deficiencies is lengthened, what is the appropriate new time period?

   If this were to proceed, we suggest that the amortization period for funding solvency deficiencies be limited to 15 years.

   In addition, a one-year deferral for the funding of new solvency special payments would be welcomed by plan sponsors as this would assist in budgeting their contribution requirements.

4. If SRAs are allowed, under what circumstances should the employer be allowed to withdraw payments that have been made into the account?

   We welcome the introduction of reserve accounts as they address the very real problem of "funding asymmetry". In most pension plans, while plan sponsors are being asked to make substantial special payments to fund deficits, accessing an eventual surplus by the plan sponsor once the plan is fully funded is very difficult under the current rules.

   We believe that plan sponsors should be able to access funds in the reserve account for contribution holidays in accordance with the regulatory thresholds otherwise set out for contribution holidays, consistent with other jurisdictions (i.e., only allowing access to funds in the reserve account upon plan wind-up is too restrictive).

   All employer contributions, beyond its normal cost contributions, should be allocated to the reserve account, except those employer contributions to fund benefit improvements as discussed later in our submission. Specifically, this would include employer going concern and solvency special payments as well as employer contributions towards provisions for adverse deviations ("PfADs").

   We believe that the optimal approach is to have the SRA funds commingled with other plan assets and tracked as a notional account. The balance and reconciliation of the accumulated SRA amount, along with the

maximum permissible withdrawal, if any, would be provided in the valuation reports. The SRA would accrue returns at the same rate as the total pension fund (i.e., inclusive of the SRA). This approach would provide transparency and should be relatively easy to implement and administer. We acknowledge that this approach is only viable if the enacting legislation supersedes any potential trust law or other restrictions on the withdrawal of SRA funds. Should that not be possible, we would support a framework that would permit a withdrawal of up to 100% of SRA funds in a given year, as long as the plan is at least 105% funded on a solvency basis and 100% funded on a going concern basis after the withdrawal. SRA withdrawals should only be permitted to the extent supported by the funded position shown in the most recently filed valuation report. It would be reasonable to only allow withdrawals up to the plan year-end following the filing of the valuation report that identifies the eligible withdrawal amount, unless additional supporting information is provided.

5. If LOCs are allowed, should the amount be limited to a certain percentage of liabilities?

   Mercer supports legislation that does not limit the amount of the face value of the letter of credit.

Approach 2 — Partial Solvency Funding or No Solvency Funding, with Enhanced Going Concern Funding

Discussion Questions – Partial Solvency Funding or No Solvency Funding

1. If the current solvency funding threshold of 100% is reduced to require only partial solvency funding, is a threshold of 85% appropriate?

   The required level of solvency funding is ultimately a policy decision balancing member expectations for benefit security and sustainability with respect to plan costs. Mercer supports a legislated solvency funded ratio target of 85%, in conjunction with an enhanced going concern approach to provide a better balance between benefit security and plan sustainability. While it can be argued that benefit security, as measured by the solvency ratio, is reduced somewhat, these changes would provide a more favourable environment for DB plans to continue to exist. In addition, this would foster the consistency of rules between an increasing number of jurisdictions across Canada.

2. What is the main risk(s) that a PfAD should mitigate?

   The main risk that a PfAD in the going concern funding target mitigates is the likelihood that pension plan will become underfunded as a funded PfAD provides for a cushion over the plan's "best estimate" costs. A PfAD does not prevent adverse experience.

3. What do you feel is the best method of determining the level of PfAD?

   We are of the view that a PfAD would be determined based on the plan's asset mix and the plan's asset and liability-duration mismatch risk. There would be a higher PfAD for plans with riskier asset portfolios, similar to Ontario's and Quebec's funding rules. In addition, where a glide-path strategy has been adopted, a PfAD should consider the evolution of the plan's asset mix after the valuation date in addition to the mix at the valuation date.

   We are of the view that a mandatory PfAD would be applied to a plan's going concern liabilities and service cost. Further, the PfAD would be funded by special payments and service cost contributions, respectively. In

addition, the going concern liabilities and service cost would be permitted to be determined on a best estimate basis.

A PfAD does not prevent adverse experience and it does not stabilize contributions. On the contrary, in the absence of an additional variable PfAD or variable margin, the inclusion of a PfAD that is expressed as a fixed percentage of liabilities and normal contributions can magnify fluctuations in contribution requirements arising from fluctuations in the going concern discount rate. Stability of contributions is achieved through amortization of changes in the funded status or through the use of additional variable PfAD or variable margin.

4. Should the method of determining PfAD be different if there is no solvency funding required than if there is a certain level of solvency funding required?

   We are of the view that the method of determining the PfAD could depend on the level of solvency funding required. If solvency funding at 100% while a plan is ongoing continues, then the current funding model of permitting going concern funding on a best estimate basis (i.e., where legislation does not require a margin or provision for adverse deviation) may be appropriate. For example, solvency deficit funding, if any, would serve to improve a plan's going concern financial position. However, if solvency funding is eliminated or substantially reduced (e.g., 85%), then requiring a minimum PfAD in the going concern funding may be appropriate.

5. Should the PfAD have to be funded on current service contributions, even if the plan is in a going concern surplus?

   We are of the view that a mandatory PfAD would be applied to a plan's going concern liabilities and service cost. Further, the PfAD would be funded by special payments and service cost contributions, respectively. In addition, the going concern liabilities and service cost would be permitted to be determined on a best estimate basis.

   We believe that inclusion of PfADs on current service cost is consistent with the enhanced going concern funding framework. We support application of PfADs to current service cost but the funding of such PfADs should stop once the going concern PfAD is fully funded.

6. If the period of time for amortizing going concern deficiencies is shortened, what is the appropriate period?

   We are of the view that going concern deficits would be amortized over 10 years, with deficits being consolidated at each valuation and special payments determined by simply dividing the deficit by 10.

7. Are there other methods of enhancing going concern funding which should be considered?

   Benefit improvements – A new funding regime should also consider the funding of benefit improvements. We are supportive of the following approach:

   - If the funded status of the plan is below prescribed going concern and solvency thresholds (e.g., going concern at 100% and 85% on a solvency basis) immediately before the amendment date, then full and immediate funding of the cost of the benefit improvement is required.

   - If the funded status of the plan is above prescribed going concern and solvency thresholds (e.g., going concern at 100% and 85% on a solvency basis) immediately before the amendment date, then the cost of the benefit improvement is required to be funded over a 5-year period for both going concern and solvency

bases. However, if the plan has available actuarial surplus, as defined for contribution holiday purposes, that surplus could be applied to cover the cost of the benefit improvement.

We further suggest that contributions to fund benefit improvements not be allocated to solvency reserve accounts. If the enhanced benefits had been part of the original design of the plan, then current service costs would have reflected the benefits and hence would not form part of the reserve accounts.

Transition period to new funding rules for certain plan - For those plans that already enjoy relatively low funding requirements in the current funding model, the addition of new funding requirements via PfADs is not necessarily welcome. For such plans, overall funding requirements might increase significantly with no corresponding reduction in solvency funding. Consequently, consideration should be given to either a reduced PfAD structure for affected plans or a transition period of 3-5 years to funding on the new basis.

Manage the use of Aggressive Best Estimate Discount Rates - While we acknowledge that there may be instances where regulators believe an actuary is using aggressive discount rates, regulators should rely on actuaries to set appropriate discount rates. The Superintendent should have the right to reject an actuarial valuation report or request a revised report where deemed necessary.

To the extent there are concerns regarding the discount rate assumption that may be used, we believe the Superintendent already has adequate authority to enforce use of appropriate actuarial assumptions and methods. Nevertheless, if Saskatchewan intends to adopt a benchmark discount rate, we would favour the adoption of the Ontario Benchmark Discount Rate (BDR) adjustment to PfADs.

8. Are there any other features to the funding rules which should be considered, such as consolidation of unfunded liabilities?

   We are of the view that going concern deficits would be amortized over 10 years, with deficits being consolidated at each valuation and special payments determined by simply dividing the deficit by 10.

9. Are there any options from the previous section (Change the Way in Which Solvency Deficiencies Are Funded) which should be incorporated if only partial solvency funding is required, or if it is eliminated completely? In particular, would solvency reserve accounts and letters of credit be useful mechanisms if a solvency deficiency has to be funded only to a certain level?

   In addition to our views on enhanced going concern funding features addressed above, the following items should also form part of an enhanced going concern funding model:

   - Amortization of solvency deficiencies below 85% over a 5-year period, with solvency deficiencies being consolidated at each valuation and special payments determined by simply dividing the deficit by 5. In addition, a one-year deferral for the funding of new solvency special payments would be welcomed by plan sponsors as this would assist in budgeting their contributions.
   - Permit the use of SRAs to be established and used as per our earlier response on SRAs; and
   - Allow the use of letters of credit (LOCs) to bring the solvency ratio up to the proposed 85% threshold in lieu of making solvency deficiency contributions.

Discussion Questions – Full Funding on Plan Termination

1. Assuming the solvency funding framework is changed, are there any types of SEPPPs for which an employer should not have to fully fund a deficit if the plan is voluntarily terminated? For example, if members are required to contribute towards a solvency deficit, the framework could be structured so that only a portion of the deficit has to be funded by the employer if the plan is wound up.

   We are of the view that full funding of a wind-up deficit on plan termination would be a requirement, regardless of the funding mechanics that are used while a plan is ongoing.

   In the situation where public policy permits a plan to require members to contribute towards a plan deficit while the plan is ongoing, there is a choice to be made with respect to the employer's obligations upon actual wind-up:

   a. Require the employer to fully fund the entire wind-up deficit; or

   b. Require the employer to fully fund its share of the wind-up deficit and the membership would be required to fund its share of the wind-up deficit, which in practice would likely mean that the membership would experience a reduction in benefits.

2. Are there any options presented in "Two Main Approaches" which should not require the full funding condition, if the Regulations are amended to include only that option? For example, if the only change made to the Act or Regulations is to allow a longer period of time for amortizing a solvency deficiency, should full funding on plan termination still be a condition for electing the option?

   We are of the view that full funding of a wind-up deficit on plan termination would be a requirement, regardless of the funding mechanics that are used while a plan is ongoing.

Discussion Questions – Restrictions on Contribution Holidays

1. Should contribution holidays be restricted further than they are currently? If so, which method best protects member benefits?

2. If a plan is required to be funded at a higher level than 100% on a solvency basis and/or a going concern basis before taking a contribution holiday, what is the appropriate level?

3. Should the ability to take a contribution holiday be determined on an annual basis, whereby a cost certificate would have to be filed each year to determine whether the plan remains in a surplus position?

   With respect to the above three questions relating to restrictions on contribution holidays, we note that other jurisdictions in Canada, such as Ontario, Quebec, Federal, Nova Scotia and New Brunswick permit contribution holidays when the plan is 105% funded on a solvency basis. On a going concern basis, a threshold based on the PfAD is reasonable and consistent with the rationale underlying the PfAD concept. We therefore recommend adopting the Ontario approach for contribution holiday thresholds in Saskatchewan.

   If a plan has satisfied the prescribed conditions for a contribution holiday, the available surplus could be applied to cover the cost, or a portion thereof, of the benefit improvement.

In addition, we are not opposed to requiring a contribution holiday to be re-assessed through the use of a cost certificate on an annual basis. In addition, if a contribution holiday was taken then we recommend that the amount of the holiday taken be communicated to members on their annual statement.

Discussion Questions – Annuity Discharge

1. If annuity discharge provisions are added to the Act, what are the appropriate conditions that a plan should have to meet in order to be eligible to qualify?

   General Comments - Mercer's position is that a purchase of a buy-out annuity should constitute a discharge of liabilities. Further, Mercer supports a condition that the annuity would have to provide benefits in accordance with the terms of the plan in order to satisfy the conditions for liability discharge.[1]

   Limitations - We do not see the need to place limitations on the discharge provided. Further, we do not see any reason to make distinctions as to the types of members for which an annuity discharge would be allowed, in particular given that these groups can be commingled within a group annuity purchase.

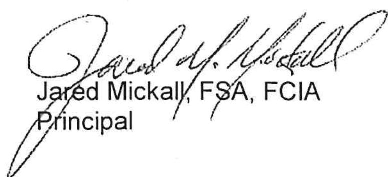
   Notice to Superintendent and Superintendent Review and Approval - It is reasonable that the Superintendent be notified of the annuity purchase, and to receive certification from the actuary that the annuity purchase reflects the provisions of the plan at the time of purchase. As long as the plan provisions are being replicated we do not feel that the review and approval by the Superintendent of the annuity discharge should be a mandatory requirement in order for the plan sponsor to proceed.

   Notice to Affected Members - We strongly believe that disclosure to the affected members should be required, but that member consent not be required. Obtaining member consent is difficult to obtain in practice and significantly increases the costs and timeframes required to place the annuity purchase. Member consent would also limit a sponsor's ability to manage opportunistic risk reductions. Given that the benefits are not adversely affected by the annuity purchase, we do not see a reason for member consent.

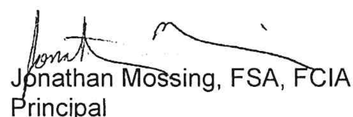
   Annuities previously purchased - We believe that granting a discharge of liabilities would be beneficial for plan sponsors who have already purchased annuities, and would eliminate any differential treatment from those who purchase annuities after a change in legislation.

We welcome you to contact the undersigned for discussion about any of the issues raised in the Consultation Paper and in our commentary above.

Sincerely,



Jared Mickall, FSA, FCIA
Principal



Jonathan Mossing, FSA, FCIA
Principal

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[1] There are situations in which an annuity that matches the plan provisions is not available or where costs may be prohibitive (e.g., certain forms of indexing). In these cases, before a buy-out annuity is purchased, the terms of the plan would be amended which would be subject to the Superintendent's review and approval.

Ballan, Holly FCAA

From:	Fortosky, Heather <heather.fortosky@usask.ca>
Sent:	Tuesday, June 15, 2021 2:17 PM
To:	Pensions FCAA
Subject:	Feedback Requested - Pension Funding Framework for Single Employer Defined Benefit Plans in the Private Sector Consultation
Attachments:	University of Saskatchewan response to FCAA Review of Complementary Reform Measures.pdf

Please see the attached submission from the University of Saskatchewan.

I realize this submission is late and understand if you are unable to consider it. If it's accepted, I appreciate your consideration.

Heather

Heather Fortosky
Manager, Pension and Benefits
University of Saskatchewan
People and Resources
Ph: 306-966-6276

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FCAA Review of Complementary Reform Measures

Restrictions on Contribution Holidays

1. Should contribution holidays be restricted further than they are currently? If so, which method best protects member benefits?

   Specified public sector plans registered in Saskatchewan are subject only to going concern funding. We request that no changes are made that require consideration of solvency funding for specified public sector plans. In addition, any references to contribution holidays based on minimum solvency funding levels at or above 100% should continue to not be applied to specified public sector plans.

   Regarding contribution holidays for specified public sector plans registered in Saskatchewan (based on going concern funded ratios), we support no further restrictions on contribution holidays from what they are currently.

2. If a plan is required to be funded at a higher level than 100% on a solvency basis and/or a going concern basis before taking a contribution holiday, what is the appropriate level?

   Regarding contribution holidays for specified public sector plans registered in Saskatchewan (based on going concern funded ratios), we support the availability of contribution holidays based on a 100% going concern funded ratio.

3. Should the ability to take a contribution holiday be determined on an annual basis, whereby a cost certificate would have to be filed each year to determine whether the plan remains in a surplus position?

   Regarding contribution holidays for specified public sector plans registered in Saskatchewan (based on going concern funded ratios), we support the determination of contribution holidays based on the last filed funding valuation, without a revised cost certificate having to be filed each year.

Annuity Discharge

1. If annuity discharge provisions are added to the Act, what are the appropriate conditions that a plan should have to meet in order to be eligible to qualify?

   We support:
   - Full statutory discharge of all liabilities relating to the purchase of annuities from an insurance company or other pension plan owner/administrator buying the pension obligations;
   - Benefits provider under the annuity purchase or transfer to another plan are equivalent to those provided under the plan (exporting plan); and
   - Any affected members are given notice prior to the annuity purchase.

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June 14, 2021

Ms. Leah Fichter
Executive Director
Pensions, Division - Financial and Consumer Affairs Authority
601 – 1919 Saskatchewan Drive
Regina SK S4P 4H2

Submitted by email: leah.fichter@gov.sk.ca pensions@govsk.ca

RE: SMA Comments on Government of Saskatchewan Solvency Funding Review: *A Review of the Pension Funding Framework for Single Employer Defined Benefit Plans in the Private Sector and Other Complementary Reform Measures Applicable to All Defined Benefit Plans*

Dear Ms. Fichter:

The SMA welcomes the opportunity to participate in the government's Solvency Funding Review. As the mining sector continues to face increased costs related to external factors beyond their control (such as carbon pricing) combined with continued depressed commodity prices, we continue to explore opportunities to sustainably reduce costs so operations remain globally competitive. In doing so, Saskatchewan derives optimum benefit in terms of employment, procurement and revenues to government. It is in this context that we appreciate that Saskatchewan is also exploring opportunities to update funding models, policies and regulations that would provide companies the desired financial flexibility while ensuring the solvency of defined benefit plans and income stability to retirees. Our recommendations below are consistent with the direction that most other Canadian jurisdictions have advanced with respect to pension reform.

Solvency Funding Level

As noted in the discussion paper, several other Canadian jurisdictions have revised, or in the process of examining solvency funding rules, with Ontario, BC, Manitoba, Nova Scotia and New Brunswick either making, or announcing changes to their pension standards legislation so that solvency delicences need only be funded to ensure plans are 85% funded on a solvency basis, as opposed to Saskatchewan's requirement of 100% funding. Quebec, has moved farther along and replaced solvency funding with enhanced going concern requirements.

SMA Recommendations:

- The SMA would support a revision to solvency funding rules that would reduce the funding threshold of 100% to partial solvency funding with a threshold of 85%. This is consistent with most other Canadian jurisdictions and provides companies flexibility in leveraging their cash flow to best benefit their operations. As such, it is the preferred option for solvency funding reform.
    - Should the government approve a reduced solvency requirement, then it follows that a Contribution Holiday would occur along with this change, and that any surplus beyond the 85% level be available to plan sponsors.
- Should the government not choose the preferred reduced solvency option, then the following options are recommended.

- Letters of Credit in Lieu of Solvency Funding – the use of letters of credit in lieu of solvency funding requirements would allow free up cash flow for companies, which could then be re-invested in operations, directly benefiting the Saskatchewan economy.

- Lengthening of Amortization Period – extending the amortization period from 5 years to 10 + years would allow for a more even application of funds toward defined benefit plans and reduce the "red tape" regulatory burden of plan funders.

- Annuity Discharge – when purchasing an annuity for a deferred or immediate pension promise in the same form and manner of pension as was promised, a full annuity discharge should apply.

Thank you for consideration of SMA recommendations related to the Funding Solvency Review. We believe our recommendations will meet the reviews objectives of pension plans that are transparent, are affordable and sustainable, are stable, and that provide employers the opportunity to reduce their costs while providing security to employees and retirees.

We look forward to learning of the outcome of these consultations and given the long-standing deliberations, urge the government to move forward with amendments by the end of 2021.

Yours Sincerely,

Pam Schwann, MSc., Pro. Dir.
President

cc: Honourable Gordon Wyant, Minister Responsible for the Financial and Consumer Affairs Authority
Mr. Roger Sobotkiewicz, Chair and CEO, Financial and Consumer Affairs Authority
Honourable Bronwyn Eyre, Minister of Energy and Resources

2121 Saskatchewan Drive
Regina, Saskatchewan S4P 3Y2

May 31, 2021

Financial and Consumer Affairs Authority
Pensions Division
Suite 601, 1919 Saskatchewan Drive
Regina SK S4P 4H2
Attention: Leah Fichter, Executive Director

Dear Ms. Fichter,

In response to the consultation paper titled *A Review of the Pension Funding Framework For Single Employer Defined Benefit Plans In the Private Sector And Other Complementary Reform Measures Applicable to All Defined Benefit* Plans, SaskTel notes that as a Specified Plan as defined in the regulations, the questions regarding solvency funding reform posed in the paper should not apply to the Saskatchewan Telecommunications Pension Plan.

SaskTel supports adding a statutory discharge of liability to the Act for plans that purchase annuities from an insurance company to buy out pension obligations with the condition that the benefits provided by the annuity are substantially equivalent to those provided by the plan. SaskTel proposes that there be discretion in determining equivalence for situations where the annuity market is unable to efficiently match the exact benefits provided by a plan such as a plan with variable annual indexing provisions.

Thank you for your consideration,

David Holzapfel
Finance Manager – Treasury and Pension
SaskTel

Submission to the Government of Saskatchewan on the Consultation on a Review of the Pension Funding Framework for Single Employer Defined Benefit Plans in the Private Sector and Other Complementary Reform Measures Applicable to all Defined Benefit Plans

Canadian Life and Health Insurance Association

June 2021

The Canadian Life and Health Insurance Association (CLHIA) is a voluntary association with member companies which account for 99 per cent of Canada's life and health insurance business. The life and health insurance industry is a significant economic and social contributor in Canada.

$63 million in provincial tax contributions

$11 million in corporate income tax

$5 million in payroll and other taxes

$47 million in premium tax

Investing in Saskatchewanians

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Protecting 910,000 Saskatchewanians

730,000 with drug, dental and other health benefits

630,000 with life insurance averaging $256,000 per insured

340,000 with disability income protection

$3 billion in payments to Saskatchewanians

$1.7 billion in annuities

$0.9 billion in health and disability claims

$0.4 billion in life insurance policies

Our industry is pleased to provide its comments on the province's consultation in respect of amendments to the *Pensions Benefits Act, 1992* ("PBA") regarding a Review of the Pension Funding Framework for Single Employer Defined Benefit Plans in the Private Sector and Other Complementary Reform Measures Applicable to all Defined Benefit Plans. Our industry greatly appreciates the opportunity to provide input on these matters.

Technical Comments:

Change the Way in Which Solvency Deficiencies Are Funded

1. If the solution is to modify solvency funding, which of the above options or combination of options do you feel provides the right balance between benefit security and affordability?

The CLHIA commends the Government of Saskatchewan (Saskatchewan) for its actions in examining issues related to solvency funding. Furthermore, the CLHIA acknowledges the financial situation in Saskatchewan resulting from the COVID-19 pandemic. Pension funding rules need to balance plan member benefit security with plan sponsor solvency and sustainability. However, the historical volatility in solvency funding ratios (and the resulting advocacy for

solvency funding relief) is contributed to by plan sponsors mismatching their assets in relation to underlying pension liabilities. Softening solvency funding rules could lead to plan sponsors taking more risk by continuing to make calls on interest rates and equity markets, and potentially even considering re-risking their pension plans. Further, contribution volatility and procyclical contributions requirements are less significant issues in comparison to assets that are not mismatched with liabilities.

The insurance industry has a deep understanding of the capital and risk management principles required to make and deliver on a pension promise. Members of defined benefit (DB) pension plans count on their benefits as an important source of retirement income and incorporate them into their financial and retirement planning. They have a reasonable expectation that sponsors will fund plans in a manner that will ensure benefit security.

As such, we believe that any additional relief should be provided by the first main approach – changing the way in which solvency deficiencies are funded. We strongly believe that the measures under this approach are more effective at providing the right balance between benefit security and affordability than the second main approach – partial solvency funding or no solvency funding, with enhanced going concern.

2. Are there other methods of modifying solvency funding which you feel should be considered?

The CLHIA believes that the following principles are essential to a robust funding regime:

- Plan sponsors should be required to fund deficits in a timely manner and should be able to withdraw surpluses.
- Sound risk management, including liability driven investment (LDI) and pension risk transfer strategies, e.g., annuity purchases, should be encouraged since they benefit both plan sponsors and plan members.
- Undue costs should not be placed on plan sponsors. For example, triennial valuations should be available for pension plans that meet solvency thresholds.

3. If the period of time for funding solvency deficiencies is lengthened, what is the appropriate new time period?

No comment.

4. If SRAs are allowed, under what circumstances should the employer be allowed to withdraw payments that have been made into the account?

We support the adoption of SRAs. We believe it is reasonable for the employer to be allowed to withdraw payments that have been made into the account if the plan is funded at 100% solvency ratio or 100% solvency ratio with a Provision for Adverse Deviation (PfAD).

5. If LOCs are allowed, should the amount be limited to a certain percentage of liabilities?

We support the adoption of LOCs with the amount limited to a certain percentage of liabilities. We recommend Saskatchewan explore the approaches that other jurisdictions have taken with respect to imposing limits.

Partial Solvency Funding or No Solvency Funding

1. If the current solvency funding threshold of 100% is reduced to require only partial solvency funding, is a threshold of 85% appropriate?

We believe that requiring plans to fund at 100% solvency ratio protects members' benefits and the long-term sustainability of DB plans. Solvency funding adds rigour to pension plan financing through its funding calculation, and through clear, unbiased rules for the methods and assumptions used by plan sponsors. Any new solvency funding rules that do not require plan sponsors to make special payment contributions to fund the pension plan to a 100% solvency ratio will result in additional risk for plan members in the event of a plan sponsor insolvency.

A strong funding ratio is the best assurance of benefit security. The recent Sears Canada Inc. DB pension plan insolvency highlights the risk of solvency underfunding. Terminal funding is only needed when a pension plan ceases to be a going concern (usually as a result of its plan sponsor becoming insolvent), but at that time, it is unlikely that the plan sponsor will be able to top-up a solvency deficit. The result is a shortfall in assets when they are needed the most – leading to a reduction in plan members' promised benefits.

Moving away from a solvency funding regime discourages plan sponsors from prudently managing risk and could jeopardize members' benefit security. The volatility that plan sponsors are struggling with under the current solvency funding regime can be effectively managed using LDI strategies.

2. What is the main risk(s) that a PfAD should mitigate?

We believe that the main goal of a funding buffer or a PfAD should be to help preserve member benefit security. A properly constructed PfAD is a powerful tool to educate plan sponsors on good risk management and to encourage them to take actions in their plans that strike the right balance between seeking excess returns and maintaining members' benefit security.

The calculation and design of the PfAD should encourage plan sponsors to manage risk appropriately and prudently. We believe this means considering more than just interest rate risk, such as, equity risk, inflation risk, credit mismatch, and longevity risk. Furthermore, consideration should be given to how assets and liabilities interact. The Ontario and Quebec regulators have established varying approaches to manage risk in these areas. This, in turn, will lead to increased benefit security for plan members without jeopardizing plan sustainability.

We believe that all financial service regulators should have a mandate to improve accountability and oversight, with an aim to protecting consumers, or in this case pension plan members. Given the impact of plan sponsors' investment strategies on members' benefits – and ultimately their retirement security, we encourage Saskatchewan to leverage the PfAD as an effective way to influence good risk management by rewarding good investment strategies.

3. What do you feel is the best method of determining the level of PfAD?

The CLHIA supports requiring the PfAD that is based on the plan's investment policy, matching of assets and liabilities, discount rate assumptions and, ideally, the financial strength of plan sponsors.

The CLHIA has the following comments on the design of a PfAD, based on our observations of Quebec's stabilization provision and Ontario's PfAD:

- Duration of plan liabilities: The CLHIA strongly recommend that a PfAD include a component related to the duration match between plan assets and liabilities. We note the Quebec stabilization provision is significantly higher (approximately 8% on average) for plans with no asset liability duration matching than for plans with full asset liability duration matching. We believe this would encourage plan sponsors to follow good risk management practices by using investment strategies such as LDI. We also recommend considering the use of alternative investments, such as private placements, real estate assets, and any duration exposure resulting from the use of leveraged bond strategies, when reasonably appropriate.

  Under Ontario's rules, a plan with a high liability duration that is 100% invested in cash has the same PfAD as a plan with full asset liability duration matching, which does not reflect the additional risk of being 100% invested in cash.

  Not including a PfAD component related to duration matching could discourage plan sponsors from better matching their assets and liabilities, making the funded ratio of their plans more vulnerable to market downturns.

- Characteristics of fixed income: The CLHIA recommends that when developing the details on characteristics of bonds that would constitute fixed income, consideration be given to both bonds rated by an external rating agency, as well as bonds rated using an internal credit rating model that is designed to be consistent with the ratings of external rating agencies. This would appropriately reflect the benefits of investing in private fixed income assets (such as infrastructure debt) to achieve both interest rate risk mitigation and better diversification.

- Non-fixed income assets: The CLHIA recommends a sharper increase in the PfAD component for plans with increasingly larger allocations to non-fixed income assets than what has been enacted in both Ontario and Quebec. The CLHIA believes that an inappropriate PfAD could encourage some plan sponsors to take more risk because the penalty for taking risk is lower than the potential reward. In fact, several pension consulting firms have publicly commented on this issue and encouraged their clients to consider taking additional risk in their pension plans.

  One data point that may be helpful is the capital that an insurance company needs to hold for a higher risk asset mix. The capital requirements set by OSFI is analogous to the PfAD concept for pension plans. The insurance company capital requirement for a 60% equity / 40% fixed income asset mix is in the range of 30% to 40%. This is much higher than the PfAD amounts implemented by both Quebec and Ontario.

  If the insurance company capital represents a reasonable risk and reward trade-off, it is easy to understand why Quebec's stabilization provision and Ontario's PfAD may encourage some plan sponsors to take additional risk in their plans.

- Closed plans: The CLHIA believes that all plan members should be equally protected, irrespective of whether their pension plan is open or closed. A plan sponsor of an open plan is not necessarily better able to fund a solvency deficit in the event of insolvency than a plan sponsor of a closed plan.

  If different PfAD levels are required for open and closed pension plans, we suggest that the definition of a closed plan be clarified. Some scenarios to consider include whether a plan is closed to new entrants or to all future benefit accruals; as well as a plan of 1,000 members that only accepts three new entrants a year.

- Benchmark Discount Rate (BDR): S&P 500 data shows there was an average premium of 3.6% between 1955 and 2017, and 3.9% between 1997 and 2017. An equity risk premium higher than these historical premiums could encourage plan sponsors to take more risk to achieve a higher going concern discount rate and lower funding requirements – therefore reducing the benefit security of plan members.

A properly constructed PfAD is a powerful tool to educate plan sponsors on good risk management and to encourage them to take actions in their plans that strike the right balance between seeking excess returns and maintaining plan members' benefit security.

Therefore, the CLHIA recommends that Saskatchewan takes into consideration the above concerns when reviewing the various approaches taken by other jurisdictions.

4. Should the method of determining PfAD be different if there is no solvency funding required than if there is a certain level of solvency funding required?

No comment.

5. Should the PfAD have to be funded on current service contributions, even if the plan is in a going concern surplus?

No comment

6. If the period of time for amortizing going concern deficiencies is shortened, what is the appropriate period?

No comment.

7. Are there other methods of enhancing going concern funding which should be considered?

No comment

8. Are there any other features to the funding rules which should be considered, such as consolidation of unfunded liabilities?

We support the consolidation of unfunded liabilities.

9. Are there any options from the previous section (Change the Way in Which Solvency Deficiencies Are Funded) which should be incorporated if only partial solvency funding is required, or if it is eliminated completely? In particular, would solvency reserve accounts and letters of credit be useful mechanisms if a solvency deficiency has to be funded only to a certain level?

No comment

Full Funding on Plan Termination

1. Assuming the solvency funding framework is changed, are there any types of SEPPPs for which an employer should not have to fully fund a deficit if the plan is voluntarily terminated? For example, if members are required to contribute towards a solvency deficit, the framework could be structured so that only a portion of the deficit has to be funded by the employer if the plan is wound up.

No comment.

2. Are there any options presented in "Two Main Approaches" which should not require the full funding condition, if the Regulations are amended to include only that option? For example, if the only change made to the Act or Regulations is to allow a longer period of time for amortizing a solvency deficiency, should full funding on plan termination still be a condition for electing the option?

No comments.

Restrictions on Contribution Holidays

1. Should contribution holidays be restricted further than they are currently? If so, which method best protects member benefits?

No comment.

2. If a plan is required to be funded at a higher level than 100% on a solvency basis and/or a going concern basis before taking a contribution holiday, what is the appropriate level?

No comment.

3. Should the ability to take a contribution holiday be determined on an annual basis, whereby a cost certificate would have to be filed each year to determine whether the plan remains in a surplus position?

No comment.

Annuity Discharge

1. If annuity discharge provisions are added to the Act, what are the appropriate conditions that a plan should have to meet in order to be eligible to qualify?

The CLHIA encourages a harmonized approach with that of other provincial and territorial pension authorities, such as Ontario, B.C., and Quebec.

The CLHIA recommends that annuity discharges be allowed for all individuals tied to the pension plan. Allowing annuity discharges for only members and permitting the liability to remain for their spouses or beneficiaries who have less of a nexus to the plan or employer would result in additional red tape and complexity for pension plan administrators.

A few years ago, the Ontario government excluded spouses and beneficiaries. However, the government promptly amended this provision and allowed annuity discharges for all individuals.

In the spirit of avoiding unnecessary red tape for pension plan administrators, the CLHIA believes that it should be sufficient to require a certification from the pension plan administrator that they have purchased annuities in compliance with the Pension Benefits Act, 1992 and the Pension Benefits Regulations, 1993 requirements.

To encourage transparency, the CLHIA supports requiring disclosure to affected plan members. However, the CLHIA believes plan member consent should not be required as there is minimal value in requiring consent from retirees who terminated long ago and are unlikely to respond. This measure would also introduce additional red tape for pension plan administrators. In addition, assuming the annuity covers the same benefits that the pension plan provides, the only change is the provider of the benefit.

Conclusion

Thank you for your consideration of our comments noted above. We would be pleased to expand on these concerns should you wish to discuss any of the issues identified in our comments. Please feel free to contact me at 416-359-2047 or by email at nsimon@clhia.ca.

CUPE
Saskatchewan
Your Community Union

Canadian Union of Public Employees
Saskatchewan Division

June 11, 2021

ATTN: PENSIONS DIVISION
FINANCIAL AND CONSUMER AFFAIRS AUTHORITY (FCAA)
601 - 1919 SASKATCHEWAN DRIVE
REGINA SK S4P 4H2

VIA EMAIL: pensions@gov.sk.ca

To whom it may concern:

RE: SOLVENCY FUNDING REVIEW

CUPE Saskatchewan is thankful for the opportunity to present our views on the government's March 2021 consultation paper regarding the province's pension funding framework.

CUPE represents over 30,000 members working in a variety of public service occupations across Saskatchewan including: health care, K-12 school system, universities, libraries, municipalities, community-based organizations, and various boards and agencies. Our members participate in many different pension plans in the province, from smaller single-employer plans to larger multi-employer plans.

Our union takes pension issues very seriously. We recognize that changes to pension law and regulatory practice are inherently political, as they often involve tradeoffs between employer and worker concerns about pensions. **In our view, the tradeoffs being contemplated in the government's document are too advantageous for employers at the expense of workers and retirees. The government should re-consider this approach.**

CUPE Saskatchewan endorses and supports the submission made by the Saskatchewan Federation of Labour (SFL) to this process. While we do not need to repeat all the arguments advanced in the SFL's submission here, we draw particular attention to the lack of a legislative terminal funding obligation in our province's Pension Benefits Act. This omission is seriously out of step with pension law in other jurisdictions and must be remedied as part of this consultation.

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It makes little sense to compel full funding while a defined benefit plan is operating, but not on termination of that plan – particularly if those funds are available. Public opinion clearly supports the idea that pension plan members should receive the pensions they were promised. **A terminal funding obligation is an important part of delivering on this promise and must be added in this review**, particularly if plan members are losing other important legislative protections, as seems to be the government's intent.

We also want to highlight the SFL's suggestion that solvency relief should not be delivered on a universal basis to all employers, whether those employers need this relief or not. To this end, plan member consent should be a prerequisite in all cases where solvency funding requirements are being eased for any employer.

Finally, we urge the government to seriously consider some of the alternative proposals made in the SFL submission that have not yet been adopted in other jurisdictions. Many of these proposals would help bring much needed measures of security back to plan members.

We again thank government for the opportunity to share our views on our pension system and would welcome any opportunity to discuss these matters further.

Yours sincerely,

JUDY HENLEY
President
CUPE Saskatchewan

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ACPM | ACARR

The Association of Canadian Pension Management
L'Association canadienne des administrateurs de régimes de retraite

June 11, 2021

ACPM Response to Saskatchewan's Consultation Paper: *The Pension Benefits Act, 1992* A Review of the Pension Funding Framework For Single Employer Defined Benefit Plans In the Private Sector And Other Complementary Reform Measures Applicable to All Defined Benefit Plans

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ACPM OVERVIEW

ACPM (THE ASSOCIATION OF CANADIAN PENSION MANAGEMENT)

ACPM (The Association of Canadian Pension Management) is a national, non-profit organization acting as the informed voice of plan sponsors, administrators and their service providers in advocating for improvement to the Canadian retirement income system. Our membership represents over 400 companies and retirement income plans that cover millions of plan members.

ACPM believes in the following principles as the basis for its policy development in support of an effective and sustainable Canadian retirement income system:

Diversification through Voluntary / Mandatory and Public / Private Options
Canada's retirement income system should be comprised of an appropriate mix of voluntary workplace and individual savings arrangements ("Third Pillar") and mandatory public programs ("First and Second Pillar").

Empowering Choice in Coverage
Third Pillar arrangements should be encouraged and play a meaningful, ongoing role in Canada's retirement income system.

Adequacy, Security and Affordability
The components of Canada's retirement income system should ensure a healthy balance between these three objectives to enable Canadians to receive adequate and secure retirement incomes at a reasonable cost for members and employers.

Innovation in Plan Design
Canada's retirement income system should encourage and permit innovation in plan design in all three Pillars.

Adaptability
Canada's retirement income system should be able to adapt to changing circumstances without the need for comprehensive legislative change.

Harmonization
Canada's pension legislation should always strive for better harmonization.

Clarity and Transparency
Legislation, regulations and retirement income arrangements should be clearly defined and pension plan beneficiaries should be appropriately informed of risks, costs and benefits.

Good Governance
Excellence in governance and administration in the retirement income system.

INTRODUCTION

ACPM supports Saskatchewan's review of its pension funding rules for Single Employer defined benefit plans in the private sector in order to address the current circumstances and improve the sustainability of defined benefit (DB) pension plans for the long-term. We also support the review of contribution holidays and annuity discharge provisions applicable to all defined benefit plans. We are pleased that the considerations highlighted in the Consultation Paper recognize the issues of prolonged low interest rates, and contribution volatility, that were similarly laid out in our DB Pension Plan Funding paper dated May 13, 2014, (*DB Pension Plan Funding: Sustainability Requires a New Model*).

Our May 2014 paper had four objectives that we recommend be adhered to when the government makes its decisions.

The new model:

1. Should be clear to all stakeholders,
2. Should not increase the cost burden on plan sponsors,
3. Should be based on sound funding and risk management principles, and
4. Should be reflective of the long-term nature of DB plans.

We understand that the consultation paper deliberately did not propose one solution, rather it lays out a number of options for pension funding reform with an overall objective to assess whether Saskatchewan's funding framework for single employer DB pension plans should be changed so that it better supports plan sustainability and benefit security over the long-term, in a way that balances the interests of all pension stakeholders.

We also understand that a balance between benefit security and affordability/sustainability require compromises and this submission provides commentary on the options presented with that in mind.

Thank you for your consideration.

ACPM (Association of Canadian Pension Management)
www.acpm.com

FUNDING FRAMEWORK FOR DEFINED BENEFIT PENSION PLANS

The Consultation Paper sets out two general options to consider:

1. Change the way in which solvency deficiencies are funded;
2. Partial solvency funding or no solvency funding, with enhanced going concern funding.

ACPM prefers Approach 2, because we do not believe that the changes under Approach 1 significantly removes the issue of high funding costs in low interest rate environments. Approach 1 starts with the existing solvency rules and attempts to address the cost, volatility and asymmetric risk issues to the plan sponsor with options that will reduce or eliminate contributions that would otherwise be required.

With all these modifications, one must therefore question the very rationale behind the solvency liability as a measure of the pension benefit to be funded in the first place. It is preferable to start with the ongoing measure of the pension obligation and then strengthen those funding rules to improve benefit security. Therefore, we agree with a version of Approach 2 and strongly encourage its adoption – eliminating or at least reducing solvency funding requirements and strengthening going concern funding.

In this submission, we provide comments on each of the approaches (and options within each approach) as well as providing responses to the specific questions posed in the consultation paper.

Approach 1 – Change the way in which solvency deficiencies are funded

- Option i. Lengthened amortization period: Lengthening the amortization period (and consolidating payment schedules) would help by reducing volatility of special payments required to amortize solvency deficiencies. In order to have a material impact, the period would need to be at least 10 years.

  Further, we recommend that amortization periods commence one year after the valuation date. This delayed amortization commencement would harmonize with the approach taken by Ontario and would allow plan sponsors time to plan for changes in required funding levels, rather than having to react to retroactive funding requirements.

- Option ii. Consolidation of Solvency Deficiencies: The approach suggested is consistent with the federal funding rules and changes proposed or adopted in other provinces. We agree that this approach would help stabilize the funding requirements by avoiding multiple schedules of payments piling up on each other. If solvency funding rules are retained, with some or all of the other modifications discussed, we would also recommend that amortization periods commence one year after the valuation date, as mentioned in Option i., above.

- Option iii. Solvency Reserve Accounts: ACPM strongly supports the consultation document's proposal to introduce solvency reserve accounts ("SRAs"), as they will be an important step towards promoting the retention of DB plans and supporting retirement security for plan members and retirees.

  ACPM also recommends expanding the definition of the SRA to include the portion of going concern contributions to fund any provisions for adverse deviation (PfAD). As such, a different name for any such reserve account may be warranted, but for consistency with the consultation document, we refer to "SRA" in our submission.

  As employers continue to make solvency contributions and may face increasing contribution requirements to fund mandatory PfADs in the coming years, we encourage implementing this proposal without delay to ensure that these contributions are eligible for SRAs as soon as possible. Further comments and recommendations regarding SRAs for defined benefit pension plans are provided below.

Support for SRAs

Security of the pension promise is a key objective of a pension funding regime. However, it must be accomplished through reasonable and fair contribution requirements for employers. Unfortunately, pension funding requirements make unreasonable and unfair demands in certain situations. A going concern valuation, using best estimate assumptions and without margins or PfADs, is the best estimate of the financial position of a defined benefit pension plan that is not terminating.

Nonetheless, we recognize the potential for adverse experience, and understand that it may be prudent to secure benefits at a level that is more conservative than the best estimate. This is the intention of the PBA's requirements for solvency funding, and PfADs in going concern valuations. However, the PBA does not provide a mechanism for recovering these required additional contributions if experience later reveals that they were unnecessary for securing pension benefits.

Contrast this requirement with Canadian reserving requirements for life insurance and annuities. Insurers are required to set aside reserves that are greater than the best estimate amount necessary to fulfill obligations for insurance and annuity payments, but if experience ultimately shows that those reserves were more than necessary, the excess is returned to the insurance company as return of capital and profit.

Without a mechanism for employers to recover required over-contributions to pension plans, the PBA imposes unreasonable and unfair contribution demands in certain situations. SRAs will be an important step in correcting this flaw.

Contributions Eligible for SRAs

The consultation document proposes limiting SRA-eligible contributions to solvency deficiency payments, including both legislated minimum solvency special payments and additional payments in respect of a solvency deficiency. While ACPM strongly supports solvency special payments be included in SRAs, ACPM also recommends expansion of SRAs to include the portion of going concern contributions to fund PfADs.

- Option iv. Letters of Credit (LOC): Letters of Credit (LOCs) provide additional flexibility to plan sponsors on cash funding while providing security to participants. ACPM believes more funding options that provide choices to plan sponsors while providing benefit security to participants is desirable.

Questions related to Approach 1

1. If the solution is to modify solvency funding, which of the above options or combination of options do you feel provides the right balance between benefit security and affordability?

ACPM recommends the elimination of solvency funding rules and strengthening the going concern funding rules (Approach 2) rather than implementing modifications to the existing solvency funding rules. We do not believe that the proposed modifications significantly remove the affordability issue identified.

Approach 1 starts with the existing solvency rules and attempts to address the cost, volatility and asymmetric risk issues to the plan sponsor with options that will reduce or eliminate contributions that would otherwise be required. We believe it is preferable to start with the ongoing measure of the pension obligation and then strengthen those funding rules to improve benefit security.

Nevertheless, if Approach 1 is ultimately chosen, the addition of SRAs would improve benefit security, while removing asymmetric risk issues for the plan sponsor. SRAs could further assist in reducing funding volatility by allowing plan sponsors to feel comfortable adjusting their funding above minimum funding requirements in good times and reducing their funding to minimum levels in times of adversity.

2. Are there other methods of modifying solvency funding which you feel should be considered?

While ACPM's preferred approach would be a strengthened going concern funding basis with no solvency funding requirements, if a concurrent solvency funding requirement is maintained, using an 85% solvency funding level (similar to other provinces, such as British Columbia and Ontario) would result in a measure of harmonization.

3. If the period of time for funding solvency deficiencies is lengthened, what is the appropriate new time period?

Lengthening the amortization period (and consolidating payment schedules) would help by reducing the volatility of special payments required to amortize solvency deficiencies. In order to have a material impact, the period would need to be at least 10 years.

If solvency funding rules are retained, with some or all of the modifications discussed, we would also recommend that amortization periods commence one year after the valuation date. This delayed amortization commencement would harmonize with the approach taken by Ontario and would allow plan sponsors to plan for changes in required funding levels, rather than have to react to retroactive funding requirements.

4. If SRAs are allowed, under what circumstances should the employer be allowed to withdraw payments that have been made into the account?

We appreciate that there needs to be an appropriate balance between allowing employers access to withdraw SRA funds and limiting access in order to maintain benefit security.

A minimum funding threshold on a market value basis should be maintained at the larger of 100% of solvency liabilities or 100% of going concern liabilities (which would include the best-estimate going concern liabilities plus any mandatory PfADs).

Provided the minimum funding threshold has been fully funded, the employer would be permitted to take a contribution holiday or make a withdrawal of the excess over the minimum funding threshold from the solvency reserve account. It should be clear that, upon plan wind-up, any portion of the solvency reserve account not needed to provide promised benefits would be returned to the plan sponsor.

Further restrictions could be placed on the amount of the withdrawal, such as only allowing a withdrawal of up to 20% of the excess over the minimum funding threshold from the solvency reserve account per year. It is the position of ACPM that requiring withdrawals to be spread over a period of, say, five years provides very little, if any, additional protection and may unnecessarily complicate the solvency reserve account.

However, this more cautious approach to withdrawals from the solvency reserve account may be warranted given that full funding on plan termination is currently not in place in Saskatchewan and that it is anticipated that the SRA will also hold going concern PfAD amounts.

5. If LOCs are allowed, should the amount be limited to a certain percentage of liabilities?

Letters of Credit (LOCs) provide additional flexibility to plan sponsors on cash funding while providing security to participants. A number of other jurisdictions have reviewed their policy on LOC limits and in a number of cases (e.g., BC, Alberta, Nova Scotia) have decided to eliminate any such limitations or never had limitations (e.g., Manitoba).

Allowing a letter of credit that could be up to 100% of solvency liabilities would provide more flexibility and still maintain the desired (or, in theory, even greater) security to participants. For example, a plan with a solvency ratio of 69% might decide to negotiate a 20% letter of credit to provide a margin above the potential 85% limit, thereby limiting the frequency of changing the amount of coverage.

Approach 2 – Partial Solvency Funding or No Solvency Funding, with Enhanced Going Concern Funding

An approach similar to the going concern funding rules recently introduced in Québec and Ontario could reduce the volatility and magnitude of DB plan funding requirements, although in some cases, the total funding obligations may be higher than under the current funding model.

We believe that a simple solution that is aligned with ACPM's new funding model of clarity, cost neutrality to plan sponsors, sound funding and risk management principles and reflective of the long-term nature of DB plans should be considered.

Questions related to Approach 2

1. **If the current solvency funding threshold of 100% is reduced to require only partial solvency funding, is a threshold of 85% appropriate?**

While ACPM's preferred approach would be a strengthened going concern funding basis with no solvency funding requirements, if a concurrent solvency funding requirement is maintained, using the 85% level as implemented in Ontario and BC would result in a measure of harmonization.

2. **What is the main risk(s) that a PfAD should mitigate?**

The purpose of a PfAD is to assist in managing and mitigating risks to meet the objectives of the plan, primarily which is to pay the benefits as they come due. These risks may include asset/liability mis-match risk, investment risk, interest rate and mortality and other demographic risks.

3. **What do you feel is the best method of determining the level of PfAD?**

Factors that could be considered in setting mandatory PfADs include duration of liabilities, investment policy and plan maturity. Other plan specific provisions which can drive higher or lower volatility (e.g. indexing) could be included in any flexible plan specific PfADs. It is important that any mandatory PfAD calculation not be so onerous that it would both prevent the plan sponsor from pursuing a reasonable allocation of risk for fear of increasing its immediate funding requirements and impose significant regulatory burden on the pension regulator.

In addition, while regulations and guidance are necessary to determine any mandatory PfAD for a given DB pension plan, the mandatory PfAD should not be so onerous that a plan sponsor would be unwilling to consider including an additional flexible plan-specific PfAD to enhance benefit security and assist in moderating contribution volatility.

We agree that some level of mandatory PfAD in funding contributions and going concern liabilities provides enhanced benefit security. As such, we recommend the use of best estimate actuarial assumptions with explicit PfADs.

We also recommend that liabilities covered through annuities or a longevity swap should be excluded from the calculation of any mandatory PfADs. Any mandatory PfADs could be prescribed in a similar manner to the mandatory PfADs already in the Saskatchewan PBA for Limited Liability Pension Plans where the mandatory PfAD (included in the funding contributions and in some cases in going concern liabilities) is determined in reference to the plan's target allocation to risky assets.

As stated above, contributions to fund PfADs should be eligible to be included in a Solvency Reserve Account.

ACPM does not recommend that a shortened amortization period be implemented on its own without the PfAD. We do not believe that best estimate discount rate assumptions are appropriate for long term sustainable pension plan funding, and there are currently no other applicable rules (including professional actuarial standards) which require a buffer in the going concern funding basis.

4. Should the method of determining PfAD be different if there is no solvency funding required than if there is a certain level of solvency funding required?

We believe that a strengthened going concern funding model that includes:

- a single effective method of determining any mandatory PfADs,
- SRAs which permit the allocation of mandatory PfAD funding to these reserve accounts, and
- limitations on contribution holidays that take into consideration a minimum funding threshold, supports the primary goal of benefit security. As such the method of determining any mandatory PfAD should be established regardless of the requirement for solvency funding.

5. Should the PfAD have to be funded on current service contributions, even if the plan is in a going concern surplus?

As PfADs are expected to be included on the balance sheet and going concern deficit funding would require unfunded PfADs to become funded, having multiple methods of funding the PfAD would be unnecessary. Therefore, we do not recommend having the PfAD funded on current service contributions if the going concern funded status is in surplus/above a minimum funded position, as is the case in other provisions that introduced a mandatory PfAD.

We also have concerns with increasing the costs for plan sponsors that already apply appropriate governance and risk management principles to their plans and are currently in a going concern surplus situation (after the inclusion of any mandatory PfADs).

6. If the period of time for amortizing going concern deficiencies is shortened, what is the appropriate period?

ACPM understands the rationale for shortening the going concern amortization period as a compromise for eliminating the amortization of solvency deficits. Our preference would be to have an amortization period of 10 years, with a consolidation of the total unfunded liabilities, i.e., a "fresh start" at each valuation rather than tracking and managing multiple amortization schedules.

We would also recommend that amortization periods commence one year after the valuation date. This provides sponsors with a period of time to prepare for changes in funding requirements without the funding requirements applying retroactively and would be consistent with the approach taken by Ontario.

7. **Are there other methods of enhancing going concern funding which should be considered?**

Benefit security and contribution volatility are only balanced by incorporating both a shorter amortization period and PfAD, i.e., both proposed options. We also believe that removing much of the asymmetric funding risk faced by plan sponsors by permitting funding of PfADs to be allocated to a solvency reserve account, would enhance benefit security.

8. **Are there any other features to the funding rules which should be considered, such as consolidation of unfunded liabilities?**

One Year Lag for Amortization Payments

As mentioned in response to question 6, our preference is to consolidate the total unfunded liabilities, i.e., a "fresh start" at each valuation rather than tracking and managing multiple amortization schedules. We would also recommend that amortization periods commence one year after the valuation date. This provides sponsors with a period of time to prepare for changes in funding requirements without the funding requirements applying retroactively.

Commuted Value Calculations for all Plans Registered in Saskatchewan

An issued not raised in the consultation paper is the calculation and payment of commuted values (CVs). Events like the COVID-19 crisis highlight existing inequities in the way CV payouts are paid out or transferred. Different plans are subject to different funding requirements; however, not all plans are required to pay out CVs on the same basis. This imbalance has been recognized by the Canadian Association of Pension Supervisory Authorities (CAPSA), (i.e., 2019's Recommendations - Funding of Benefits for Plans Other than Defined Contribution Plans).

CV payout standards should be more reflective of how plans are funded and the risks borne by remaining plan members. Such a change would better balance the interests of those remaining in the plan and those electing a payout, without requiring the employer to add additional funding above minimum funding standards. While we fully appreciate that current Saskatchewan CV payout rules allow the plan to pay out less than the full CV based on the plan's transfer ratio, these rules ultimately require the plan to make up the difference, which can result in contributions to the plan above minimum funding standards.

This consultation provides the government with an opportunity to address this long-standing issue, and we suggest that FCAA explore and consider, with the government, the alignment of CV payout standards with the way in which the plan is funded. This would put plans on a more sustainable footing.

9. **Are there any options from the previous section (Change the Way in Which Solvency Deficiencies Are Funded) which should be incorporated if only partial solvency funding is required, or if it is eliminated completely? In particular, would solvency reserve accounts and letters of credit be useful mechanisms if a solvency deficiency has to be funded only to a certain level?**

We also believe that removing much of the asymmetric funding risk faced by plan sponsors by permitting funding PfADs to be allocated to a solvency reserve account, would enhance benefit security. We also believe Letters of Credit provide additional flexibility to plan sponsors on cash funding while providing security to participants.

QUESTIONS FOR COMMENT

Additional Change Applicable to Single Employer Defined Benefit Plans in the Private Sector (SEPPPs)

A. FULL FUNDING ON PLAN TERMINATION

1. **Assuming the solvency funding framework is changed, are there any types of SEPPPs for which an employer should not have to fully fund a deficit if the plan is voluntarily terminated? For example, if members are required to contribute towards a solvency deficit, the framework could be structured so that only a portion of the deficit has to be funded by the employer if the plan is wound up.**

ACPM generally supports full funding on plan wind up. This requirement would align with funding provisions in other jurisdictions.

We note that in other provinces where members and employers jointly fund the plan, members are jointly responsible with the employer for funding wind up deficits (such as for jointly sponsored pension plans in Ontario). It would be appropriate to allow members and employers to agree to such an arrangement and adjust the employer's obligation on wind up accordingly.

2. **Are there any options presented in "Two Main Approaches" which should not require the full funding condition, if the Regulations are amended to include only that option? For example, if the only change made to the Act or Regulations is to allow a longer period of time for amortizing a solvency deficiency, should full funding on plan termination still be a condition for electing the option?**

Please see our response to question 1. above.

Additional Change Applicable to All Defined Benefit Plans

A. RESTRICTIONS ON CONTRIBUTION HOLIDAYS

1. Should contribution holidays be restricted further than they are currently? If so, which method best protects member benefits?

ACPM believes that a minimum funding threshold on a market value basis should be maintained at the larger of 100% of solvency liabilities or 100% of going concern liabilities (which would include any mandatory PfADs). Once the minimum funding threshold has been fully funded the employer would be permitted to take a contribution holiday such that the minimum funding threshold is maintained.

Once the minimum funding threshold has been achieved (going concern funding (including any mandatory PfAD) ratio above 100% and solvency ratio above 100%), then contribution holidays should be allowed until the dollar amount of contribution holidays equals the dollar excess above the minimum funding threshold.

That being said, we believe the sponsor should have access to a solvency reserve account while it is ongoing. One approach would be to allow contribution holidays from the solvency reserve account provided the PfAD is funded and the plan has a 100% solvency ratio.

2. If a plan is required to be funded at a higher level than 100% on a solvency basis and/or a going concern basis before taking a contribution holiday, what is the appropriate level?

ACPM believes that a minimum funding threshold on a market value basis should be maintained at the larger of 100% of solvency liabilities or 100% of going concern liabilities (which would include any mandatory PfADs). Once the minimum funding threshold has been fully funded the employer would be permitted to take a contribution holiday such that the minimum funding threshold is maintained.

If funding is required at a level higher than the above minimum funding threshold before taking a contribution holiday, then in order to promote uniformity with other jurisdictions, we recommend 5% margin above any mandatory PfAD included in a going concern valuation and a 105% solvency ratio.

Given that a going concern PfAD already gives a high probability of a plan maintaining its fully funded status, a 5% buffer should be more than sufficient in most cases to ensure a very high degree of fully funded status and a reasonably high probability of maintaining the PfAD.

Once the minimum funding threshold has been achieved, then contribution holidays should be allowed until the dollar amount of contribution holidays equals the excess above the minimum funding threshold. That being said, we believe the sponsor should have access to a solvency reserve account while it is ongoing. One approach would be to allow contribution holidays from the solvency reserve account provided the PfAD is funded and the plan has a 100% solvency ratio.

3. **Should the ability to take a contribution holiday be determined on an annual basis, whereby a cost certificate would have to be filed each year to determine whether the plan remains in a surplus position?**

We do see some merit in requiring a certain level of annual update reporting if a plan is taking contribution holidays during the triennial period. A plan may be required to show at annual interim periods that the plan is still fully solvent and all reserves are funded to continue to take a contribution holiday during the subsequent annual period.

B. ANNUITY DISCHARGE

1. **If annuity discharge provisions are added to the Act, what are the appropriate conditions that a plan should have to meet in order to be eligible to qualify?**

ACPM believes that harmonization with other jurisdictions is a desirable goal. Ontario, British Columbia, Alberta, Québec, and the Federal government have made amendments to their respective pension legislation that include a discharge for the administrator and the employer.

To illustrate what might be appropriate conditions to satisfy for an annuity discharge, Ontario's requirements for a statutory discharge are, in addition to certain notice requirements:

- the benefit purchased must be the same – in amount and form – as the benefit provided under the pension plan;
- the insurance company must be authorized to sell annuities in Canada;
- the pension plan must meet the applicable prescribed minimum funding requirements; and
- the annuity contract must contain certain prescribed terms, including that no money payable under the contract will be assigned except in accordance with family law, that the pension payments will be in the form of a joint and survivor pension unless such right was waived, and that death benefits will be administered in accordance with the PBA, among other prescribed terms.

ACPM has identified a potential challenge with the Ontario amendments in respect of benefits provided under a pension plan that includes indexation tied, at some level, to inflation. For example: indexation can be equal to 75% of the increase in inflation each year. In the current annuity market in Canada, annuities indexed to some level of inflation can be difficult to place in the annuity market. One change to the Ontario amendments that we would recommend be considered is that indexation included in the benefits purchased be in a form that is an acceptable substitute to the plan members for the indexation benefits provided under the plan. Using the example above: an acceptable substitute may be a fixed level of indexation each year equal to 75% of the expected future average annual increase in inflation (such as a fixed 1.5% increase per year).

Thank you for the opportunity to provide our input on this consultation and we are available if you require any further assistance.

AON
Empower Results®

June 11, 2021

PRIVATE & CONFIDENTIAL

Ms. Leah Fichter
Executive Director Pensions Division
Financial and Consumer Affairs Authority
Government of Saskatchewan
n601 - 1919 Saskatchewan Drive, Regina, SK
S4P 4H2

RE: PENSION CONSULTATION PAPER MARCH 23, 2021

Dear Ms. Fichter:

We have prepared this document as a response to the FCAA's Consultation Paper issued March 23, 2021: A Review of the Pension Funding Framework For Single Employer Defined Benefit Plans In the Private Sector And Other Complementary Reform Measures Applicable to All Defined Benefit Plans (the "Pension Consultation Paper").

Introduction

On behalf of Aon, we thank the FCAA for undertaking this consultation process and we appreciate the opportunity to help modernize and innovate the pension regulatory environment in Saskatchewan.

The views expressed in this submission are those of Aon and we are not writing on behalf of, or to express the views of, any client of Aon.

Aon empowers organizations and individuals to secure a better future through innovative human capital solutions. We advise and design a wide range of solutions that enable our clients' success. Our teams of experts help clients navigate the risks and opportunities to optimize financial security; redefine health solutions for greater choice, affordability, and well-being; and achieve sustainable growth by driving business performance through people performance. We serve more than 20,000 clients through our 15,000 professionals located in 50 countries around the world.

Our responses to the questions posed in the Pension Consultation Paper can be found below.

We are also specifically recommending that in respect of Specified Plans and Limited Liability Plans currently exempt from solvency funding, these plans remain exempt from solvency funding and these plans be exempt from any specific Provision for Adverse Deviation requirements that may be put in place on an "enhanced" going concern basis for single employer private sector pension plans (SEPPPs).

Change the Way in Which Solvency Deficiencies Are Funded

1. ***If the solution is to modify solvency funding, which of the above options or combination of options do you feel provides the right balance between benefit security and affordability?***

   i. ***Lengthen the Amortization Period for Funding Solvency Deficiencies***

   If any form of minimum solvency funding is maintained for SEPPPs, we would recommend lengthening the amortization period in order to provide a balance between

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benefit security and funding stability. A common suggestion has been to lengthen the amortization period from 5 years to 10 years.

ii. Re-Amortization of Solvency Deficiencies

We support a change to the amortization of any form of solvency deficiency or unfunded liability so that, rather than having different schedules of special payments, the solvency deficiencies or unfunded liabilities are consolidated and re-amortized at each valuation. We agree that this change would reduce contribution volatility.

iii. Solvency Reserve Accounts (SRA)

Aon encourages the implementation of a legislative framework that permits solvency reserve accounts for SEPPPs. This could help improve upon the current imbalance between the allocation of risks and rewards between plan stakeholders. The asymmetry in risks and rewards together with large and volatile solvency funding contributions has been a major contributor to the decline in defined benefit pension coverage in Canada and the introduction of a Solvency Reserve Account framework would be a positive step to correct this asymmetry.

Given the positive experience related to solvency reserve accounts in Alberta and British Columbia (and a similar concept in Quebec), we would encourage FCAA to support changes that align with the framework in these jurisdictions.

We note that in British Columbia there has been some uncertainty as to whether an SRA needs to have a separate trust account and/or separate trust document from the main pension plan or whether the SRA can more simply be a notional account within the main pension plan. A full analysis of the pros and cons of each structure is likely needed. A start on this would be that a separate trust for an SRA would be more work to establish but it would likely be clearer as to the ownership and usage of the SRA, where as a notional account would likely be far easier to set up and administer. We would recommend that the exact structure needed for an SRA be addressed in the relevant legislation.

We would also recommend that the Solvency Reserve Account framework be extended to also include any special payments toward the amortization of going concern unfunded liabilities or any additional funding towards Provisions for Adverse Deviations (PfADs) in an "enhanced" going concern funding regime.

iv. Letters of Credit (LOC)

Aon supports the use of letters of credit (LOCs) as a means to manage volatility of solvency funding requirements. We do not see a fundamental reason to limit the level of solvency funding that is secured by LOCs as LOCs would provide additional funding stability and possibly enhance benefit security. If any limits are placed on LOCs the exact threshold would be a government policy decision.

2. Are there other methods of modifying solvency funding which you feel should be considered?

We would recommend including, in the modified funding framework, a one-year lag for the commencement of the amortization period for any special payments (solvency or going concern). In other words, instead of the amortization period (and associated special payments) commencing

retroactive to the valuation date, the amortization period and special payments would commence one year after the valuation date. This would provide additional time for a plan sponsor to adjust to any increase in funding requirements that may occur as a result of an actuarial valuation.

3. ***If the period of time for funding solvency deficiencies is lengthened, what is the appropriate new time period?***

   As stated above, if any form of minimum solvency funding is maintained for SEPPPs, we would recommend lengthening the amortization period in order to provide a balance between benefit security and funding stability. A common suggestion has been to lengthen the amortization period from 5 years to 10 years.

4. ***If SRAs are allowed, under what circumstances should the employer be allowed to withdraw payments that have been made into the account?***

   It may be appropriate to set a minimum required solvency ratio threshold that needs to be maintained after any SRA withdrawal is permitted from a SEPPP. A similar threshold may also apply to the plan's going concern funded level.

   We believe that requiring a 105% minimum on both solvency and going concern funded ratios and restricting withdrawals to 20% of the available amount each year could be a reasonable policy compromise as part of a permanent solvency funding reform.

   In addition, if the plan sponsor or administrator has reason to believe the SEPPP's funded position has gone below 100% on either the solvency or going concern basis, it would be reasonable to require that any withdrawals from the SRA cease. An SRA withdrawal could also be limited to a specific time period following the valuation date of a filed funding valuation (such as 6 months, 1 year), so that up-to-date valuation information is used to determine the funded position of the plan.

5. ***If LOCs are allowed, should the amount be limited to a certain percentage of liabilities?***

   As stated above, Aon supports the use of letters of credit (LOCs) as a means to manage volatility of solvency funding requirements. We do not see a fundamental reason to limit the level of solvency funding that is secured by LOCs as LOCs would provide additional funding stability and possibly enhance benefit security.

Partial Solvency Funding or No Solvency Funding

1. ***If the current solvency funding threshold of 100% is reduced to require only partial solvency funding, is a threshold of 85% appropriate?***

   The establishment of minimum pension funding requirements is an important public policy decision that must balance benefit security with affordability. Employers are not required to provide a defined benefit (DB) pension plan. If the funding regime is skewed too heavily towards benefit security, then employers may be forced to move away from or simply not offer DB plans. If the funding regime is skewed too heavily towards affordability, then there will be an increased risk of benefit reductions if the employer is not solvent.

   Until recently, Canada may have been the only country in the world where employer provided pension plans were required to fund to the wind-up liabilities (essentially funding the cost of purchasing annuities). This type of funding regime is skewed heavily towards benefit security. Some plan sponsors have closed or modified their DB plans, as the burden of high and volatile

solvency funding contributions is too heavy. While solvency funding aims to enhance benefit security, the overall financial security of Canadians has worsened as DB pension coverage has declined.

In recent years, legislators and policy makers in several provinces have recognized the need to reform pension funding and reset the balance between benefit security and affordability. These provinces have moved to reduce or eliminate solvency funding requirements and replace them with enhanced going concern funding requirements. These approaches have provided a more reasonable balance between benefit security and affordability, and better serves the interests of all Canadians. We urge the FCAA to move in this direction.

Pension legislation has become increasingly complex and varied from jurisdiction to jurisdiction, resulting in an increasingly complicated and difficult landscape for stakeholders to navigate. Consequently, we recommend that the specific changes to the solvency funding rules be made with an eye towards simplicity and consistency across jurisdictions. We would urge the FCAA to consider aligning legislation to that of Quebec.

In regard to the question of only partial solvency funding, there would be no actuarial or economic reason for any specific funding level below 100%. The level selected would be a governmental policy decision. As you have stated in the Pension Consultation Paper *"Several jurisdictions in Canada have changed or have announced changes to their solvency funding rules. The most common method of providing relief is to reduce the solvency funding requirement from 100% to 85%."* The Consultation Paper goes on to state that *"As of the last filed actuarial valuation reports, two of the SEPPPs had a solvency ratio less than 0.85, 16 had a solvency ratio between 0.85 and 0.99, and 18 had a solvency ratio of 1.00 or greater."*

As such, establishing a minimum solvency funding threshold of 85% would appear to provide a reasonable level of balance between benefit security and funding stability as well as providing some level of harmonization with other jurisdictions. This level would also stand a good chance of already being met by the bulk of the SEPPPs registered in Saskatchewan. In addition, regulations could be added that indicate that the Superintendent can reserve the right to require solvency funding above an 85% threshold for any particular pension plan if there is specific concern, on the part of the Superintendent, about the security of pension benefits in any specific pension plan, e.g. due to higher risk of employer insolvency.

2. What is the main risk(s) that a PfAD should mitigate?

Provisions for Adverse Deviations (PfADs) perform two main roles.

First, they help to mitigate volatility in a pension plan's funded status and contribution rates that results from plan experience that is different from actuarial assumptions. The main areas of volatility are 1) economic, such as investment returns (either large fluctuations in short periods of time and/or systematic lag of investment returns over longer periods of time) that are different from asset return expectations or salary increases different than anticipated and 2) demographic, such as longevity or retirement trends, different than expected.

Second, they help to achieve the main goals and objectives for the pension plan that have been set by the plan sponsor such as benefit security and funding stability. The ability to achieve these goals relies, in part, on a plan's ability to build margin and release margin when appropriate.

As such, PfADs should mitigate the risk that actual plan experience is different than expected and support the realization of the goals and objectives of the plan through periods of such volatility.

3. What do you feel is the best method of determining the level of PfAD?

PfADs that are required by the "enhanced" going concern funding proposed should be developed in a simple, easy to understand manner. We believe that the most straight forward approach is to establish PfADs based on the various risks inherent in a pension plan's asset mix (asset/liability mismatch risk, cashflow and liquidity risk, interest rate sensitivity risk, etc.). We would make reference to both the Québec and Ontario legislation as well as the current PfAD requirements for Limited Liability Pension Plans registered in Saskatchewan.

4. Should the method of determining PfAD be different if there is no solvency funding required than if there is a certain level of solvency funding required?

We believe that the determination of PfADs (whether required by legislation or on a voluntary basis as per each plan's funding policy) is an integral part of the ongoing operation of a defined benefit pension plan and that PfADs should be established based on the risk profile of each pension plan. As such, the level of solvency funding that is required should not directly influence the overall level of PfADs established in the going concern valuation.

However, any amount of PfAD that is required by legislation should also consider any required solvency funding. As we have stated above, if the funding regime, as a whole, is skewed too heavily towards benefit security, then employers may be forced to move away from or simply not offer DB plans. Hence if some level of minimum solvency funding is required, then we would recommend that the level of required PfAD be lowered in the enhanced going concern basis so as to maintain a level of balance between benefit security and funding affordability.

Again, we are specifically recommending that in respect of Specified Plans and Limited Liability Plans currently exempt from solvency funding, these plans remain exempt from solvency funding and these plans be exempt from any specific Provision for Adverse Deviation requirements that may be put in place on an "enhanced" going concern basis for SEPPPs.

5. Should the PfAD have to be funded on current service contributions, even if the plan is in a going concern surplus?

In order to maintain an adequate level of funding of the plan's liabilities, a minimum level of PfAD should be included in the current service contributions even if there is a going concern surplus. We are also of the opinion that, in order to allow the plan's balance sheet to absorb fluctuations in plan experience, the PfAD that would be required by the "enhanced" going concern funding should only apply to the plan's current service cost and not to the plan's going concern liabilities for the purpose of determining minimum funding requirements.

Following the approach taken in British Columbia, when there is a reasonable level of surplus in a DB plan the requirement to have a PfAD on the current service cost could be removed from the minimum funding requirements. This will reduce the chances of building surpluses that are too large. For example, when assets are in excess of the greater of the going concern liabilities plus a sufficient balance sheet PfAD and the solvency funding threshold has been met, then the funding contributions would be the current service cost with no PfAD.

However, it would be reasonable that a PfAD be required to be held in the plan's liabilities for the purpose of determining if benefit improvements or withdrawals from an SRA (as referenced above) would be allowed.

6. ***If the period of time for amortizing going concern deficiencies is shortened, what is the appropriate period?***

   If minimum solvency funding is reduced below 100% for SEPPPs, it would be reasonable to shorten the amortization period for going concern unfunded liabilities in order to provide a balance between benefit security and funding stability. Similar to the Specified Plans registered in Saskatchewan the amortization period could be reduced from 15 years to 10 years.

7. ***Are there other methods of enhancing going concern funding which should be considered?***

   We would recommend including, in the modified funding framework, a one-year lag for the commencement of the amortization period for any special payments. In other words, instead of the amortization period (and associated special payments) commencing retroactive to the valuation date, the amortization period and special payments would commence one year after the valuation date. This would provide additional time for a plan sponsor to adjust to any increase in funding requirements that may occur as a result of an actuarial valuation.

8. ***Are there any other features to the funding rules which should be considered, such as consolidation of unfunded liabilities?***

   A review of the calculation of commuted values was done when the funding regime for Limited Liability Pension Plans was established. Commuted values can now be calculated under those plans using the going concern valuation basis. Certain Specified Plans (specifically the target benefit plans) registered in Saskatchewan have also recently been allowed to calculate CVs under a going concern valuation basis, however not all Specified Plans can calculate commuted values using a going concern valuation basis. This now means that different plans registered in Saskatchewan are subject to different requirements for funding and the payment of CVs. This imbalance has been recognized by the Canadian Association of Pension Supervisory Authorities (CAPSA), (i.e., 2019's Recommendations - Funding of Benefits for Plans Other than Defined Contribution Plans). A change to allow all DB plans to use a form of a going concern valuation basis to calculate and pay commuted values could provide better balance between the members remaining in all DB plans and those electing a lump sum payout.

   However, for plans where the plan members do not share in the risk of the plan (from either a benefit or contribution perspective) a member's commuted value would change based on the plan sponsors choice of asset mix (and risk appetite) – which is outside of the member's control. To bring a measure of balance to the commuted value calculation for these types of plans, the regulator could establish a standardized/benchmark asset mix that could be used to assess a reasonable discount rate that would not vary by decisions of the plan sponsor regarding asset mix. As such we would recommend that the calculation and payment of commuted values (CVs) from all defined benefit pension plans also be reviewed.

9. ***Are there any options from the previous section (Change the Way in Which Solvency Deficiencies Are Funded) which should be incorporated if only partial solvency funding is required, or if it is eliminated completely? In particular, would solvency reserve accounts and letters of credit be useful mechanisms if a solvency deficiency has to be funded only to a certain level?***

   As stated above we would support the inclusion of the following in an "enhanced going concern funding regime": Solvency Reserve Accounts, LOCs, consolidation of unfunded liabilities and

solvency deficiencies, extension of solvency amortization period to 10 years, and the inclusion of a 1 year lag for the commencement of amortization periods.

By way of explanation: not all plan sponsors will necessarily have access to all the funding relief measures noted above due to individual circumstances of each plan sponsor. Providing a number of alternatives will help to maintain benefit security and will provide more flexibility.

Full Funding on Plan Termination

1. ***Assuming the solvency funding framework is changed, are there any types of SEPPPs for which an employer should not have to fully fund a deficit if the plan is voluntarily terminated? For example, if members are required to contribute towards a solvency deficit, the framework could be structured so that only a portion of the deficit has to be funded by the employer if the plan is wound up.***

   While it is difficult to identify, on an actuarial basis, a specific type of SEPPP that should not be subject to full funding on plan wind up, we are also aware that the current SEPPPs registered in Saskatchewan were all incorporated under the current pension legislation which does not include full funding on plan wind up. If full funding on plan wind up is imposed on the existing SEPPPs, our concern is that this may create a situation where some of the plans may be terminated before such a requirement is implemented.

   We agree that the regulations could also include the ability for sharing the terminal funding between employees and the employer upon plan windup.

2. ***Are there any options presented in "Two Main Approaches" which should not require the full funding condition, if the Regulations are amended to include only that option? For example, if the only change made to the Act or Regulations is to allow a longer period of time for amortizing a solvency deficiency, should full funding on plan termination still be a condition for electing the option?***

   We would recommend that changes be implemented to the funding regime for SEPPPs without any requirement that a plan be subject to full funding on plan wind up in order to utilize the new funding regime.

Restrictions on Contribution Holidays

1. ***Should contribution holidays be restricted further than they are currently? If so, which method best protects member benefits?***

   In respect of SEPPPs, it may be appropriate to set minimum required going concern and solvency funded ratios that need to be maintained during a contribution holiday. We believe that requiring a 105% minimum on both solvency and going concern funded ratios during a contribution holiday for SEPPPs could be a reasonable policy compromise as part of a permanent solvency funding reform.

   Regarding Specified Plans registered in Saskatchewan (the public sector plans that are only subject to an enhanced going concern funding regime) we support no further restrictions being put on contribution holidays. More specifically, for Specified Plans, including a solvency funding requirement to determine eligibility for a Specified Plan to take a contribution holiday would be

contrary to the enhanced going concern funding regime. As such we would recommend that only a minimum going concern funded level be applied to Specified Plans.

In a similar fashion, Limited Liability plans registered in Saskatchewan are also only subject to going concern funding regime and so we support no further restrictions being put on contribution holidays for those pension plans.

2. ***If a plan is required to be funded at a higher level than 100% on a solvency basis and/or a going concern basis before taking a contribution holiday, what is the appropriate level?***

Please see our comments under question 1 above.

3. ***Should the ability to take a contribution holiday be determined on an annual basis, whereby a cost certificate would have to be filed each year to determine whether the plan remains in a surplus position?***

We believe that a triennial cost certificate would be sufficient with the additional requirement that if the plan sponsor or administrator has reason to believe the plan's funded position has gone below the funding threshold required to take a contribution holiday based on the type of pension plan (SEPPP, Specified Plan or Limited Liability Plan), it would be reasonable to require that any contribution holiday cease.

Annuity Discharge

1. ***If annuity discharge provisions are added to the Act, what are the appropriate conditions that a plan should have to meet in order to be eligible to qualify?***

We believe that when purchasing an annuity for a deferred or immediate pension promise at least the following conditions should apply in order to provide a full annuity discharge:

- The annuity should provide the same form and at least the same amount of pension as under the pension plan.
- To help facilitate securing annuities with provisions that are not readily available in the annuity market (such as post retirement indexation), the ability to replace the unavailable characteristics with an annuity providing similar characteristics and value should also be allowed. For example, an annuity that has indexation at a fixed rate per year could replace a pension provided by a pension plan that has post retirement indexing tied to inflation as long as it can be shown that the two forms of indexation have similar value to plan members.
- Any deficit related to the discharged portion of the benefit be immediately funded.
- Filing should occur with FCAA confirming the annuity transaction was performed in accordance with the Act and Regulations.

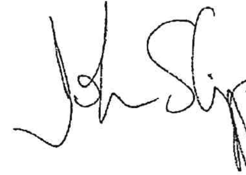
We also have the following suggestions:

- We do not believe a new valuation is necessarily required in order to secure full annuity discharge, but we do suggest that an updated cost certificate may be required.
- It is always good policy to communicate to members that an annuity purchase has occurred, however member consent should not be a requirement for full annuity discharge.

- With respect to any previous annuities purchased by a plan prior to the legislative change, a full annuity discharge should apply if it can be shown that the current requirements under the Act have been met by the annuity purchase.

Please contact us if you have any questions.

Sincerely,



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June 11, 2021

RE: A Review of the Pension Funding Framework for Single Employer Defined Benefit Plans in the Private Sector

Dear Ms. Fichter:

Thank you for the opportunity to participate in the current consultation regarding pension funding for single-employer defined benefit plans in the private sector. As you are aware, this is a topic where Mosaic has advocated for changes over the last number of years.

Currently, Saskatchewan's regulations in this area are out of step with the majority of other Canadian jurisdictions and the opportunity to create better alignment is welcomed. Overall, we are seeking changes

that will reduce volatility and create more predictability for plan funders in the allocation of dollars for legacy defined benefit plans.

Feedback RE: A Reduced Requirement for Solvency Funding

A reduction or elimination of the solvency funding requirement would provide a significant benefit to employers and is a streamlined, effective way of making change. As noted in the consultation document, Quebec completely eliminated its solvency funding requirement in 2016, and numerous other provinces have since made changes to their requirements.

Mosaic recommends a solvency funding reduction to 85% or lower, as opposed to the current 100% requirement. A lower or eliminated requirement for solvency funding will significantly benefit plan sponsors and allow for cash flow to be reinvested into other areas such as capital improvements or expansions and will benefit the Saskatchewan economy. Mosaic does not foresee any meaningful risk of it being unable or unwilling to fully fund the Plans if the Plans are ever wound up and if solvency is reduced

Provisions for Adverse Deviations (PfAD)

- We would recommend adopting a PfAD that reflects plan risks but remains simplistic and not overly complex.
- For plans that have been de-risked through an LDI portfolio, the PfAD should be at or very near zero. Inclusion of even a small PfAD in these scenarios will

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result in a high likelihood that a material surplus will exist on plan termination, which may not be accessible by the plan sponsor.

Contribution Holidays

- Allowing plan sponsors a Contribution Holiday should be implemented as part of the amendments to be introduced, if reduced solvency is selected as the path forward. A Contribution Holiday is a reasonable benefit that should be available to plan sponsors. Sponsors should be allowed to access any and all going concern surplus so long as the last reported solvency position was above the threshold set for the required solvency funding.

Feedback RE: Other Measures as Opposed to Reduced Solvency

While a reduced requirement for solvency funding is Mosaic's preferred option, should the government choose not to reduce solvency then these other measures should be considered.

Letters of Credit in Lieu of Solvency Funding

If a reduction or elimination of the solvency funding requirement is not possible then Mosaic recommends allowing for the use of letters of credit in lieu of solvency funding requirements. This change would allow long-standing businesses such as Mosaic to free up cash flow, again to the benefit of the Saskatchewan economy and the potash industry.

Lengthening of Amortization Period

Mosaic agrees with the concept of lengthening the amortization period to fund any solvency deficits. A 10-year amortization period would reduce the regulatory burden faced by plan funders and allow for a more even application of funds toward defined benefit plans.

Annuity Discharge

Mosaic believes that when purchasing an annuity for a deferred or immediate pension promise in the same form and manner of pension as was promised, a full annuity discharge should apply.

In summary, Mosaic appreciates the opportunity to contribute to amendments for defined benefit pension plan management that will reduce red tape, improve the administration of plans for employers and will not have any adverse impact on plan members. **Given that the topics above have been under discussion with the Financial and Consumer Affairs Authority for several years, we request that amendments to the Regulations and/or Act move forward as soon as possible in 2021 and are completed early in 2022, ahead of Mosaic's next valuation process**. This will allow for the maximum benefit of any amendments to be realized by Mosaic and other plan sponsors.

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Thank you for the time and attention. We are available to meet with you and further discuss any of the points made in this letter at any time.

Sincerely,

Lisa Poissant
Vice President Human Resources, North America

Cc:
Hon. Gordon Wyant, Minister Responsible for the Financial and Consumer Affairs Authority
Roger Sobotkiewicz, Chair and CEO
Hon. Bronwyn Eyre, Minster of Energy and Resources
Pam Schwann, President, Saskatchewan Mining Association

LifeWorks
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CONFIDENTIAL

June 11, 2021

VIA Email: pensions@gov.sk.ca
Financial and Consumer Affairs Authority
1919 Saskatchewan Drive, Suite 601
Regina, SK, S4P 4H2

Dear Sir or Madam:

Re: A Review of the Pension Funding Framework For Single Employer Defined Benefit Plans In the Private Sector and Other Complementary Reform Measures Applicable to All Defined Benefit Plans – Consultation Paper

In response to the request for feedback and on behalf of LifeWorks, formerly Morneau Shepell, please find below our comments in respect of the Consultation Paper.

General Comments

We welcome the Financial and Consumer Affairs Authority's (FCAA) recognition that sponsors of defined benefit (DB) single-employer pension plans in the private sector (SEPPP) have faced considerable funding pressures as a result of the current solvency funding regime combined with volatile economic conditions over the past ten to fifteen years. We agree that the impact of the COVID-19 pandemic has added yet another layer of complexity for plan sponsors in respect to funding requirements.

We are also pleased that the Consultation Paper contemplates changes that align with recent funding reforms in other provinces, like Quebec, Ontario, British Columbia, Manitoba, Nova Scotia and New Brunswick. This review provides another opportunity to work towards the Canadian Association of Pension Supervisory Authorities' ("CAPSA") mandate of harmonizing pension legislation across the country. We hope that Saskatchewan strongly considers the changes made in other jurisdictions to make legislation across the country as consistent as possible.

Specific Comments

Current Environment for SEPPPs

The 2008 global recession, prolonged low interest rates, volatile asset returns, increasing longevity and maturing plans have contributed to financial challenges for DB pension plans. Plan sponsors have contributed significant amounts of money over that time to fund solvency deficits. We are now starting to see pension plans become fully solvent with the average solvency ratio climbing to 1.03. Since the middle of 2020, solvency positions have generally improved with solid asset returns and interest rates climbing in 2021.

Current Funding Requirements for SEPPPs

The current funding requirements have been in place for some time and were generally consistent with many jurisdictions across Canada. As evidenced by the numerous solvency relief measures over the last decade, the current funding requirements likely are not suitable for all economic conditions. They are also now out of line with most of the rest of the country.

Objectives of the Review

We understand that the solvency funding review is attempting to balance six objectives; however, we would like to comment on the following:

Another objective of the review could be to ensure that a new funding regime work in almost all economic conditions. Continually changing the rules during times of crises creates a series of micro-decisions for specific events rather than forming a robust set of requirements that stakeholders can depend on not changing.

Adequate Benefit Security

We do not agree that the funded status of a pension plan is a sufficient indicator of benefit security (since, for example, a public-sector organization with an underfunded plan does not have benefit security concerns). Consequently, if the Saskatchewan government wants to determine benefit security accurately, it will need to consider the health of the plan sponsor, quality of assets to liabilities, size of the pension plan relative to the employer, and maturity of the pension plan in addition to the funded status of the pension plan.

Balanced Stakeholder Interests

We agree that this consultation should consider the different interests of all stakeholders. The current funding requirements lean more towards benefit security and a better balance needs to be struck between benefit security and affordability to avoid plan sponsors terminating DB plans.

Transparent Rules

We agree that transparency is important and that it already exists. To help all stakeholder's understanding, it is equally important to reduce complexity by simplifying the funding regime as much as possible.

Comments on two main approaches to changing solvency funding requirements

Approach 1 - Change the Way in Which Solvency Deficiencies are Funded

Responses to Discussion questions

1. *If the solution is to modify solvency funding, which of the above options or combination of options do you feel provides the right balance between benefit security and affordability?*

   If the Saskatchewan government decides to move forward solely with Approach 1, we would suggest that it include the following options in order of highest priority:

   - Re-Amortization of Solvency Deficiencies;
   - Letters of Credit;
   - Solvency Reserve Accounts; and
   - Lengthen the Amortization Period for Funding Solvency Deficiencies.

   These options are relatively easy to implement and a combination of these options provides increased affordability to plan sponsors. We would suggest that the first three options be implemented regardless of which approach is

taken. Lengthening the amortization period is not necessary if Approach 2 is used and solvency requirements are reduced.

2. *Are there other methods of modifying solvency funding which you feel should be considered?*

   To simplify the calculations of solvency contributions, we recommend not factoring in interest and instead dividing the solvency deficit by the amortization period. These interest costs can be recognized in future valuations without significant impact on benefit security.

3. *If the period of time for funding solvency deficiencies is lengthened, what is the appropriate new time period?*

   The maximum period should be no more than ten years.

4. *If SRAs are allowed, under what circumstances should the employer be allowed to withdraw payments that have been made into the account?*

   The circumstances to withdraw payments out of the SRA should be comparable with those used for contribution holidays.

5. *If LOCs are allowed, should the amount be limited to a certain percentage of liabilities?*

   There should be no limit to LOC's. This allows plan sponsors to use their financing options optimally both for the pension plan and their primary business operations.

Approach 2 - Partial Solvency Funding or No Solvency Funding, with Enhance Going Concern Funding

Responses to Discussion questions

1. *If the current solvency funding threshold of 100% is reduced to require only partial solvency funding, is a threshold of 85% appropriate?*

   We believe that reducing solvency funding requirements from 100% to 85% and enhancing going-concern funding requirements is the best strategy to address the four concerns raised for solvency funding while still demonstrating the importance of benefit security to plan members. This option aligns with recent funding reforms in other provinces, like Ontario, British Columbia, Manitoba, Nova Scotia and New Brunswick. This option provides yet another opportunity to work towards CAPSA's mandate of harmonizing pension legislation across the country.

2. *What is the main risk(s) that a PfAD should mitigate?*

   The PfAD funding requirements should allow the plan sponsor to build up adequate reserves during good economic conditions and to draw down on the PfAD during poor economic conditions. The BC PfAD model uses the long-term bond rate to determine the current economic conditions and mitigates interest rate risk. We believe this provides the least amount of volatility for the PfAD and is a simple measure.

3. *What do you feel is the best method of determining the level of PfAD?*

   If we were to select one of the four methods of determining the level of PfAD to address these risks, our preference is "4. The Level of PfAD could be tied to the long-term bond rate", similar to the design adopted in British Columbia.

4. *Should the method of determining PfAD be different if there is no solvency funding required than if there is a certain level of solvency funding required?*

The PfAD method should be independent of other funding requirements. If the Government believes the PfAD is insufficient on its own to provide benefit security or to satisfy other objectives, then the Government should consider other funding measures

5. *Should the PfAD have to be funded on current service contributions, even if the plan is in a going concern surplus?*

   No the PfAD should not be funded if the plan is in a going concern surplus above 105% including the PfAD.

6. *If the period of time for amortizing going concern deficiencies is shortened, what is the appropriate period?*

   In an effort to enhance benefit security under Approach 2, we would support an amortization period of ten years (i.e., one-third less than the current period).

7. *Are there other methods of enhancing going concern funding which should be considered?*

   To simplify the calculations of going concern deficit contributions, we recommend not factoring in interest and instead dividing the going concern deficit by the amortization period.

8. *Are there any other features to the funding rules which should be considered, such as consolidation of unfunded liabilities?*

   Yes, unfunded liabilities should be consolidated. This creates less complexity and aids in transparency.

9. *Are there any options from the previous section (Change the Way in Which Solvency Deficiencies Are Funded) which should be incorporated if only partial solvency funding is required, or if it is eliminated completely? In particular, would solvency reserve accounts and letters of credit be useful mechanisms if a solvency deficiency has to be funded only to a certain level?*

   Solvency reserve accounts and letters of credit would likely be used less if there were partial solvency funding. See our comments in Approach 1 to how to incorporate both Approaches.

Comments on Additional Change Applicable to SEPPPs

Full funding on plan termination

We believe that plans should be fully funded on termination, similar to other jurisdictions, unless there is member consent for special circumstances. Having plan sponsors elect different funding requirements can lead to confusion and goes against the transparency objective.

Comments on Additional Changes Applicable to All Defined Benefit Plans

Restrictions on Contribution Holidays

We support restrictions on contribution holidays. We recommend that the enhanced going-concern valuation would need to be funded at 105% (inclusive of PfAD) and at least 100% on a solvency basis for a plan sponsor to be eligible for contribution holidays. We would also support filing an annual statement to confirm eligibility to continue a contribution holiday.

LifeWorks
Formerly Morneau Shepell

Annuity Discharge

We encourage that statutory discharge should be provided for plans that purchase annuities from an insurance company. We do not believe that the purchase of buyout annuities should affect remaining plan members; consequently, any deficit resulting from a buyout annuity should be immediately funded and the buyout members should not be considered for future wind-up surplus distribution. Requiring equivalent benefits and providing notice to members are appropriate conditions.

Conclusion

We appreciate the opportunity to provide comments on the Consultation Paper and we hope that these comments are helpful in furthering the review of Saskatchewan's pension funding framework. If you have any questions regarding our comments, please do not hesitate to contact us.

Sincerely,

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June 11, 2021

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Consultation: A Review of the Pension Funding Framework for Single Employer Defined Benefit Plans in the Private Sector and Other Complementary Reform Measures Applicable to All Defined Benefit Plans

We are writing in response to the consultation reviewing the pension funding framework for single employer defined benefit plans in the private sector and other complementary reform measures for defined benefit plans. We thank the Pension Division of the Financial and Consumer Affairs Authority (FCAA) for the opportunity to comment on this proposal.

Established in 1927, Eckler Ltd. is one of the longest-established and most respected consulting and actuarial practices in Canada. With over 300 employees, we are the largest independent benefits and pensions consulting firm in the country. While our response will incorporate some general comments regarding pension plan funding, we will also specifically address the questions posed in the consultation where appropriate.

Discussion Questions – Change the Way in Which Solvency Deficiencies Are Funded

1. **If the solution is to modify solvency funding, which of the above options or combination of options do you feel provides the right balance between benefit security and affordability?**

   We believe that all of the options listed would help to reduce the contribution volatility associated with solvency funding, though none would significancy affect the long-term affordability. Regardless of the modifications to solvency funding, we would strongly support the concept of a reserve account for any employer contributions in respect of solvency deficiencies.

   In addition, we suggest that any solution have a simple and clear application, as is the case under the current funding rules.

2. **Are there other methods of modifying solvency funding which you feel should be considered?**

No. Our preference is for Approach 2.

3. **If the period of time for funding solvency deficiencies is lengthened, what is the appropriate new time period?**

We don't have a specific opinion on this matter but would observe that to have a material impact, such a time period would likely need to be at least 10 years.

4. **If Solvency Reserve Accounts are allowed, under what circumstances should the employer be allowed to withdraw payments that have been made into the account?**

We support the concept of a solvency reserve account. Asymmetric funding risk remains an issue for DB pension plans and has been magnified in recent years with plan sponsors making large solvency payments, which could result in significant surpluses should economic conditions improve. Surplus is a challenging issue, usually subject to litigation. In recent years, other jurisdictions have rolled-out various changes to funding frameworks to better align the interests of various stakeholders. We would also contrast the current inability to easily recover surplus from pension over-contributions with the reserving requirements for Canadian life insurance and annuities. Insurers must set reserves that are greater than the best estimate amount necessary to fulfill their expected liabilities, but excess reserves are returned to the company when experience later shows those reserves where more than required.

In addition to solvency special payments, any contribution that is above the minimum required contribution to be made to a pension plan should be included in the solvency reserve account. This would remove a disincentive for plan sponsors who may want to contribute more than the minimum. As such, to avoid confusion, a name other than 'SRA' may be preferable.

We also believe that the employer should be able to access the reserve account while the plan is on-going, subject to maintaining some minimum going concern and solvency funded ratios (which may be significantly greater than the limit for contribution holidays). While likely the intention, it should be explicitly stated that any employer contribution holiday would be taken from the reserve account (if any) first and then from the basic account.

Plan sponsors should be given the choice to set up SRAs to best suit their needs: from simple notional accounts within the same pension fund to a separate trust agreement. Plan sponsors should be afforded some flexibility in how they implement SRAs.

We would also encourage the FCAA to align their approach to solvency reserve accounts with other jurisdiction that have implemented, or are in the process of implementing, such accounts.

5. **If LOCs are allowed, should the amount be limited to a certain percentage of liabilities?**

We have no specific recommendation on a regulatory limit on LoCs, as any such limit would be arbitrary.

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Discussion Questions – Partial Solvency Funding or No Solvency Funding

1. If the current solvency funding threshold of 100% is reduced to require only partial solvency funding, is a threshold of 85% appropriate?

We do not believe that maintaining a 100% solvency funding requirement for any pension plan promotes a stable and predictable regulatory environment for pension plans. Our preference is for a strengthened going concern regime, coupled with no minimum solvency funding. However, while an 85% threshold is also arbitrary, it would harmonize the approach with several other jurisdictions that have recently modified their pension funding rules.

2. What is the main risk(s) that a PfAD should mitigate?

The purpose of the PfAD should be to increase funding reserves when times are good and draw down on those reserves in times of need – when "adverse deviations" become reality. A PfAD should not be used merely to increase the minimum funding requirements. For example, when interest rates are low, as currently, the PfAD should not increase, as an increase would lead to funding pressure at the worst possible time. These issues constrain the plan sponsors' ability to manage benefit levels fairly and prudently.

For well-funded plans, it is inappropriate for current service contributions to include a PfAD when there is already a considerable excess on the balance sheet. The PfAD should not be required to be included in the normal actuarial cost when the going concern funded ratio is above a threshold, e.g. 105% of the liabilities plus PfAD.

For plans with an unfunded liability, a requirement to fund a variable and very high PfAD on top of the unfunded liability exacerbates the challenging experience for the plan sponsors.

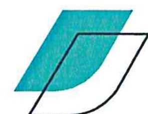
3. What do you feel is the best method of determining the level of PfAD?

In line with our response above, we believe the PfAD should be set in a counter-cyclical manner, such that the PfAD increases during good economic times and decreases during poor times. Barring this, we would accept a PfAD that is neutral with regards to economic cycles over one that results in a higher PfAD during poor economic times.

In addition, we suggest that the method for determining the PfAD be simple and streamlined. A complicated method may be more "sophisticated" but the added value of sophistication does not necessarily bring material added value for the members' benefit security.

4. Should the method of determining PfAD be different if there is no solvency funding required than if there is a certain level of solvency funding required?

No. The method of determining the PfAD should be established regardless of the solvency funding regime.



5. Should the PfAD have to be funded on current service contributions, even if the plan is in a going concern surplus?

As noted previously, we believe that it is inappropriate for current service contributions to include a PfAD when there is already a considerable excess on the balance sheet. The PfAD should not be required to be included on the normal actuarial cost when the going concern funded ratio is above a threshold, e.g. 105% of the liabilities plus PfAD.

6. If the period of time for amortizing going concern deficiencies is shortened, what is the appropriate period?

While we have no specific suggestion for the appropriate period, we note that a 10-year period would bring Saskatchewan in line with other jurisdictions within Canada and the requirements for some other specified pension plans registered in the province. As is the case in some other jurisdictions, we also suggest a "fresh start" amortization approach at each valuation rather than establishing multiple amortization schedules, and a 12-month deferral period for new amortization amounts.

7. Are there other methods of enhancing going concern funding which should be considered?

Other jurisdictions have implemented permanent measures with an enhanced going concern funding model and a reduced solvency funding target. Such changes are intended to mitigate funding volatility in the future and maintain a reasonable level of benefit security while recognizing that going concern is a better measure of the health of a pension plan when the expectation is to keep the plan open and on-going.

8. Are there any other features to the funding rules which should be considered, such as consolidation of unfunded liabilities?

As noted above, we support the approach of consolidating unfunded liabilities and having a "fresh start" amortization approach. This approach is simple and it is being used in other jurisdictions. However, we acknowledge that the implications are that funding of deficiencies is always being pushed forward with a resetting of the 10-year amortization period, and in the absence of experience gains, the targeted funding level is unlikely to actually be achieved within 10 years.

In addition, we also support a 12-month deferral (or 'lag') for new amortization amounts. This provides plan sponsors with a better ability to budget for their funding requirements and is consistent with the approach being used in Ontario.

9. Are there any options from the previous section (Change the Way in Which Solvency Deficiencies Are Funded) which should be incorporated if only partial solvency funding is required, or if it is eliminated completely? In particular, would solvency reserve accounts and letters of credit be useful mechanisms if a solvency deficiency has to be funded only to a certain level?

As noted above, we support the concept of a solvency reserve account and the ability to use LoCs. We believe implementation of SRAs should be a high priority item.

Discussion Questions – Full Funding on Plan Termination

1. **Assuming the solvency funding framework is changed, are there any types of SEPPPs for which an employer should not have to fully fund a deficit if the plan is voluntarily terminated? For example, if members are required to contribute towards a solvency deficit, the framework could be structured so that only a portion of the deficit has to be funded by the employer if the plan is wound up.**

   Such an approach would be subject to highly complex legal and governance considerations, and therefore we choose not to comment absent additional details. However, in general, we are not supportive of a regime where plan sponsors are able to 'walk away' from their accrued obligations while the company continues to operate.

2. **Are there any options presented in "Two Main Approaches" which should not require the full funding condition, if the Regulations are amended to include only that option? For example, if the only change made to the Act or Regulations is to allow a longer period of time for amortizing a solvency deficiency, should full funding on plan termination still be a condition for electing the option?**

   No.

Discussion Questions – Restrictions on Contribution Holidays

1. **Should contribution holidays be restricted further than they are currently? If so, which method best protects member benefits?**

   No.

2. **If a plan is required to be funded at a higher level than 100% on a solvency basis and/or a going concern basis before taking a contribution holiday, what is the appropriate level?**

   We believe that a contribution holiday should be permitted if the plan is fully funded on a solvency basis and on a going concern basis (including PfAD, if applicable), plus a small buffer. In the interest of harmonization with other jurisdictions, we suggest an additional 5% margin above any mandatory PfAD included in a going concern valuation and a 105% solvency ratio. In addition, plan sponsors should be able to access solvency reserve accounts while the plan is ongoing.

3. **Should the ability to take a contribution holiday be determined on an annual basis, whereby a cost certificate would have to be filed each year to determine whether the plan remains in a surplus position?**

Yes, the ability for an employer to take a contribution holiday should be determined on an annual basis, which could be done either through an actuarial valuation or an actuarial estimate of the funded status that incorporates any significant changes to assumptions or plan experience, such as investment returns and the discount rate assumption.

Discussion Questions – Annuity Discharge

1. **If annuity discharge provisions are added to the Act, what are the appropriate conditions that a plan should have to meet in order to be eligible to qualify?**

We believe that it is appropriate for the annuity discharge to cover all members under the contract (i.e., retirees, former members, survivors) assuming that the annuity provides benefits that are generally the same as the originating plan, including any options for portability. It should also apply to members of frozen DB plans who would otherwise be considered active because they are accruing DC benefits.

We note that in certain jurisdictions, the discharge implies that the members covered under the annuity contract are no longer members of the originating plan, except in the case where the originating plan is later wound up and surplus is to be distributed. We understand the rationale behind such a clause, but the regulator must be aware of the administrative complexity and burden implied by such a requirement.

In our view, it is appropriate that an annuity purchase for which a discharge is sought not impair the solvency position of the fund, nor reduce it below any minimum funding threshold indicated by legislation. That is, it would be appropriate for:

- The solvency ratio to remain above 1, if it was above one as at the last valuation, and
- Remain at least at the value disclosed in the last actuarial valuation, if that value was less than 1.

Any limitation on the discharge may be related to the funding rules in effect at the time of the purchase of the annuity. For example, if solvency funding rules have changed, then the funding rules related to the discharge could vary for purchases occurring before and after the date of change in the funding rules. Accordingly, we believe that retroactive discharge should also permitted, with minimum funding thresholds set based on the funding rules in effect at the time of purchase.

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We thank you again for the opportunity to provide our comments on the pension funding framework for single employer defined benefit plans in the private sector and other complementary reform measures for defined benefit plans.

Should you have any questions on the topics discussed above or wish to discuss any other aspect of the consultation, please feel free to contact Simon Deschenes at sdeschenes@eckler.ca or 204-988-1576, Johanan Schmuecker at jschmuecker@eckler.ca or 204-988-1570, or Dean Taylor at dtaylor@eckler.ca or 416-696-4047.

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Regards,

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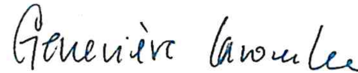

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June 11, 2021

Financial and Consumer Affairs Authority of Saskatchewan
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Email: pensions@gov.sk.ca

Dear Sirs and Mesdames:

Re: Solvency Funding Review

Background

The Portfolio Management Association of Canada (**PMAC**) is pleased to have the opportunity to provide feedback on the Financial and Consumer Affairs Authority's (**FCAA**) consultation with respect to "A Review of the Pension Funding Framework For Single Employer Defined Benefit Plans in the Private Sector And Other Complementary Reform Measures Applicable to All Defined Benefit Plans" (**Report**). Capitalized terms used in this letter but not defined shall have the meanings given to them in the Report.

PMAC represents over 290 asset management firms with more than $2.8 trillion in assets under management. Members are all fiduciaries managing investments in the best interests of their clients, which include private individuals, foundations, universities and pension plans. As one of the largest and fastest-growing investment industry associations in Canada, PMAC operates coast-to-coast in English and French-language markets. PMAC employs a collaborative information-sharing business model and advocates on behalf of its members on securities regulation and government policy matters. The association's mission is to advocate the highest standards of unbiased portfolio management in the interests of investors served by members.

Overview

PMAC is supportive of the FCAA's goal of seeking stakeholder feedback on options to amend the solvency funding framework for single employer private sector pension plans (**SEPPPs**) under *The Pension Benefits Act, 1992* (**Act**) and the *Pension Benefits Regulations, 1993* (**Regulations**).

Defined benefit (**DB**) plans are an integral part of Canadians' retirement income savings, even as increasingly fewer of us are covered by such plans due to increased complexities and expenses in funding them. PMAC supports efforts to ensure that pension funding rules better support long-term plan sustainability and benefit security so that DB plans continue to provide lifetime pensions to their members and other beneficiaries.

As noted in the Report, other Canadian jurisdictions have also recently examined solvency funding frameworks for DB plans. PMAC has consistently advocated for harmonized approaches across Canada; we believe that Canadians should be entitled to similar protections, and benefit from reduced underlying plan complexity and costs, no matter their jurisdiction of residence.[1]

Key Recommendation

For the reasons set out below, if the FCAA determines that Option 2 in the Report, Enhanced Going Concern Funding with a provision for adverse deviation (**PfAD**), is the most desirable policy response to achieve the goals set out in the Report, in order to achieve harmonized pension legislation nationally, we urge the FCAA to require plans to have a PfAD calculation methodology that is similar to the approaches undertaken by the provinces of Quebec and Ontario.

PfAD calculation considerations

PMAC members look forward to the opportunity to review and comment on the proposed PfAD calculation in detail, should the FCAA pursue this option. As has been our experience with the Quebec, Ontario and British Columbia pension solvency funding amendment processes, the exact formulae used to calculate the PfAD are of utmost importance to review during the consultative phase to ensure that there are no unintended negative consequences.

Our members are eager to have the opportunity to provide their extensive industry expertise and constructive comments on the FCAA's proposals at the appropriate time.

Conclusion

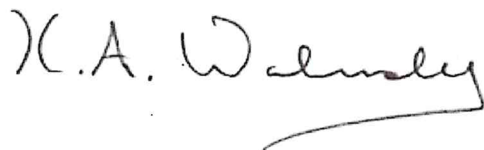
PMAC believes that seeking balanced solutions that promote effective investment policies while ensuring that plans have the ability to pay out accrued benefits to members over the long-term are essential to the well-being of the economy and investors. We would like to once again thank the FCAA for engaging in on-going consultation and assessment of Plan funding issues.

[1] Please see PMAC submissions to British Columbia in January and August 2019, and to Ontario in January and November 2018.

If you have any questions regarding this submission, please do not hesitate to contact Katie Walmsley (kwalmsley@pmac.org) at (416) 504-7018.

Yours truly,

PORTFOLIO MANAGEMENT ASSOCIATION OF CANADA



Katie Walmsley

President
Portfolio Management Association of Canada

Paul Purcell

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Willis Towers Watson

June 10, 2021

Financial and Consumer Affairs Authority of Saskatchewan
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Re: Willis Towers Watson Submission on Saskatchewan Solvency Funding Review

Dear Sir or Madam,

Thank you for giving us the opportunity to make a submission on *A Review of the Pension Funding Framework For Single Employer Defined Benefit Plans In the Private Sector And Other Complementary Reform Measures Applicable to All Defined Benefit Plans* (Consultation Paper). Willis Towers Watson welcomes the opportunity to provide our input.

Willis Towers Watson designs and delivers solutions that manage risk, optimize benefits, cultivate talent and expand the power of capital to protect and strengthen institutions and individuals. Willis Towers Watson employs 45,000 colleagues worldwide, with approximately 450 engaged in providing services to sponsors of Canadian pension plans. The undersigned have prepared our response with input from others in the company.

Harmonization with other jurisdictions

Quebec, Ontario, British Columbia, New Brunswick, and Nova Scotia have recently made major changes to their funding rules with Manitoba and Alberta contemplating similar changes. Several jurisdictions have also amended their legislation to allow a discharge of liability for an annuity purchase. Saskatchewan may wish to consider the changes in these other jurisdictions when contemplating any potential reforms to see if there is any advantage to harmonizing its changes with those of other provinces.

Funding rules

Before answering the specific questions in the Consultation Paper, we would like to set out some general comments on what a funding framework for defined benefit (DB) single employer private pension plans (SEPPPs) should look like. Some of these comments also form part of our answers to the specific questions below.

Funding rules should strike an appropriate balance between the following two objectives:

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- **Efficient and affordable long-term financial management:** Funding provides for the orderly accumulation of assets as active members accrue service in a pension plan so that sufficient assets are available to pay the promised pensions when the active members retire. Funding should be relatively stable from one valuation to the next so that, within a reasonable range, sponsors can budget and plan for their future contribution requirements.

- **Benefit security:** Funding provides for assets to be deposited into a trust that is separate from the plan sponsor's assets, in order to protect the accrued pensions of plan members if a plan is wound up due to plan sponsor insolvency.

Funding rules that appropriately address these two objectives are most likely to achieve the necessary balance between various stakeholders, including plan sponsors, plan members, unions and regulators.

The current rules do not provide the appropriate balance between the above objectives and have become onerous for many plan sponsors. As noted in the Consultation Paper, Saskatchewan provided temporary solvency funding relief for DB pension plans in 2009 and permanent relief to public sector, publicly funded, and limited liability plans since that time. We believe that additional permanent changes to Saskatchewan's funding rules are necessary to support the continuation of existing DB SEPPPs.

We have spoken to many pension plan sponsors across Canada who, while recognizing the importance of benefit security to plan members, believe that the requirement to fully fund plans on a solvency basis must be changed. The three main reasons for this view are similar to the "Cons of Solvency Funding" set out in the Consultation Paper:

- **Cost and inefficient use of capital:** Because solvency funding can be significantly greater than going concern funding when the prevailing level of long-term interest rates is low, and those rates are currently at or near historic lows, solvency funding has become excessive from the viewpoint of many plan sponsors. This is especially problematic given that solvency payments are not needed for the ongoing operation of a pension plan – they are needed to provide protection if a plan winds up due to the plan sponsor becoming insolvent, something that infrequently occurs and is rarely required for the vast majority of plan sponsors. The solvency payments that plan sponsors must make divert capital from investments that otherwise could be made in their core business.

- **Volatility:** Because changes in long-term interest rates greatly affect a pension plan's solvency liabilities, the contribution requirements can be quite volatile from one valuation to the next. This makes it difficult for pension plan sponsors to predict their pension contributions as part of their annual budgeting and long-term planning exercises.

- **Trapped surplus:** If long-term interest rates increase in the future, solvency liabilities will decrease and the contributions that a plan sponsor made to fund past solvency deficits could become part of a plan surplus. Given the challenges associated with withdrawing surplus from an ongoing pension plan, sponsors are concerned that the large solvency contributions they are making today will become trapped surplus if long-term interest rates increase significantly in the future.

The above factors are impediments to investment in the sponsor's core business. Reforming the solvency funding rules would reduce these factors, addressing one of plan sponsors' main concerns with maintaining a DB pension plan. This, in turn, could lessen the chance that a sponsor terminates its DB plan and increase the chance that some employers will set up new varieties of DB plans.

A funding system driven by going concern valuations

As we have noted, funding rules should be based on finding the appropriate balance between ensuring the long-term affordable financial management of pension plans (including limiting the volatility of required contributions) and providing for an appropriate level of benefit security.

Fully funding a pension plan's going concern liabilities over time should be the key driver for pension funding, as going concern funding provides for the long-term ability of the pension plan to provide the benefits promised. Going concern funding also typically facilitates more affordable and less volatile funding requirements, as compared to solvency funding. The pension funding system should, however, provide a reasonable level of benefit security if a plan sponsor becomes insolvent. We believe a well-designed enhanced going concern funding regime for DB SEPPPs can address benefit security, as well as both cost and contribution volatility impediments for plan sponsors.

Insolvency protection – flexibility for plan sponsors

Recognizing the cost and volatility inherent in solvency funding, and the rare occurrences of plan sponsor bankruptcy, we do not believe it is appropriate for a plan sponsor to continually protect the full solvency liability. We believe that a level of security less than 100%, which follows what other jurisdictions have implemented (most often 85%), is appropriate as it maintains a level of benefit security for plan members while meaningfully decreasing the level, and to a certain extent volatility, of funding costs for DB SEPPPs.

Answers to specific questions

Two Main Approaches

1. Change the Way in Which Solvency Deficiencies Are Funded

1. **If the solution is to modify solvency funding, which of the above options or combination of options do you feel provides the right balance between benefit security and affordability?**

   As we will discuss later, our view is that the modifications to solvency funding set out in this section should be combined with partial solvency funding. However, the following are our comments with respect to the options set out in this section:

   - **Lengthen the Amortization Period for Funding Solvency Deficiencies**
     If funding rules are changed to require only partial solvency but strengthened going concern funding (as we recommend below), then we do not think that the solvency amortization period needs to be lengthened. However, if the rules are not changed, we recommend that the solvency amortization period be increased to 10 years.

   - **Re-Amortization of Solvency Deficiencies**
     We recommend that solvency deficiencies determined at subsequent actuarial valuations be consolidated and re-amortized. In addition to decreasing solvency payments and reducing contribution volatility, this will also simplify the process.

   - **Solvency Reserve Accounts (SRA)**
     We strongly recommend that Saskatchewan allow plans to set up SRAs for the reasons set out in the Consultation Paper, i.e., an SRA would address plan sponsor concerns around "trapped capital". Further, to strengthen the argument that the employer has absolute right to the surplus within an SRA, we recommend that the SRA be set up not just as a separate account within the existing trust, but as a separate trust itself.

     We also recommend that SRA withdrawals be permitted for both ongoing and terminated plans. We agree that there should be a required level of solvency surplus in the SRA with withdrawals only allowed above that amount for ongoing plans.

   - **Letters of Credit (LOC)**
     We also recommend that plans be able to use LOCs to cover solvency payments up to the full amount of the solvency deficiency, with no limit on the amount of LOC that could be recognized. LOCs should also be reflected in other key pension financial measures, such as a plan's transfer ratio.

2. **Are there other methods of modifying solvency funding which you feel should be considered?**
   We recommend the following methods of modifying solvency funding:

   - Saskatchewan should consider allowing prepaid contributions much like the prior year credit balance concept in Ontario. This would provide plan sponsors with the flexibility to carry over excess contributions made in one valuation period to subsequent valuation periods.

   - To provide more flexibility for plan sponsors to manage their plans, valuations should be permitted on dates outside the regular cycle (as is currently allowed under Ontario and Quebec's legislation).

   - Other sources of security, such as surety bonds, should be permitted to be used for making solvency payments. Surety bonds, for example, are generally less expensive than letters of credit and do not decrease the sponsor's corporate credit capacity.

   - Plans that provide automatic indexation linked to Consumer Price Index (CPI) increases should be allowed to use alternative settlement methods for solvency valuations that reflect an assumed modification to the terms of the benefit promise, specifically substituting fixed rate increases for CPI indexed increases (as is currently allowed in Alberta as set out in EPPA Update 13-01). Annuity providers charge a significant risk premium in exchange for assuming this promise, making it expensive for plan sponsors to fund such benefits on a solvency basis.

3. **If the period of time for funding solvency deficiencies is lengthened, what is the appropriate new time period?**
   As noted above, if the solvency funding requirements are not lowered or eliminated, we recommend that the period to fund solvency deficiencies be lengthened to 10 years.

4. **If SRAs are allowed, under what circumstances should the employer be allowed to withdraw payments that have been made into the account?**
   As noted above, the employer should be allowed to withdraw payments while the plan is ongoing if the surplus is above a certain threshold. A solvency ratio above 105% appears to strike a reasonable balance and is used by Alberta and British Columbia. The withdrawal should also not result in the going concern ratio falling below 100%.

   Further, if SRA withdrawals are only permitted if the solvency ratio is above 105%, then an employer should be able to withdraw all of the surplus over the threshold in a given year as there would already be a layer of conservatism.

5. **If LOCs are allowed, should the amount be limited to a certain percentage of liabilities?**
As we noted above, we recommend that LOCs be allowed with no limit on the amount of LOC that could be recognized. This would be similar to what Alberta and British Columbia allow.

2. Partial Solvency Funding or No Solvency Funding, with Enhanced Going Concern Funding

1. **If the current solvency funding threshold of 100% is reduced to require only partial solvency funding, is a threshold of 85% appropriate?**
Yes, we believe that an 85% threshold is appropriate. We do not believe it is necessary for plan sponsors to continually protect the full solvency liability given that, historically, very few pension plans are wound up due to the plan sponsor becoming insolvent. The 85% threshold is a reasonable compromise between providing benefit security and allowing funding flexibility. Funding to 85% of solvency liabilities would also promote consistency with most other jurisdictions that have recently adopted (i.e., British Columbia, New Brunswick, Nova Scotia, and Ontario) or introduced legislation (i.e., Manitoba) for funding reform measures.

   We have found that the decrease in the solvency funding requirement to 85% of solvency liability (or no solvency funding requirement, as in Quebec) has, generally, meaningfully decreased the level and volatility of funding requirements and reduced the risk of trapped surplus for plans with adequate going concern funding, while maintaining a reasonable level of benefit security for plan members.

   Further, the extreme volatility during 2020 demonstrated how a decrease in the solvency funding target stabilized plan sponsors' business operations. Although markets eventually recovered by the end of 2020, in jurisdictions that have a solvency funding target of 100%, most plan sponsors had to contemplate, budget, and re-budget for potentially large and unpredictable increases in contribution requirements.

2. **What is the main risk(s) that a PfAD should mitigate?**
A PfAD should mitigate both risks noted in the Consultation Paper, namely it should mitigate risks to the plan's funded position and risks to contribution volatility.

3. **What do you feel is the best method of determining the level of PfAD**
We note that several jurisdictions have introduced a PfAD, all with different methods for determining its level. Saskatchewan should consider contacting the regulators at these jurisdictions to discuss their methods and the reasons they adopted them and consider whether to follow similar or identical rules in setting the PfAD in the interest of harmonization.

   In theory, the size of any required PfAD could be dependent on various factors, including:

- The current level of interest rates
- The uncertainty of future plan experience
- The appropriate time horizon for consideration
- The maturity of the plan's liabilities, and
- The plan's investment strategy, including market risks, asset/liability mismatches, inflation risks, etc.

However, in practice, the use of all the above factors to develop a PfAD would be overly complex, especially for smaller plans.

Intergenerational equity should be considered when developing a PfAD. For instance, a PfAD should not apply to the normal cost if a plan is already well funded, i.e., a going concern ratio above 100%.

Further, if a PfAD is introduced, the regulations should also clarify how it will be calculated for plans with a glide path, given that the asset mix is expected to change but these changes may be phased in over an extended period of time. An actuary should be given the discretion, within certain parameters, as to how to properly reflect the asset mix of a plan with a glide path.

4. **Should the method of determining PfAD be different if there is no solvency funding required than if there is a certain level of solvency funding required?**
   In theory, solvency funding (even partial solvency funding) provides some level of conservatism to a going concern valuation; therefore, it may be appropriate to somewhat increase the level of the PfAD if the requirement for solvency funding is removed entirely.

5. **Should the PfAD have to be funded on current service contributions, even if the plan is in a going concern surplus?**
   No. If a plan is in a going concern surplus, then the PfAD on current service contributions should be allowed to be funded through a contribution holiday based on the going concern surplus.

6. **If the period of time for amortizing going concern deficiencies is shortened, what is the appropriate period?**
   If the solvency funding threshold is reduced below 100% or eliminated entirely, then it may be appropriate to strengthen the going concern funding requirements. Part of this could be accomplished with the introduction of a PfAD as mentioned above, and part of this could be accomplished by shortening the going concern amortization period.

These two measures should be complementary. If the level of PfAD is relatively large especially compared to the current margins that a plan incorporates in its going concern valuation, then it may be appropriate to leave the going concern amortization period at its current level of 15 years. However, if the level of PfAD is smaller, then it may be appropriate to reduce the going concern amortization period. A reduced period of ten years seems to strike a reasonable balance in smoothing negative experience and promoting stable contribution rates, and would be in line with many other jurisdictions that have recently adopted new funding measures.

7. **Are there other methods of enhancing going concern funding which should be considered?**
   Below are some additional measures that could be taken:

   - **Benefit improvements**
     Similar to Ontario and Quebec, Saskatchewan should not restrict benefit improvements when the PfAD is not fully funded, but rather introduce rules as to how to fund a benefit improvement.

   - **Prepaid contributions (i.e., prior year credit balance)**
     Under the current Saskatchewan pension legislation, plan sponsors have the flexibility between actuarial valuations to contribute additional amounts sooner and apply these additional amounts towards their amortization payment requirements in later years. However, any additional amounts that have not been applied at the following valuation date are crystallized as actuarial gains in the plan and cannot be applied to meet future contribution requirements.

     Allowing plan sponsors to set up a prior year credit balance that can be applied towards future contributions for normal cost or amortization payments would remove a disincentive to discretionary acceleration of funding that exists today.

   - **Straight-line amortization**
     For transparency and simplicity, we would encourage the use of straight-line amortization for determining going concern payments.

8. **Are there any other features to the funding rules which should be considered, such as consolidation of unfunded liabilities?**
   Yes. As we noted above, unfunded liabilities should be consolidated and re-amortized.

9. **Are there any other options from the previous section (Change the Way in Which Solvency Deficiencies Are Funded) which should be incorporated if only partial solvency funding is required, or if it is eliminated completely? In particular, would solvency reserve accounts and letters of credit be useful mechanisms if a solvency deficiency has to be funded only to a certain level.**
   Yes. We recommend that even if solvency funding requirements are decreased, solvency reserve accounts should still be allowed and LOCs should be able to be used to fund up to 100% of a solvency deficiency.

   If solvency funding requirements are eliminated, we would suggest that notional reserve accounts could still be permitted for any special payments, similar to Quebec.

   As we noted above (Change the Way in Which Solvency Deficiencies Are Funded, Q2, bullet 4), if solvency funding is maintained, even at a lower level than 100%, we recommend allowing plans that provide automatic indexation linked to Consumer Price Index (CPI) increases to use alternative settlement methods for solvency valuations that reflect an assumed modification to the terms of the benefit promise, specifically substituting fixed rate increases for CPI indexed increases.

Additional Change Applicable to SEPPPs

Full Funding on Plan Termination

We do not have a particular view on this issue so have not answered questions on it.

Additional Changes Applicable to All Defined Benefit Plans

1. Restrictions on Contribution Holidays

1. **Should contribution holidays be restricted further than they are currently? If so, which method best protects member benefits?**
   No, we do not believe that contribution holidays should be restricted further.

   As well, the government may want to eliminate the current requirements to notify members (and others) in advance of the intent to take a contribution holiday, as well as to receive Superintendent approval in advance. This is not common with other provincial pension requirements and can be onerous for the plan administrator; rather, it is more common to notify members that a contribution holiday was taken in the next annual pension statement, and not to require the Superintendent's explicit approval before a contribution holiday is permitted.

2. **If a plan is required to be funded at a higher level than 100% on a solvency basis and/or a going concern basis before taking a contribution holiday, what is the appropriate level?**
   We recognize that the government may find it prudent to impose a higher level of funding before a contribution holiday is permitted. If so, we would not recommend imposing restrictions on contribution holidays that are so onerous as to discourage discretionary funding by plan sponsors. A funding threshold of 105% appears to strike a reasonable balance and is commonly used by several other provinces.

3. **Should the ability to take a contribution holiday be determined on an annual basis, whereby a cost certificate would have to be filed each year to determine whether the plan remains in a surplus position?**
   No, we do not believe that annual cost certificates should be filed each year to permit the continued use of a contribution holiday between actuarial valuations.

   Having said this, it may be reasonable for the Superintendent to request a plan sponsor to cease a contribution holiday or to request an updated financial position if the Superintendent has reasonable cause to believe that the funded status of the plan has significantly deteriorated from the last-filed actuarial valuation.

2. Annuity Discharge

1. **If annuity discharge provisions are added to the Act, what are the appropriate conditions that a plan should have to meet in order to be eligible to qualify?**
   Before recommending the conditions that a plan should meet for an annuity purchase to be eligible for a liability discharge, we want to set out why we recommend that legislation provide for the discharge of liability on annuity purchase.

   Annuity purchases are a good way for DB pension plan sponsors to reduce their plan's risk exposure and decrease cost volatility given that the insurance company will assume the obligations for paying the benefits covered by the annuity contract. However, sponsors may be reluctant to purchase buy-out annuities because they are concerned with the "boomerang risk" if the insurer they purchased the annuities from eventually goes bankrupt.

   We note that introducing liability discharge provisions would harmonize Saskatchewan's legislation with other jurisdictions. British Columbia, Ontario, Quebec, and Nova Scotia amended their respective pension legislation to include a discharge for the administrator and the employer, subject to prescribed conditions. The Federal government has passed legislation that would also allow for liability discharge, though it is not yet effective, and regulations have not been released yet.

If an annuity discharge is introduced, we recommend the following:

- A discharge should be allowed with respect to all members, including retirees, former members (i.e., deferred vested members), survivors and beneficiaries.
- The benefit under the annuity should, generally, be identical in form and manner to the pension from the originating plan. However, a liability discharge should also be permitted if the value of the benefit under the annuity equals the value of the benefit under the pension plan (as required by the CRA in Newsletter 20-1 *Registered Pension Plan Annuity Contracts*) and the annuity provides a similar form and manner as the pension from the originating plan in either of the following situations:
  - The insurer cannot replicate the benefit under the plan's form and manner, e.g., indexation based on the pension fund return; or
  - The insurer can replicate the benefit under the plan's form and manner, but only at a high cost to the plan, and the annuity purchased instead provides a similar, but not identical, form of payment (e.g., providing a fixed rate of indexation instead of a CPI-linked rate of indexation). In this situation, members should be notified.
- An exception to the liability discharge could be allowed with respect to a continuing right to surplus on wind up for former and retired members for whom an annuity has been purchased. However, this right should not be indefinite because:
  - the assets and related obligations for those members are no longer in the pension fund contributing towards the development of any surplus, and
  - the plan administrator will not be in contact with these members, so contact information will become outdated, making finding these individuals increasingly difficult.

  We, therefore, recommend that former and retired members only maintain existing rights to surplus on wind up for a specific period, perhaps three to five years.
- Retroactive discharges should be permitted as is currently allowed in Ontario. Similar conditions to those that apply to receive a discharge for a regular annuity purchase could also apply to retroactive discharges. Note that, in particular, buy-in annuities that are later converted to buy-out annuities should also be eligible for a discharge.
- The Superintendent's approval should not be required before a discharge will be allowed. However, there may be an advantage to filing the annuity purchase with the regulator to help

ensure that a record of the purchase can be found where the administrator may no longer have them because of company (or even insurer) reorganizations. In our experience, some plan administrators have had difficulty accessing these historical records; filing the contracts with the regulator will help mitigate this problem.

- Actuarial valuations at the annuity purchase date should only be required if the Superintendent determines that the purchase significantly changes the plan's funded status or membership demographics. Guidance from the Superintendent could set out these requirements.

  We understand that the Canadian Association of Pension Supervisory Authorities (CAPSA) is currently drafting a commentary guide to the *2020 Agreement Respecting Multi-Jurisdictional Pension Plans* (2020 MJPPA). If CAPSA determines that more explicit funding and/or valuation requirements are required under Saskatchewan pension legislation in order to satisfy Section 6 of the 2020 MJPPA and provide an annuity discharge to members of a different jurisdiction of a Saskatchewan-registered plan, then Saskatchewan may want to consider making any requisite changes to its legislation.

- Unlike, for example, Ontario, an actuary should not be required to certify that the discharge complies with the legislation. The actuary will, generally, not have any direct knowledge as to whether the administrator has complied with many of the requirements and, therefore, would need to rely on the plan administrator for this certification. Actuaries would still certify, in a cost certificate (if necessary), any requirements directly within their scope of expertise, such as requirements relating to funding.

- Member consent should not be required but the administrator should notify members that the annuity purchase has happened, the date it happened, the name of the insurer, and that the employer is discharged from liability with respect to the member and will no longer send the member annual statements or other communications. Also, as noted above, where a benefit under the annuity differs from the benefit that would have been provided under the pension plan (e.g., with respect to indexing), the administrator should disclose this difference to the member.

* * *

We greatly appreciate the opportunity to comment on the Consultation Paper and would be pleased to answer any questions you may have on our submission.

Sincerely,

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Canadian Institute of Actuaries | Institut canadien des actuaires

June 10, 2021

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Subject: Consultation: A Review of the Pension Funding Framework for Single Employer Defined Benefit Plans in the Private Sector and Other Complementary Reform Measures Applicable to All Defined Benefit Plans

The Canadian Institute of Actuaries (CIA) welcomes this opportunity to offer its inputs on the aforementioned consultation. Prior to responding to the specific questions laid out in the consultation, we have provided the CIA's overall perspective on pension funding frameworks.

CIA perspective on pension funding frameworks

The CIA is generally supportive of the trend among Canadian provinces away from a solvency funding model towards going-concern plus funding. However, it is critical that the implications are clearly communicated and understood by all stakeholders.

The decision on funding rules for defined benefit pension plans requires balancing interests among many stakeholders. Two primary stakeholders are the employers required to contribute to the cost of benefits and the plan members who receive those benefits. For employers, unpredictable and volatile contribution patterns are a deterrent to sponsoring a defined benefit plan and may in the extreme drive an employer into insolvency if funding relief is not granted. For plan members, many do not have a clear understanding that their pension plan is not always fully funded, and, at times of under-funding, the security of the pension promise is in some part dependent on their employer remaining solvent and/or being able to make contributions.

Going-concern valuations largely focus on delivering a rational and orderly accumulation of assets. These valuations use several techniques to smooth contributions by employers and, as a result, at any particular time, the assets of the plan may be greater or less than the plan's

liabilities on a wind-up basis. Adding margins to going-concern funding valuations is not ideally suited to increasing the security of benefits, although to the extent that the addition of the margin requires the plan sponsor to contribute larger amounts and/or continue contributing for

longer periods it may help in this regard. Policy makers should consider the purpose of requiring a margin before determining the type and size of the appropriate margin. They should also consider whether the rules for determining the margins create incentives for excessive investment risk-taking.

Solvency/wind-up valuations largely focus on ensuring benefit security. These valuations do not typically include margins but are commonly based on current best-estimate assumptions for a plan to discharge all its obligations. The degree of benefit security provided to a plan member in the short term will in part be driven by what percentage of the wind-up liability a sponsor is required to fund.

Of concern to the CIA is the notion that the volatility of employer contributions can be reduced by reducing solvency funding below 100 per cent, and that at the same time benefit security for members can be enhanced relative to the prior solvency funding regime by increasing margins in going-concern funding. The reality is that going-concern plus funding regimes lower the volatility of contributions compared to solvency funding, but likely reduce the level of benefit security (except in the limited situation where the new rules prevent the insolvency of the employer). We encourage policymakers to be transparent with plan members that these goals are trade-offs.

The lack of uniformity in legislation across jurisdictions has often been cited as a major concern for sponsors of registered pension plans. The current wave of funding reform would be an opportune time to harmonize funding rules; however, it appears that each jurisdiction is choosing to implement different going-concern plus regimes. Given the broad government policy objectives of enhancing retirement security and encouraging the maintenance of defined benefit plans, the CIA strongly encourages Saskatchewan to harmonize legislation as much as possible.

Our responses to the specific questions posed in the document can be found below.

Discussion Questions – Change the Way in Which Solvency Deficiencies Are Funded

1. If the solution is to modify solvency funding, which of the above options or combination of options do you feel provides the right balance between benefit security and affordability?

   We comment below on each of the approaches laid out in the consultation document:

   (i) Lengthen the Amortization Period for Funding Solvency Deficiencies

   A longer amortization period for solvency deficiencies would represent a certain compromise between security and affordability, as contributions could be significantly reduced, but does not remove the basic problem of solvency variability. If a solvency

funding regime is maintained, we would suggest lengthening the amortization period to 10 years.

(ii) Re-Amortization of Solvency Deficiencies

The consolidation of all past deficits at each valuation date is effectively the approach adopted under the federal solvency regime and would also serve to lengthen the amortization period for solvency deficiencies. The CIA would support this approach if solvency funding was maintained, though the period should be chosen so as to target the desired funding level within a reasonable time frame.

(iii) Solvency Reserve Accounts (SRA)

The CIA strongly supports the concept of a solvency reserve account, which we would more broadly refer to as a flexible funding account (FFA). FFAs should be enabled whether or not the policy decision is made to uphold or remove solvency funding requirements; in fact, we believe that the concept should be extended to the going-concern funding requirement as well.

We note that a number of provinces including Alberta, British Columbia, and Québec (for both solvency and going-concern payments) have adopted SRAs as funding options for plan sponsors.

The CIA has long been an advocate of FFAs, either achieved through a separate account or within the plan; for example, through a "banker's clause" as in Québec. As surplus asymmetry represents an issue for the long-term sustainability of DB pension plans, we recognize that allowing employers to draw from excess surplus would be a positive step for them.

Plan sponsors are very concerned that they are required to make large solvency payments. Such a requirement is particularly likely to arise when interest rates are low, as they are currently. A significant increase in interest rates may by itself eliminate current solvency deficits. Under that scenario, those solvency payments would only contribute to a surplus. Often, the use of a surplus is a contentious issue; furthermore, on plan wind-up, it is often subject to litigation.

The CIA has suggested that these payments be accumulated in a special account and that the account be refunded to the entity that has made those payments if all accrued benefits are fully secured. In particular, on plan wind-up, if all accumulated benefits have been settled, the part of the remaining surplus attributable to those payments could be refunded.

(iv) Letters of Credit (LOC)

The CIA supports allowing the use of letters of credit (LOCs) on a temporary basis as a means to manage volatility of contributions. However, we do not believe that LOCs should become an ongoing alternative to the pre-funding of pensions. Therefore, we believe that reasonable limits should be imposed. The limit could be based on the level of volatility in funded status that could be expected under a negative economic scenario. The exact threshold is a government policy decision.

2. Are there other methods of modifying solvency funding which you feel should be considered?

In addition to the approaches discussed in the consultation paper, other Canadian jurisdictions modify solvency funding through the use of average solvency ratios, smoothing of assets (and in some cases, liabilities through averaging of discount rates), and the permitted exclusion of certain benefits in determining solvency liabilities. We do not suggest considering introducing any of these measures because (a) the desired minimum pace of funding can be achieved more directly through adjusting the amortization period and (b) we believe that differences across jurisdictions should be minimized.

Other jurisdictions in Canada have a condition for when more frequent (annual) actuarial reviews are required and is linked to the funded status of the plan. The CIA supports more frequent monitoring of plans that are in poorer financial condition to be able to respond to any further deterioration more promptly.

3. If the period of time for funding solvency deficiencies is lengthened, what is the appropriate new time period?

The CIA recognizes that one of the key objectives of the current reform is to reduce the volatility of funding contributions to pension plans. This is largely achieved through the reduction in solvency funding requirements.

The CIA considers a 10-year period a reasonable compromise between affordability, stability, and security, while noting that the choice of a fixed amortization period is not based on any underlying actuarial principles.

4. If SRAs are allowed, under what circumstances should the employer be allowed to withdraw payments that have been made into the account?

Amounts accumulated in an SRA should be refunded to the entity that has made those payments if all accrued benefits are fully secured. In particular, on plan wind-up, if all accumulated benefits have been settled, the part of the remaining surplus attributable to those payments could be refunded.

It may also be appropriate to allow withdrawals from SRAs for ongoing plans, if the plans are fully funded on a wind-up basis, with some cushion to remain fully funded after an adverse event. The appropriate threshold could be the same as the threshold for permitting contribution holidays. Many other jurisdictions require that the plan remain at least 105% funded on a wind-up basis after any contribution holiday.

From an actuarial perspective, it would be more appropriate to set the threshold based on the risk characteristics of the plan rather than having a fixed threshold apply to all plans. Plans with significant degrees of asset-liability mismatch would have a higher threshold than those whose assets and liabilities are closely matched. However, we recognize that this would add complexity and cost relative to a fixed threshold. Should Saskatchewan wish to develop such an approach, the CIA would be pleased to provide assistance to define such parameters.

5. If LOCs are allowed, should the amount be limited to a certain percentage of liabilities?

The CIA supports allowing the use of letters of credit (LOCs) for temporary periods as a means to manage volatility of contributions. However, we do not believe that LOCs should become an ongoing alternative to the pre-funding of pensions. There is strong rationale for employer-sponsored pension plans to target full funding, and we would be against the extensive use of LOCs which would in effect allow for partial funding models.

Therefore, we believe that reasonable limits should be imposed. The limit could be set based on the potential decline in funded status following a significant adverse economic scenario (such as the 2008/2009 global financial crisis). The exact threshold is a government policy decision.

Discussion Questions – Partial Solvency Funding or No Solvency Funding

1. If the current solvency funding threshold of 100% is reduced to require only partial solvency funding, is a threshold of 85% appropriate?

The CIA stresses that the level of the trigger is effectively a policy decision. Any level below 100% is a public policy compromise, and not rooted in actuarial principles. In our opinion, a level of 85% could constitute a reasonable compromise between security and affordability.

However, if such a threshold is maintained, it would be important to permit amortization of solvency amounts over a reasonable period rather than requiring lump sum contributions to get above that threshold.

2. What is the main risk(s) that a PfAD should mitigate?

A move to a going-concern plus regime means that funding requirements will be primarily driven by the going-concern valuation. The most important assumption in going-concern valuations is the discount rate, which is generally determined based on the expected long-term rate of return on plan assets. Consequently, all else being equal, plans which adopt investment strategies with higher expected returns (which generally also involve higher risk) would have lower funding requirements than plans which adopt more conservative investment strategies.

From a public policy perspective, the CIA believes it is important to avoid creating incentives for plan sponsors to establish inappropriate investment or funding policies. The PfAD structure, in isolation, should not have the potential of encouraging plan sponsors to increase the equity component of the pension fund so that they may benefit from a decrease in required contributions. The PfAD structures in some other jurisdictions have created these incentives.

The PfAD can and should be designed to mitigate such incentives. The PfAD should reflect the inherent risk being taken by the plan by being linked to the degree of asset-liability mismatch. This can be accomplished using a two-dimensional grid based on the level of non-liability matching assets and the portion of interest rate risk being hedged.

The objective should be to find a simple but appropriate proxy for the risks in order to establish the PfAD. The calculation of the PfAD should not significantly increase the cost of actuarial valuations.

We would like to draw your attention to Québec legislation, as well as the current regulations for Limited Liability Plans registered in Saskatchewan, which both follow a form of the above approach.

3. What do you feel is the best method of determining the level of PfAD?

We believe that the best approach is that the PfAD be based on the level of risk being taken by the plan, which is primarily driven by the degree of asset-liability mismatch. This can be accomplished by using a two-dimensional grid based on the level of non-liability matching assets and the portion of interest rate risk being hedged.

The objective should be to find a simple but appropriate proxy for the risks in order to establish the PfAD. The calculation of the PfAD should not significantly increase the cost of actuarial valuations. A two-dimensional approach represents a good compromise between simplicity and theoretical appropriateness.

We would like to draw your attention to Québec legislation, as well as the current regulations for Limited Liability Plans registered in Saskatchewan which both follow a form of the above approach.

We also recommend that you conduct analysis to determine the appropriate levels of PfAD. The CIA would be pleased to assist in this regard, building on analysis that we have done in the past.

4. Should the method of determining PfAD be different if there is no solvency funding required than if there is a certain level of solvency funding required?

   We do not believe that the PfAD is an optimal tool to provide for benefit security.

   If Saskatchewan wishes to establish a certain minimum level of benefit security, it would be more effective to directly establish a solvency funding target (e.g., 85%) rather than trying to accomplish the same thing indirectly through higher PfADs.

5. Should the PfAD have to be funded on current service contributions, even if the plan is in a going concern surplus?

   Yes. Current service costs become liabilities at the end of each year. If it is deemed appropriate to prefund a PfAD on liabilities, we do not see a strong rationale not to prefund a PfAD on current service costs. A failure to do so would create actuarial losses at each year end.

6. If the period of time for amortizing going concern deficiencies is shortened, what is the appropriate period?

   The CIA recognizes that one of the key objectives of the current reform is to reduce the volatility of funding contributions to pension plans. This is largely achieved through the movement away from solvency funding regimes.

   The CIA considers a 10-year period a reasonable compromise between affordability, stability, and security, while noting that the choice of a fixed amortization period is not based on any underlying actuarial principles.

7. Are there other methods of enhancing going concern funding which should be considered?

   As noted previously, a move to a going-concern plus model increases the importance of the assumptions used in the going-concern valuation, particularly the discount rate. From a policy perspective, it will be important to ensure that the assumptions are appropriate.

There are different ways to accomplish this from a regulatory perspective.

Ontario has included a mechanism within the PfAD calculation to counter the impact of aggressive assumptions. OSFI has imposed maximum discount rates for federal plans in their Instruction Guide.

Our preference is to allow for a flexible approach rather than a formulaic approach or one-size-fits-all limit. The actuary should remain responsible for setting the assumptions based on the particular circumstances of the plan. However, the regulator should be fully empowered to challenge the valuation assumptions if they feel they are inappropriate.

8. Are there any other features to the funding rules which should be considered, such as consolidation of unfunded liabilities?

If an enhanced going-concern model is adopted, then it may be appropriate to revisit the calculation of transfer values. As pension plans may no longer be expected to be fully funded on a solvency basis in a five-year time horizon, it may not be logical to provide a commuted value assuming a 100% solvency ratio. A potential solution would be to pay the commuted value multiplied by the most recently determined solvency ratio (and not to provide the unfunded portion of the commuted value in five years). In most cases, terminated members have the option of selecting a deferred pension, and potentially could be offered the commuted value option periodically, say every five years, as the solvency ratio might improve in future years.

The CIA agrees with an approach of consolidating unfunded liabilities. We support this approach as it is simple and it is being used in other jurisdictions. However, the implications of this measure entail that the funding of deficiencies is always being pushed forward with new 10-year amortization periods, and in the absence of experience gains, funding deficiencies or any targeted funding level is unlikely to be achieved within 10 years.

9. Are there any options from the previous section (**Change the Way in Which Solvency Deficiencies Are Funded**) which should be incorporated if only partial solvency funding is required, or if it is eliminated completely? In particular, would solvency reserve accounts and letters of credit be useful mechanisms if a solvency deficiency has to be funded only to a certain level?

The CIA would support extending the application of solvency reserve accounts for going-concern deficiency payments, in order to avoid discouraging plan sponsors from funding more than the minimum requirements. We do not support the extension of letters of credit to cover going-concern special payments, as this would result in the drift away from a full funding model.

Discussion Questions – Full Funding on Plan Termination

1. Assuming the solvency funding framework is changed, are there any types of SEPPPs for which an employer should not have to fully fund a deficit if the plan is voluntarily terminated? For example, if members are required to contribute towards a solvency deficit, the framework could be structured so that only a portion of the deficit has to be funded by the employer if the plan is wound up.

   We believe it is appropriate for the employer to fully fund deficits if a SEPPP is voluntarily terminated. We cannot think of any situation where this would not be appropriate.

2. Are there any options presented in "Two Main Approaches" which should not require the full funding condition, if the Regulations are amended to include only that option? For example, if the only change made to the Act or Regulations is to allow a longer period of time for amortizing a solvency deficiency, should full funding on plan termination still be a condition for electing the option?

   No.

Discussion Questions – Restrictions on Contribution Holidays

1. Should contribution holidays be restricted further than they are currently? If so, which method best protects member benefits?

   Contribution holidays should only be permitted if the plan is fully funded on both a going-concern and solvency basis, and would maintain some level of buffer throughout the contribution holiday. Contribution holidays should cease if the buffer has been eliminated.

2. If a plan is required to be funded at a higher level than 100% on a solvency basis and/or a going concern basis before taking a contribution holiday, what is the appropriate level?

   There should be some threshold above 100%, below which contribution holidays are not permitted. However, we suggest that 105% (applied to the greater of going-concern and solvency liabilities) is reasonable and will help establish a consistent and harmonized approach across jurisdictions.

   From an actuarial perspective, it would be more appropriate to set the threshold based on the risk characteristics of the plan rather than having a fixed threshold apply to all plans. Plans with significant degrees of asset-liability mismatch would have a higher threshold than those whose assets and liabilities are closely matched. However, we

recognize that this would add complexity and cost relative to a fixed threshold. Should Saskatchewan wish to develop such an approach, the CIA would be pleased to provide assistance to define such parameters.

3. Should the ability to take a contribution holiday be determined on an annual basis, whereby a cost certificate would have to be filed each year to determine whether the plan remains in a surplus position?

   Yes – we agree that an annual cost certificate filing would be appropriate. Furthermore, FCAA could consider following the lead of FSRA, which requires plans to review their funded status at least quarterly, and to cease contribution holidays if they have reason to believe that the surplus has declined below the defined thresholds.

Discussion Questions – Annuity Discharge

1. If annuity discharge provisions are added to the Act, what are the appropriate conditions that a plan should have to meet in order to be eligible to qualify?

   The solvency position of the residual portion of the plan should not decline following the annuity transaction. Plan sponsors should be required to make additional contributions to maintain the solvency ratio at the same level as it was prior to the transaction.

   The plan sponsor should be required to certify that:

   - the choice of the annuity issuer considered the creditworthiness and administrative capabilities of the insurer; and

   - the entitlements of all plan members included in the transaction have been preserved to the extent possible. There may be cases where certain provisions, such as inflation-linked indexation, make it impossible or impractical to purchase in the annuity market. In such cases, it may be appropriate to substitute an alternative provision, such as a fixed annual percentage increase for pensions in pay. Any such modifications to the plan provisions should be subject to regulatory approval.

The CIA appreciates the opportunity to provide feedback on these issues, and we would welcome further discussion with you throughout this process.

If you have any questions, please contact Chris Fievoli, CIA Staff Actuary, Communications and Public Affairs, at 613-656-1927 or chris.fievoli@cia-ica.ca.

Sincerely,

Michel St-Germain, FCIA
President, Canadian Institute of Actuaries

The Canadian Institute of Actuaries is the national, bilingual organization and voice of the actuarial profession in Canada. Our members are dedicated to providing actuarial services and advice of the highest quality. The Institute holds the duty of the profession to the public above the needs of the profession and its members.

June 11, 2021

The Canadian Federation of Pensioners (CFP) is pleased to provide its comments regarding the Financial and Consumer Affairs Authority of Saskatchewan's consultation: *A Review of the Pension Funding Framework For Single Employer Defined Benefit Plans In the Private Sector And Other Complementary Reform Measures Applicable to All Defined Benefit Plans.*

CFP is an organization dedicated to improving the security of defined benefit (DB) pension plans in Canada. Each of CFP's twenty-three member organizations advocate for the interests of the active and retired members of workplace DB pension plans. Collectively, the CFP member organizations represent the interests of more than 300,000 individuals and their families across Canada.

CFP's position with respect to retirement security continues to be based on three tenets:

1. Pensions are deferred wages. They are earned while working, payable after retirement.
2. Pensioners deserve the pension their former employer committed to.
3. The responsibility to ensure pension protection falls on government. Government has not provided pensioners any control, input or approval of changes to their pensions. Government has reserved this power to itself.

Based on these three tenets, CFP has, over the years, proposed solutions to better protect pensions; particularly in the event of an insolvency.

In general, CFP is opposed to reductions in solvency targets unless the increased risk to pension plan members is fully mitigated.

Therefore, the Canadian Federation of Pensioners opposes the changes proposed.

Below we offer reasons for our opposition, and provide an alternative that:

- improves protection for pensioners,
- provides flexibility for sponsors, and
- provides for the voice of the stakeholders most impacted, the pension plan members, to be recognized

Reasons CFP opposes these changes

Presumption there is a liquidity issue to be solved

These solutions presuppose there is an urgent liquidity problem to be solved. We see no evidence of this in Canada and the Saskatchewan government has provided no evidence of a unique, Saskatchewan liquidity problem.

We know, for example, Ontario fearing pandemic related liquidity issues offered relief. To obtain relief, sponsors would have to abide by certain restrictions. O. Reg. 520/20 placed restrictions on the applicants use of cash for other purposes such as dividends, share buy backs, executive bonuses. In other words, Ontario was willing to provide relief if the liquidity problem was genuine, impacting all areas of the business. Ontario was not simply going to use pensions as a piggy bank for perceived corporate liquidity problems.

Not a single company applied.

CFP strongly opposes solving a perceived liquidity problem solely on the backs of pension plan members. This does not properly consider "the competing objectives of benefit security and plan affordability" in our estimation.

There is no evidence that reducing the cost to sponsors protects DB pensions

Quebec, Ontario and B.C. have all reduced solvency requirements saving sponsors billions of dollars. They continue to experience a decline in the number of DB plans, a trend that has gone on for decades.

Using a broadcast solution instead of a focussed one

The main proposed option permanently provides solvency relief to all DB pension plans without ascertaining whether they need the relief, and without giving plan beneficiaries any say in the matter.

Federally regulated plans can access a distressed pension plan workout scheme if they establish need. Ontario has recently begun using a Supervisory Approach for actively monitoring SEPPs that employs a collaborative process with plan administrators to assist plans deemed at significant risk; this has been positively received.

Putting the future financial well-being of pensioners at risk without their informed consent

Once again, government is treating seniors as some form of unfit wards of the state. Using legislation and regulation to take all control of their financial future away from seniors.

This is a policy disconnect that CFP struggles to understand.

All governments in Canada, virtually all seniors' organizations in Canada have policies recognizing and combating elder abuse.

They are all a little bit different, but are generally similar to the definition to be found on the Saskatchewan Seniors Mechanism's website:

"One might "define Elder Abuse" as any action(s) or inaction(s) which jeopardize(s) the physical or mental health or well-being or which harm(s) or threaten(s) the material or financial status or security of (an) elderly person(s)."

Clearly a pension is vital to an elderly person's financial security.

Clearly the alternatives contained in this proposal threaten the financial security of elderly persons.

All without any attempt to obtained the informed consent of these vulnerable seniors before putting their future financial security at greater risk.

CFP strongly opposes putting the future financial well-being of pensioners at risk without their informed consent.

Alternative

The Canadian Federation of Pensioners is pleased to offer an alternative.

1. Maintain the solvency target at 100%.
2. Require annual Actuarial Valuations.
3. Require the sponsor, in the event that the Actuarial Valuation solvency ratio falls below a prescribed threshold to:
   a. Obtain a letter of credit to return to 100% solvency, or
   b. Abide by restrictions on corporate cash management similar to Ontario's recent 520/20, until 100% solvency of the plan is restored, or
   c. Obtain informed consent of a significant portion of plan members (perhaps >75%) to implement a different solution, other than a. or b. above.

This proposal is respectful of seniors and provides flexibility to sponsors.

Option a *(Obtain a letter of credit to return to 100% solvency)* provides full protection of the pension.

Option b *(Abide by restrictions on corporate cash management similar to Ontario's recent 520/20, until 100% solvency of the plan is restored)* acts as a means test to ensure the liquidity relief is truly necessary and the impact is not borne solely by the pension plan members.

Option c *(Obtain informed consent of a significant portion of plan members (perhaps >75%) to implement a different solution, other than a. or b. above)* provides the flexibility of sponsors and plan members to arrive at a unique solution best suited to their situation. It also ensures that the sponsor obtain the informed consent of the plan members. This option could allow the sponsor to use the Financial and Consumer Affairs Authority as an expert resource.

The Canadian Federation of Pensioners would be pleased to discuss this submission, or any pension related issues at any time.

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Saskatchewan Federation of Labour

Submission to the Financial and Consumer Affairs Authority

Review of the Pension Funding Framework for Single Employer Defined Benefit Plans in the Private Sector and Other Complementary Reform Measures Applicable to All Defined Benefit Plans

About the Saskatchewan Federation of Labour

The Saskatchewan Federation of Labour (SFL) represents over 100,000 members, from 37 national and international unions. Our affiliate membership belongs to over 500 locals across Saskatchewan, and represents workers in every sector of the economy and in every corner of the province.

For more than 60 years, the SFL has represented the interests of unionized and nonunionized working people. Our membership is engaged in a variety of issues, including occupational health and safety, human rights, the environment, collective bargaining, women's issues, the issues of Indigenous peoples, LGBTQ2S+ people, and young working people to name a few. Our work naturally involves partnerships with community groups across the province, some of which include social justice and anti-poverty groups, health coalitions, farm groups, senior and student organizations. We also work with business organizations on issues like training, labour market intelligence, literacy, and work-readiness skills.

Above all, the SFL works to represent the diverse perspectives of our membership, while always striving to improve the quality of life for working people in Saskatchewan.

Thousands of our members contribute to pension plans, in both the public and private sector, and rely on their pension plans for a retirement that allows them to live comfortably and with financial security.

The Policy Goal of Solvency Funding

Solvency funding is an important mechanism to achieve the greater goal of benefit security. It is particularly effective where there is a risk that an employer sponsor will become insolvent while its sponsored defined benefit (DB) plan is underfunded. Solvency funding is therefore a form of insurance against the failure of the pension plan sponsor to meet its obligations. It requires funding such that in the event a plan is forced to immediately wind-up, and a plan's sponsors' assets are sufficient to ensure payment of promised benefits accrued prior to the insolvency for both active and retired members, it can pay out the promised pension. Thus, the key risk against which solvency funding insures is the insolvency of the plan sponsor.

Any discussion of solvency funding rules must start from acknowledging the fact that solvency funding rules were originally instituted to protect plan members by better securing their benefits. Though the system is not perfect, solvency funding has better secured members' benefits, particularly for private sector employers facing a genuine risk of insolvency. Therefore, any measure that introduces any form of "relief" to an

employer's solvency funding obligation necessarily reduces the security of members' pension benefits. The more relief that is provided to employers, the less secure plan members' benefits become.

The Consultation Paper Favours the Interests of Employers Over Plan Members

The SFL is concerned that the factors driving the Consultation Paper's identified approaches are primarily the concerns of the employer sponsors of defined benefit (DB) pension benefit plans. Low interest rates and the ensuing solvency special payment obligations are not new concerns. But these are not the primary concerns typically raised by trade unions, members or retirees, where the first instinct is to prioritize better protection of promised DB pensions.

Missing from the trade-offs contemplated in the Consultation Paper are the chief concerns of the members and beneficiaries of defined benefit pension plans: protection of benefits and ensuring the pension promise is delivered. The balance of the Review paper makes clear that government is considering compromising member concerns about benefit security in favour of the cost and volatility concerns raised by employers.

We submit that it is inappropriate to solely prioritize the concerns of one stakeholder in the pension system in Saskatchewan, particularly when the proposed options effectively transfer risks to other stakeholders in the system. All of the options considered involve shifting, on net, risk to plan members. The SFL believes a more balanced approach would have been a better way to finding mutually-acceptable solutions.

A More Balanced Approach is Possible for Private Sector Solvency Funding

The SFL appreciates the ongoing challenges that some employers face with funding for solvency in a low interest rate environment. From bargaining tables, we know that these rules, which were crafted to better protect plan members, can have the unintended consequence of putting more pressure on pension plans, employers and, subsequently, plan members in many cases. We therefore believe that this review of solvency funding rules is appropriate. But government must only institute changes cautiously and after full consideration and discussion with all impacted stakeholders. And employers should only be able to avail themselves of such changes with the consent of those who would be losing a measure of benefit security: plan members.

The SFL also recognizes that the pension landscape in Saskatchewan is incredibly complex (single/multi-employer, public/private sector, large/small scale, solely/jointly sponsored plans all exist). There will be no single approach to solvency funding that will appropriately or adequately cover all scenarios. In general, the nature of the employer must be considered when crafting solvency rules.

In general, The SFL believes that solvency funding relief for private sector SEPPPs should conform to the following principles:

- No "one size fits all" approach. Given the different realities discussed above, one solution should not be imposed on all DB plans.
- Outside of the broader public sector plans discussed below, any relief should generally be determined on an as-needed, case-by-case basis. We note that this has been the approach the federal government has taken in its jurisdiction.
- As part of a case-by-case framework, the government should consider temporary over permanent measures to avoid unnecessarily shifting of pension risks on a permanent basis.
- All new solvency relief or exemption measures must require the consent from plan members and retirees. Trade unions, where they exist, should be permitted to speak for their members for the

purposes of this consent. A consent process must be robust and based on positive consent of plan members.

- Particularly if government is contemplating reducing member benefit security while the employer remains a going concern, the shortcoming in the province's pension law regarding terminal funding absolutely must be remedied and brought into line with other jurisdictions.
- The provincial government should support and push for the implementation of a nation-wide pension insurance system as a way to provide additional pension security if solvency funding rules are relaxed. This is explained in further detail below.
- The provincial government should support and push for the implementation of a nation-wide agency for "stranded plans." This is explained in further detail below.
- The provincial government should enact corporate law and regulatory reforms that would better protect plan members when an employer is availing itself of some form of solvency relief.

In our view, there is no need for a wholesale elimination of solvency funding across all sectors, when a case-by-case, consent-based approach provides the ability to provide relief based on the particular needs of a given plan. There are additional solutions that the government has not identified in the Consultation Paper that are worthy of consideration and debate.

Additional Comments on Public Sector Solvency Funding

The Consultation Paper notes that "permanent relief" was granted to "public sector and publicly funded" plans in 2013. But the Paper is not entirely clear that government's intention is that these exemptions will continue, or will be unaffected by the issues raised in the Consultation Paper. We assume this is the case, and would ask for further discussion and consultation if our assumption is wrong on this point.

The labour movement in Canada has had a general view that solvency funding obligations are not necessary for most public sector employers. Solvency funding rules were instituted to protect against employer insolvency, and most public sector employers face a very low – or negligible – risk of insolvency. In the event that a public sector DB plan was wound up, it is highly unlikely that the plan sponsor would not be able to meet its obligations to members. For many of these employers, solvency funding simply imposes funding rules and financial obligations that ultimately do not add measurable security to these public workers' benefits. And these employer obligations ultimately come to bargaining tables, either directly through pension bargaining or indirectly through wage or other benefit bargaining.

The SFL did not oppose government's 2013 exemptions of many broader public sector plans from solvency funding obligations.

Going forward, we would make the following recommendations with respect to public sector plans:

- The broader public sector plans that are currently permanently exempt should continue to be permanently exempt from the requirement to solvency fund. Though the Consultation Paper does not suggest a planned change for these plans, it is also not explicitly clear that this exemption will continue. This point should be clarified and the plans that have already been exempted should not see this status change.
- If there are other public sector plans where employers face a low or negligible risk of insolvency that have not been exempted from solvency funding, these plans should be similarly permanently exempted from solvency funding only with the consent of workers (speaking through trade unions) and retirees.
- In the Consultation Paper, the government is clearly contemplating a trade-off that eliminates or

reduces solvency funding, but enhances going-concern funding rules. In the SFL's view, the fact that government has already permanently exempted many broader public sector plans from solvency funding demonstrates the government's belief that solvency funding does not provide much real security for employers with low or negligible risk of insolvency. Therefore, there should be no policy need for these plans to be involved in a further trade-off and saddled with new, more rigorous, going-concern rules. To avoid the unintended consequence of putting more pressure on these employers, the government should clearly exempt public sector plans from any new going concern funding requirements that arise from the general Review. We note that government has already required a more rigorous 10-year going-concern amortization schedule for the public sector plans it has exempted from solvency funding. Labour unions opposed that more conservative requirement at the time, and would oppose any further efforts to add new going concern costs, such as PfADs, onto these already-exempt plans.

- The Consultation Paper notes that the lack of terminal funding obligations under Saskatchewan pension legislation is a serious anomaly when looking at other rules across the country. The SFL believes this omission has no policy justification in either the private or public sector and must be remedied as part of this review.

Suggestions on Areas Not Raised in the Consultation Paper

The Consultation Paper discusses various ways to reform pension funding rules. As noted earlier, all of these techniques involve lowering employer solvency funding obligations, which shift risks to plan members. This is not the "balanced" approach to "Stakeholder Interests" the Consultation Paper supposedly aims for. Employer interests are, on net, placed above member interests in each option.

There are a range of public policy options that could improve insolvency protection for plan members. In general, these options exist outside of the world of pension funding. The SFL urges the government to take a truly balanced approach by considering all of these broader solutions as well.

Pension Insolvency Insurance System

Canadian governments have generally decided to protect pensions from employer insolvency by requiring each *individual* employer to insure their own *individual* plans from this risk through solvency funding requirements. The SFL is well aware that these requirements can in certain cases be onerous and can put pressure on employers, budgets and general collective bargaining settlements.

An alternative approach would be provincial or national pension insurance, where the risks and costs of employer insolvency could be pooled and spread across all employers and single-employer plans. Ontario is the only jurisdiction that pursues a collective pension insurance approach (to supplement its solvency funding system), with the limited protections offered by the Pension Benefits Guarantee Fund. Similar systems exist in the United States and the United Kingdom.

Given the high costs of employers individually insuring against this risk, and the low incidence of pension cuts during insolvency, the potential merits of a collective insurance approach should be clear. Premiums could be set at affordable rates for all, benefit protection set at meaningful levels and the risks and costs of insolvency pooled across all single-employer pension plans.

The Saskatchewan government should work with stakeholders to study this option, and if a viable option emerges, should work with stakeholders to implement it at the provincial level. The Saskatchewan

government could also recognize that the federal government and other provincial governments are also currently exploring ways to better protect plan members as solvency rules are rewritten. This is a unique moment to champion this issue with these governments by advocating a joint effort to explore a national insurance system.

Agency to Administer Terminated or "Stranded" Plans

Another measure that would dramatically improve insolvency protections is to consider a new institution to provide ongoing administration and investment of terminated plans. Currently, when a plan is terminated, available funds are generally paid to insurance companies who sell annuities to plan members on a for-profit basis. There are three principal reasons why these transactions are typically very expensive over recent years: 1) the for-profit nature of these transactions requires additional funds to flow to the provider's profits, 2) the annuity market in Canada is quite small, most importantly, 3) the persistence of historically-low interest rates, which drives up the cost of annuitizing. In effect, winding up and annuitizes permanently locks in these high cost drivers for the remaining lives of plan members. This can in turn mean that pension promises are not able to be fully funded with the available funds, which can lead to painful pension reductions for plan members and disputes with other creditors.

It would be much better for plan members if a public non-profit institution could take over the administration of a plan, continuing to invest the plan assets on a going concern basis. Ongoing investment in a diversified portfolio on a long-term basis can generally deliver pensions at lower costs than through the for-profit annuitization process discussed above, principally because the pension plan can continue to benefit from future market returns. Other provincial governments are considering new institutional arrangements that would allow an entity in these provinces to continue to operate the plans of insolvent employers, rather than wind them up and annuitize their liabilities. If such an institution was working alongside a pension insurance system, plan members would have their benefits protected in different and effective ways. The ongoing administration of plans would reduce pressure on the pension insurance system as well, helping to keep premiums lower for all employers.

Like pension insurance, such a system could be explored and implemented at a national level.

Corporate Law & Regulatory Reforms

The Canadian Centre for Policy Alternatives published a study in 2017 which reached some startling conclusions about pension solvency deficits and corporate practices, particularly shareholder payouts.[1] The study found that "Canada's largest companies paid out four times more to shareholders than it would have cost to fully fund their pension plans." The report noted that pension amortization payments tend to be periodic, whereas dividends are typically paid every year. Canadians were rightly outraged that Sears workers and retirees faced significant reductions in their pensions, but this study shows that Sears "paid back five-and-a-half times more to its shareholders than it would have cost to entirely erase the deficit in its DB pension plan." This is clearly a problem with corporate and regulatory law that public policy can and should solve.

To accomplish this, the Saskatchewan government could also explore reforms to its corporate law. Such reforms could put limitations on dividend payments, share buybacks and executive compensation when a corporation's pension plan faces a solvency deficiency. The government could also explore corporate

[1] Canadian Centre for Policy Alternatives, "The Lion's Share: Pension deficits and shareholders payments among Canada's Largest Companies," November 2017.

reporting requirements which would require corporations to at the very least disclose the ratio of dividend payments and stock buybacks to its solvency deficiency. Similar powers could also be given to pension regulators to report on and intervene on corporate practices that increase the risks of plan sponsors becoming insolvent with underfunded pension plans. The Ontario government has recently instituted some reforms in this area and the federal government is examining some modest measures as well. Saskatchewan should follow suit and take even stronger action to better prioritize the security of pension promises over shareholder interests.

SFL RESPONSE TO THE APPROACHES RAISED IN THE CONSULTATION PAPER

The SFL will not be providing direct answers to many of the questions posed. We believe that many of them are phrased as leading questions that make certain assumptions and do not allow for our views to be fully captured. In the interest of providing feedback on the options addressed, we offer the following commentary on each of the specific changes addressed.

SFL Preference for Approach 1 or Approach 2

We have not been given the appropriate data or information to express a proper opinion on this issue. We do not know whether Approach 1 or Approach 2 would offer better benefit protection for plan members, and at what cost. These are clearly material considerations, but without any such information, we are unable to offer commentary on our preference. We imagine, and we hope, that the Government performed analysis to arrive at the options presented. We would need access to these studies to evaluate which option would provide better benefit security, and what would the impacts of each option be on plan funding and plan cost. Government should pause this consultation, and release all studies and documents related to the development and evaluation of these options before asking stakeholders to comment. There are clearly tradeoffs being made between benefit security and plan cost in these reforms, but without this information we cannot gauge which specific options are preferable.

COMMENTS ON APPROACH 1 – "CHANGE THE WAY IN WHICH SOLVENCY DEFICIENCIES ARE FUNDED"

Lengthen the Amortization Period for Funding Solvency Deficiencies

Lengthening the maximum funding period has been used in Saskatchewan as a relief measure on a temporary basis. This can be a desirable form of flexibility if and when elected with meaningful member consent. It should be pointed out that a longer solvency funding period increases the risk to plan members that their plan may be wound up underfunded if the employer is insolvent. If made available on a permanent basis, we believe that a more robust consent process is required: positive member consent should be required, as outlined above.

Re-Amortization of Solvency Deficiencies

This has essentially the same effect as lengthening the amortization period and can be a desirable form of flexibility if and when elected with meaningful member consent. We again point out that this option involves transferring risk from employers to plan members.

Solvency Reserve Accounts (SRA)

The SFL does not support the creation of separate accounts within a pension plan fund to hold payments made in respect to a solvency deficiency. Permitting the withdrawal of surplus via SRAs effectively builds in the possibility of employers taking contribution holidays. The widespread use of contribution holidays, prior to the severe impact of the 2008 financial crisis on pension plan investment returns, is the direct cause of many DB plans' funding deficiencies.

The SFL also believes that SRAs would result in a permanent barrier to funding benefit improvements for members, when funding can be achieved through stable contributions and investment income derived in part through good stewardship of that DB plan.

Letters of Credit (LOC)

The SFL does not support the proposal to introduce the use of Letters of Credit (LOCs). This proposal undermines one of the primary ways in which good stewardship of pension plans generates income for plan members' benefits.

LOCs are problematic because they are not "performing assets" in that they do not generate returns. If 15% of the liabilities are secured by an LOC, then 85% of the plan is funded and available to make investment income. It is generally estimated that about 70-80% of funds used to pay for pension benefits ultimately come not from contribution dollars, but from investment income. Reducing investment income therefore reduces funds available to pay for benefits. The plan will then only be able to generate those returns on 85% of assets that are needed by 100% of the liabilities.

LOCs are also expensive to obtain as they are provided by for-profit institutions.

The SFL is not convinced that Letters of Credit will provide a meaningful long-term improvement to pension benefit security. If the province does move forward with Letters of Credit, we suggest that the amount be limited to a low percentage of liabilities, given the drawbacks outlined above.

COMMENTS ON APPROACH 2 – "PARTIAL SOLVENCY FUNDING OR NO SOLVENCY FUNDING, WITH ENHANCED GOING CONCERN FUNDING"

Fully eliminating solvency funding is an approach that should be rejected, particularly for private sector plans. Unilaterally eliminating solvency funding rules for single employer private sector pension plans (SEPPPs) would dramatically increase risk for members of those plans, would negate the benefits of the dual valuations and would be bad public policy.

A partial reduction of solvency funding obligations would introduce a funded status "floor" below which would trigger some form of special payment schedule to bring it up to that floor. If the rationale for solvency funding is accepted, then it should be implemented and funded to 100%; any permanent derogation from that is in effect a transfer of risks to members without any compelling benefit for the DB system as a whole. In an environment in which solvency funding has been eliminated, or in extraordinary circumstances, a "solvency floor" is better than no floor at all; however, as just stated, if the rationale for a solvency floor is accepted, then full solvency funding should follow. To do otherwise is to dictate that members and other stakeholders should simply accept greater risks in their pension promises, which should not be an objective of this review.

We are aware that other jurisdictions have generally reduced solvency obligations to 85% while requiring more rigorous going-concern requirements in the form of a Provision for Adverse Deviations. This is clearly a policy tradeoff, where the expansion of one form of funding is being asked to stand in for the reduction of another. We have yet to see an actuarial analysis or modeling that attempts to project the impacts on members of this trade-off. We hope that if government does move ahead with such a shift that the implications of a PfAD have been studied and modeled and that the policy has been demonstrated to have merit. Government should not craft policy in the absence of such analysis. And any such analysis should be

shared with stakeholders for comment. The absence of such data has limited our ability to respond to the specific questions about which method would be preferable.

We are concerned that there is no necessary or permanent link between going concern funding levels and solvency funding levels. An employer could quite easily be in a going concern surplus with a significant and declining solvency deficiency. Should such an employer face insolvency, the going concern surplus, even with "enhancements" would likely be much less effective in protecting members from pension cuts during insolvency than traditional solvency funding.

If this approach is pursued, as stated above, it should only be available on case-by-case, temporary basis and with a robust form of positive consent required from active members and retirees.

SFL COMMENTARY ON ADDITIONAL ISSUES

Full Funding on Plan Termination

The Consultation Paper notes that Saskatchewan is the only jurisdiction that does not require full funding of plan benefits on termination of a pension plan. The Paper notes that "For plans registered in Saskatchewan, there is a higher risk (as compared to plans registered in other jurisdictions) that plan beneficiaries will not receive the full value of their pension if the plan sponsor chooses to terminate their pension plan."

The SFL believes this discrepancy is unacceptable and must be remedied for all plans in all sectors as part of any reworking of solvency funding obligations. There is no rationale for our provincial pension law to lag behind other jurisdictions in such a glaring way. Continuing to omit this requirement effectively leaves plan members exposed to unacceptable levels of risk and significantly undermines the very purpose of defined benefit plans in our legislation.

If the government is contemplating transferring significant amounts of plan risks to members during this reform, it must remedy this clear shortcoming that has no moral or legal basis. **This issue is a major priority for the SFL in this review.**

Contribution Holidays

As noted above, contribution holidays have played an important role in the current funding challenges faced by employers. If the province is considering employer-friendly changes to solvency funding rules during periods of underfunding, it must also make converse changes during periods of surplus. The SFL believes that employers should be wholly prohibited from taking contribution holidays.

If the government does not pursue a wholesale ban on contribution holidays, the SFL would strongly support raising the minimum thresholds for contribution holidays. Many of the pension funding pressures employers encountered after the financial crisis a decade ago could have been avoided had contribution holidays not been a major drain on plan funds over the preceding decades. Having learned these lessons, and with new federal income tax rules that permit higher levels of plan surpluses, we should be making contribution holidays more difficult for employers to take. In our view, holidays should not be permitted unless they are required by the federal income tax law, and only after other plan options have been considered, such as benefit improvements, fully and/or retroactively delivering on conditional plan elements, and conservatizing

the actuarial basis of the plan and/or portfolio. The Government's proposed move is a step in the right direction, but could go further. The 105% levels floated by government must be raised further, as has been done in other jurisdictions.

Government should also require plan member consent before a contribution holiday is taken, as opposed to simply a notice requirement.

Annuity Discharge

The proposal to allow a statutory discharge of liability to an employer where annuity buyouts occur is contrary to the fundamental purpose of the *Pension Benefits Act.* It would discharge an administrator from any duty to the member without an annuity having been purchased for that specific member or the duties and obligations under the PBA being transferred to the party assuming the payment of the benefits, the insurer. It is not appropriate to discharge one pension plan administrator from the responsibility to administer the plan in accordance with the terms of that plan and PBA unless another administrator has taken on the same responsibility.

Submitted on behalf of the Saskatchewan Federation of Labour,

Lori Johb
President
Saskatchewan Federation of Labour

June 9, 2021

SASKATCHEWAN
TEACHERS'
FEDERATION

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June 8, 2021

Via Email Only: Leah.Fichter@gov.sk.ca

LEAH FICHTER
EXECUTIVE DIRECTOR, PENSIONS DIVISION
FINANCIAL AND CONSUMER AFFAIRS AUTHORITY, PENSIONS DIVISION
601-1919 SASKATCHEWAN DRIVE
REGINA SK S4P 4H2

Dear Ms. Fichter:

Re: Solvency Funding Review – Saskatchewan Teachers' Federation Employees' Pension Plan

As at June 30, 2018, the Saskatchewan Teachers' Federation Employees' Pension Plan (Plan) had a going concern ratio greater than 1.0 percent and a solvency ratio of 0.97 percent (solvency deficiency of $1.1M). At that time, the Federation made a conscious decision to:

- Close the Plan to new entrants, effective July 1, 2018.
- Implement a new defined contribution provisions for members who join the Plan on or after July 1, 2018.
- Allow a one-time option for current members to transfer to the new defined contribution provision[1] for future service.
- Remove the option for members to transfer out their commuted value on retirement.
- Move to ad hoc indexing for service accrued on or after June 30, 2018.

These changes were to address the ongoing funding challenges and contribution volatility faced by the Plan due to the current solvency rules. It is important to note, that although the Saskatchewan Teachers' Federation (STF) is the employer and plan sponsor, any additional funding required for the Plan would be the responsibility of teachers across the province.

The next required actuarial valuation to be filed with your office is as at June 30, 2021. Given the significant drop in bond yields since June 30, 2018, coupled with the volatility in the investment market, an estimate of the financial position as at June 30, 2020 was prepared. As anticipated, the solvency position had deteriorated significantly since June 30, 2018, with an estimated solvency ratio of 83 percent (solvency deficiency of $8.1M). With bond yields remaining at all-time lows, it is anticipated that the actual solvency position as at June 30, 2021 would be similar to the estimated solvency position as at June 30, 2020. Assuming this is the case, amortizing this deficiency over a five-year period, would result

[1] 40 members chose to transfer to the defined contribution provision as at July 1, 2018.

in an additional employer contribution of approximately $1.6M per year or $118 per teacher per year for five years. It is important to note that the going concern ratio is expected to remain above 1.0 percent as at June 30, 2021.

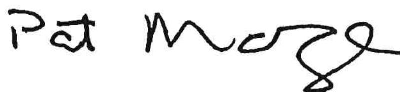
Although in theory solvency funding has merit (i.e., ensure there is enough money in the plan in the event a pension plan is wound-up and all members must be paid out), the environment has changed significantly since solvency rules were first implemented. Prolonged low interest rates, contribution volatility, surplus asymmetry, and increased life expectancy have resulted in financial challenges for employers and plan sponsors, with the majority of them considering closing their plans and/or making significant benefit reductions to remain solvent. A lifetime pension is the most effective mechanism to deliver a member's retirement income; however, this can only be done if the cost is reasonable and affordable over time.

Eliminating solvency funding would be in the best interest of employers/plan sponsors as it would reduce the funding for them. This, however, needs to be weighed with the benefit security of members. For that reason, we are of the opinion that solvency funding should remain for SEPPS, but at a reduced level (e.g., 85 percent). This includes a minimum required PfAD on the going concern basis, to balance the needs of both employers and members.

Please find attached, our responses to the questions posed in the Consultation Paper dated March 23, 2021.

If you have any questions or concerns, please do not hesitate to contact us.

Yours truly,



Patrick Maze
President

Bobbi Taillefer
Executive Director

TM/lph
Enclosure

cc: Troy Milnthorp, Senior Managing Director, Corporate Fund Service, Saskatchewan Teachers' Federation

Discussion Questions – Change the Way in Which Solvency Deficiencies are Funded

It is our opinion that modifying the way in which solvency deficiencies are funded does not significantly remove the issues outlined above. Although the modifications outlined in the Consultation Paper would serve to reduce the cost and volatility burden on plan sponsors, they do not remove the issue of the measurement of solvency liabilities. Solvency liabilities are very sensitive to bond yields and with the anticipation of prolonged low yields, this issue is likely to remain for many years to come.

Although there may be merit to including some of these modifications in addition to the partial funding scenario outlined below, we have not commented on the questions but rather added comments to the next section of questions.

1. If the solution is to modify solvency funding, which of the above options or combination of options do you feel provides the right balance between benefit security and affordability?

2. Are there other methods of modifying solvency funding which you feel should be considered?

3. If the period of time for funding solvency deficiencies is lengthened, what is the appropriate new time period?

4. If SRAs are allowed, under what circumstances should the employer be allowed to withdraw payments that have been made into the account?

5. If LOCs are allowed, should the amount be limited to a certain percentage of liabilities?

Discussion Questions – Partial Solvency Funding or No Solvency Funding

1. If the current solvency funding threshold of 100 percent is reduced to require only partial solvency funding, is a threshold of 85 percent appropriate?
   Although the threshold of 85 percent seems somewhat arbitrary, it is our view that it would serve to reduce many of the concerns raised above.

2. What is the main risk(s) that a PfAD should mitigate?
   The main risks that the PfAD should mitigate are:
   a) Asset and liability mismatch risk.
   b) Interest rate risk.
   c) Longevity risk.
   d) Inflation risk.

3. What do you feel is the best method of determining the level of PfAD?
   The best method for determining PfAD is explicitly as a reserve on the going concern balance sheet (i.e., percentage of the best estimate liabilities). This method provides the greatest degree of transparency for stakeholders and ensures flexibility for plan sponsors to manage the going concern balance sheet. In addition, the PfAD should be tied to the plan's asset mix and/or asset/liability mismatch as this is the most significant risk faced by defined benefit plans.

4. Should the method of determining PfAD be different if there is no solvency funding required than if there is a certain level of solvency funding required?
   Regardless of the solvency funding regime, a minimum level of PfAD is a risk mitigation strategy for plan sponsors and boards to employ to ensure the long-term sustainability of the plan. For this reason, we are in favor of having a minimum level of PfAD implemented and as per #3 above, feel that the minimum PfAD should be tied to a plan's asset mix and/or asset/liability mismatch.

5. Should the PfAD have to be funded on current service contributions, even if the plan is in a going concern surplus?
   Yes. Adding PfAD to current service contributions serves to pre-fund PfAD on the going concern liabilities over time.

6. If the period of time for amortizing going concern deficiencies is shortened, what is the appropriate period?
   No less than 10 years.

7. Are there other methods of enhancing going concern funding which should be considered?
   A formal funding policy should be adopted for each plan that provides for the sound financial management of the plan.

8. Are there any other features to the funding rules which should be considered, such as consolidation of unfunded liabilities?
   A one-time consolidation at the time legislation is passed would be appropriate so as to start with a level playing field for all plans.

9. Are there any options from the previous section (Change the Way in Which Solvency Deficiencies Are Funded) which should be incorporated if only partial solvency funding is required, or if it is eliminated completely? In particular, would solvency reserve accounts and letters of credit be useful mechanisms if a solvency deficiency has to be funded only to a certain level?
   It is our view that SRAs could be a good complement to the partial solvency funding scenario. Employers who have been forced to contribute significant solvency deficiency payments over the years, should not have to be concerned with the possibility of having to improve benefits, if and when interest rates increase. These additional contributions were never intended to prefund benefit improvements, but rather to overfund a hypothetical scenario that the plan will no longer exist in the future.

   If SRAs are allowed, employers should be able to use the funds within the SRA to make employer contributions to the plan once the plan has reached a certain minimum solvency threshold (e.g., 100 percent solvent).

   SRAs should be voluntary for employers and not required.

   The only concern we have with regards to SRAs is the additional administration involved with managing and valuing the SRA. For some employers the extra effort may be worth it, especially depending on their bargaining environment; but for other employers, this may be more of an administrative burden on them.

Discussion Questions – Full Funding on Plan Termination

1. Assuming the solvency funding framework is changed, are there any types of SEPPPs for which an employer should not have to fully fund a deficit if the plan is voluntarily terminated? For example, if members are required to contribute towards a solvency deficit, the framework could be structured so that only a portion of the deficit must be funded by the employer if the plan is wound up.
   Yes. Where the funding and investment risk is shared between the employer(s) and employees, the employer should not be required to fully fund a solvency deficit on plan wind up. However, we do believe that the employer should be responsible to fully fund their portion of any solvency deficit on voluntary termination.

2. Are there any options presented in "Two Main Approaches" which should not require the full funding condition, if the Regulations are amended to include only that option? For example, if the only change made to the Act or Regulations is to allow a longer period of time for amortizing a solvency deficiency, should full funding on plan termination still be a condition for electing the option?
   It is our opinion that employers should be responsible to fully fund solvency deficiencies on plan wind up.

Discussion Questions – Restrictions on Contribution Holidays

1. Should contribution holidays be restricted further than they are currently? If so, which method best protects member benefits?
   Ensuring plans have both a going concern (with minimum PfAD) and solvency ratio of 100 percent would be acceptable prior to being allowed to take a contribution holiday from the plan.

2. If a plan is required to be funded at a higher level than 100 percent on a solvency basis and/or a going concern basis before taking a contribution holiday, what is the appropriate level?
   A solvency ratio of 100 percent, along with a going concern ratio of at least 100 percent with the minimum PfAD, is an appropriate level.

3. Should the ability to take a contribution holiday be determined on an annual basis, whereby a cost certificate would have to be filed each year to determine whether the plan remains in a surplus position?
   Requiring an annual confirmation would be an administrative burden to plan sponsors. The test of contribution holiday sufficiency should be done at each valuation and should include the three years following the valuation date.

Discussion Questions – Annuity Discharge

1. If annuity discharge provisions are added to the Act, what are the appropriate conditions that a plan should have to meet in order to be eligible to qualify?
   We believe that there should be a statutory discharge of liability for plan sponsors in the event of an annuity purchase. It would seem reasonable that in order get such a discharge, certain conditions would need to be met. In particular, it is our view that the benefits provided under the annuity should be equivalent to those provided under the plan, unless plan members agree to the reduction.

Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

June 8, 2021

Saskatchewan Financial and Consumer Affairs Authority
Via pensions@gov.sk.ca

Re: Solvency Funding Review

PIAC appreciates the opportunity to comment on Saskatchewan's Review of the Pension Funding Framework for Single Employer Defined Benefit Plans in the Private Sector.

PIAC has been the voice for Canadian pension funds since 1977 in matters related to pension investment and governance. PIAC's members manage over $2.2 trillion of assets on behalf of millions of Canadians. Our mission is to promote sound investment practices and good governance for the benefit of plan sponsors and beneficiaries.

General Comments

PIAC strongly supports the review of the regulatory framework for pension funding. PIAC believes Canadian governments have the ability to alter the policy underpinnings of the pension regime and thereby alleviate some of the funding and regulatory challenges facing pension plans. PIAC is convinced that now is the time for the reform of long-term, minimum funding rules. We believe Canadian pension jurisdictions need one funding rule, as opposed to one going-concern funding rule and one plan termination (solvency) funding rule. This one funding rule can be properly designed to meet the needs of beneficiaries and plan sponsors to balance the need for benefit security and plan sustainability. It is PIAC's hope these rules can be developed consistently with jurisdictions across Canada to promote the efficiencies of regulatory harmonization. PIAC's membership has considerable experience with many of the intricacies and challenges associated with these issues, and we would be very pleased to provide assistance on this important initiative.

Specific Comments

The following represents PIAC's views on the specific questions posed in the paper. As noted above, we would be happy to go into more detail on our views at the appropriate time.

Discussion Questions – Change the Way in Which Solvency Deficiencies Are Funded

1. If the solution is to modify solvency funding, which of the above options or combination of options do you feel provides the right balance between benefit security and affordability?

PIAC does not see maintaining solvency funding requirements under a modified form as the solution. The costs and complexities in having two different funding regimes are significant and many of the solvency funding options noted have been tried in the past or in other jurisdictions and have not been successful in solving the pension funding problem in Canada. This has directly led to the closing of defined benefit pension plans in Canada. PIAC believes one funding regime with appropriate margins for adverse deviations is in the best interests of both pension plan members and plan sponsors. Pension plans are inherently long-term obligations such that short-term solvency funding policies are not appropriate.

2. Are there other methods of modifying solvency funding which you feel should be considered?

Average solvency ratios, lengthening amortization periods, consolidation of solvency deficiencies all have merit and may help mitigate some of the funding challenges. However, some of these techniques have been used in solvency funding relief measures introduced by various provinces and have not proven to be durable or effective in enhancing plan funded ratios in any meaningful way. In addition, they are more complex and costly to manage, while the same or similar results could be achieved with one funding model regime with appropriate parameters.

Solvency reserve accounts (SRAs) can be a useful tool to solve issues related to trapped capital and can serve as an incentive for employers to fund benefits despite risks related to revenue and Covid-19. SRAs are an important design feature but are not a substitute for funding reform.

3. If the period of time for funding solvency deficiencies is lengthened, what is the appropriate new time period?

As mentioned above, while lengthening the amortization period for solvency deficiencies may have merit and may help mitigate funding challenges faced by plans, better outcomes could be achieved with one enhanced going concern funding model with proper measures in place.

4. If SRAs are allowed, under what circumstances should the employer be allowed to withdraw payments that have been made into the account?

SRAs are a useful tool to manage the inherent procyclical nature of pension funding obligations by encouraging plan sponsors to fund beyond statutory minimums during periods of good economic growth through mitigation of the asymmetries related to trapped

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surplus. We see no downside risk from a policy perspective to an appropriately structured SRA regime. PIAC supports a requirement that a 105% solvency and going concern threshold be met following a withdrawal from an SRA. We also support a five-year period over which the eligible surplus can be withdrawn. To ensure that SRA withdrawals are not based on stale information, we support a requirement that withdrawals only occur in the calendar year following an actuarial valuation as well as a requirement that the plan sponsor does not have any reason to believe that the plan funded position would fall below the minimum 105% thresholds following a withdrawal. We note that the requirement that any eligible surplus can only be withdrawn over five years mitigates much of the risk related to the timing of any single withdrawal. Finally, PIAC believes that flexible reserve account structures, which allow for access if certain funding thresholds are met, will best encourage sponsors to make use of such accounts and that broad take-up is well aligned with regulatory objectives.

5. If LOCs are allowed, should the amount be limited to a certain percentage of liabilities?

Letters of Credit (LOCs) are an excellent funding tool, and it is common for the LOC to be issued by a financial institution with a higher credit rating than the plan sponsor. If the plan sponsor can supply a higher amount of an LOC, it is because the banks issuing the LOC believe that the plan sponsor has the credit capacity to support the LOC. Conversely, LOCs do not earn a rate of return (either positive or negative) and are therefore not a match to the pension liabilities. A higher LOC limit will not increase the risk to the pension plan but will likely drive higher funding costs over time. PIAC is supportive of a 15% limit similar to those established by other jurisdictions.

Discussion Questions – Partial Solvency Funding or No Solvency Funding

1. If the current solvency funding threshold of 100% is reduced to require only partial solvency funding, is a threshold of 85% appropriate?

PIAC supports funding being based on a going-concern "plus" model and eliminating solvency requirements except for an 85% plan-wind-up-funding ratio floor. With other jurisdictions, including Ontario and British Columbia, PIAC has strongly supported moves to enhanced going concern funding combined with modified solvency funding of an 85% threshold.

2. What is the main risk(s) that a PfAD should mitigate?

PfADs should mitigate against several risks including the potential that the plan would take an action, such as improving benefits, that weakens the plan's funded position and diminishes benefit security. PfADs should also be established to mitigate against market/investment risks, such as interest rate and equity risks. These points are expanded upon in our response to the next question on the best method of structuring a PfAD.

3. What do you feel is the best method of determining the level of PfAD?

PIAC believes that PfAD determination should have a tight link to plan asset allocation, as is done in Ontario and Quebec. A standardized PfAD based mainly on long-term bond yields at the valuation date may prove to be too conservative for substantially de-risked plans in some scenarios (i.e., in higher interest rate environments) and conversely less conservative for plans with a higher allocation to "risky assets" in other scenarios (i.e., very low interest rate environments). A tighter link to asset allocation will make the regime more robust to plans with a broader range of asset allocations and may make it more robust to extremely low interest rate scenarios, which have developed in a number of advanced economies in recent years. This approach would moreover be consistent with the general approach to regulatory capital in the broader financial sector which typically discriminates based on overall balance sheet risk.

PIAC supports linking the PfAD to the investment strategies of the pension plan, the demographic profile of the plan, intergenerational fairness among plan members and level of risk tolerance. By their nature, investment strategies that are highly correlated to the pension plan's liabilities will reduce funding risk and consequently should not require a large PfAD. There are both simple and complex ways of accomplishing this. With either approach it will be important that the overall margins built into an enhanced going concern funding valuation are appropriate and that the PfAD does not inadvertently add an additional level of reserve that does not reflect the margins already in place. A given PfAD should be supported by the individual pension plan circumstances. PfAD requirements must be carefully set out, particularly as they are set in relation to investment policy mix and overall investment risk (and not over-shooting the level of required PfAD).

It may be useful in establishing the PfAD to account for the overall interest-rate coverage of assets relative to liabilities (or duration mismatch) as this can be one of the material drivers of surplus volatility. For example, the PfAD could be set based on the degree of interest rate matching rather than just the allocation to fixed income assets alone.

PIAC believes that CAPSA is well placed to review the various PfAD regimes which have developed in recent years with a view to harmonizing various provincial approaches and would encourage such an initiative to be added to CAPSA's agenda.

4. Should the method of determining PfAD be different if there is no solvency funding required than if there is a certain level of solvency funding required?

PIAC views an enhanced going concern regime as a reasonable trade-off for eliminating solvency funding. In the case of plans such as public sector and other solvency exempt plans that are considered low enough risk so as not to require solvency funding, we recommend that status quo going-concern funding is maintained.

5. Should the PfAD have to be funded on current service contributions, even if the plan is in a going concern surplus?

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It is PIAC's position that while a plan has a going concern surplus of a specified size (eg. 105%), current service contributions should be funded on a "best estimate" basis without factoring in servicing a PfAD.

6. If the period of time for amortizing going concern deficiencies is shortened, what is the appropriate period?

PIAC supports shortening amortization to 10 years. Shortening the amortization period is an option that should be considered in setting the appropriate framework for an enhanced going concern funding model. A shorter maximum funding period would increase benefit security in the context of an overall move away from solvency funding toward an enhanced going-concern regime.

7. Are there other methods of enhancing going concern funding which should be considered?

PIAC is strongly supportive of the introduction of Solvency Reserve Accounts (SRAs) and we believe that restrictions can be placed on SRA withdrawals based on the funded level of the plan as explained in the answer to question four of the previous section. SRAs reduce the risk of excessive funding and trapped surplus in the current era of low interest rates and large contribution requirements for most plan sponsors. Over the longer term, SRAs can potentially mitigate the inherent pro-cyclical nature of pension contribution requirements by providing sponsors with greater incentive to fund pension plans beyond statutory minimum requirements during periods of stronger economic growth.

8. Are there any other features to the funding rules which should be considered, such as consolidation of unfunded liabilities?

Consolidation of solvency deficiencies is a reasonable design element to create an appropriately robust going concern regime.

9. Are there any options from the previous section (Change the Way in Which Solvency Deficiencies Are Funded) which should be incorporated if only partial solvency funding is required, or if it is eliminated completely? In particular, would solvency reserve accounts and letters of credit be useful mechanisms if a solvency deficiency has to be funded only to a certain level?

If only partial solvency funding is required or if it is eliminated completely, PIAC supports the introduction of solvency reserve accounts (detailed in the answer to question 7) and letters of credit. Solvency reserve accounts and letters of credit would still be useful mechanisms even if a solvency deficiency only has to be funded to a certain level. SRA rules should be integrated with the rules permitting the use of letters of credit such that the latter continue to operate effectively.

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Discussion Questions – Full Funding on Plan Termination

1. Assuming the solvency funding framework is changed, are there any types of SEPPPs for which an employer should not have to fully fund a deficit if the plan is voluntarily terminated? For example, if members are required to contribute towards a solvency deficit, the framework could be structured so that only a portion of the deficit has to be funded by the employer if the plan is wound up.

PIAC has no comments to share in response to this question.

2. Are there any options presented in "Two Main Approaches" which should not require the full funding condition, if the Regulations are amended to include only that option? For example, if the only change made to the Act or Regulations is to allow a longer period of time for amortizing a solvency deficiency, should full funding on plan termination still be a condition for electing the option?

PIAC has no comments to share in response to this question.

Discussion Questions – Restrictions on Contribution Holidays

1. Should contribution holidays be restricted further than they are currently? If so, which method best protects member benefits?

PIAC supports linking the ability to take contribution holidays with the funded position of the pension plan. Under an enhanced going concern funding model, contribution holidays should continue to only be permitted when a pension plan is fully funded. As the enhanced going concern funding model is to include a PfAD, contribution holidays up to the amount by which the pension plan's funded position exceeds 100% would be appropriate and still provide benefit protection. Benefit improvements can also be tied to the funded position of the pension plan with additional immediate funding required to bring the pension plan back to the minimum funded level. In this situation, the current amortization period could be maintained.

2. If a plan is required to be funded at a higher level than 100% on a solvency basis and/or a going concern basis before taking a contribution holiday, what is the appropriate level?

PIAC recommends that a contribution holiday threshold be set at 105% on a solvency and/or going concern basis. These represent comfortable buffers from a member protection perspective, in particular with the introduction of PfAD's on the going concern measure and would be more in line with the thresholds of other Canadian jurisdictions.

3. Should the ability to take a contribution holiday be determined on an annual basis, whereby a cost certificate would have to be filed each year to determine whether the plan remains in a surplus position?

Annual valuations provide an excellent tool to ensure that changes to the capital markets are being appropriately reflected in a pension plan's funded position and action can be taken to ensure funding levels are adjusted appropriately. PIAC believes that it is appropriate to ensure that simplified valuations are performed (but not necessarily filed) on an annual basis to support ongoing contribution holidays in the inter-valuation period.

Discussion Questions – Annuity Discharge

1. If annuity discharge provisions are added to the Act, what are the appropriate conditions that a plan should have to meet in order to be eligible to qualify?

PIAC strongly supports statutory discharge of liability for pension plans where annuity buy-outs occur. Annuity discharges should be allowed for all plan members as all plan members should be treated equally. We believe there are a small number of reasonable conditions that a plan should have to meet in order to be eligible to qualify to achieve full discharge:

- Annuities should be purchased from a qualified provider (i.e., regulated insurance company)
- The funded position of the plan should not be worse off after the buy-out than before
- The purchased annuities should substantially replicate the terms of the pensions being discharged and rules around such buyouts should be consistent with the Government of Canada's Newsletter 20-1, Registered Pension Plan Annuity Contracts ("Newsletter").

Additionally, the regulator should be advised of annuity discharges and receive a certification that the annuity discharge complies with legislation. Members must also be advised that an annuity has been purchased, from who the annuity was purchased, and who to contact. Following this, the insurance company will be tasked with providing all disclosures. Member consent should not be required.

Importantly, we note that PIAC does not support the approach taken by Ontario which requires members to retain entitlement to plan surpluses in the event of a future wind-up following an annuitization. We believe this approach creates asymmetries in the allocation of risk, is administratively complex and serve as a disincentive for plan sponsors to pursue annuitizations which are fundamentally well aligned with regulatory objectives. We encourage Saskatchewan to not take that route.

We would be pleased to provide any further information, should you request it.

Yours sincerely,

Natasha Trainor
Chair

Ballan, Holly FCAA

From: Peter Gruening <Peter.Gruening@fcl.crs>

Sent: Monday, June 7, 2021 1:09 PM
To: Pensions FCAA
Subject: Solvency Funding Review

We are pleased to see that FCAA is looking at changing the solvency funding rules. As noted in the consultation paper, many other jurisdictions have already addressed this issue and have provided changes that have balanced employer and employee needs. These changes have arguably, saved the closure of some defined benefit plans.

Currently in Saskatchewan, only single employer private sector pension plans must make contributions toward solvency deficiencies. It is our hope that FCAA implement changes to solvency funding rules quickly.

Discussion Questions – Change the Way in Which Solvency Deficiencies Are Funded

1. If the solution is to modify solvency funding, which of the above options or combination of options do you feel provides the right balance between benefit security and affordability?

   For the 4 options provided we would recommend a combination of options, including:

   - Solvency Reserve Account (SRA). We would like to see SRA available on an optional basis with employer withdraws at any time, provided solvency is at a minimum level (say 110%) or at Plan termination for amounts above 100% solvency.
     - With minimum funding levels in place there should be no need for adding consent.
     - Only allowing withdrawal at Plan termination is not desirable as there could be substantial accumulation of funds over many, many years that would just sit there while the pension plan is over funded.
   - We would like to see the re-amortization of solvency deficiencies coupled with lengthening the solvency amortization to a minimum of 10 years. This will also make it easier for Plan members to understand the financial position of their pension .

   We believe the above recommendations will go a long way to balance member security along with solving the problem of a surplus in a raising interest rate environment. Solvency funding is based on the premise that the pension plan will terminate at a given point in time (date of Valuation). With improving economic environment, a Plan may find itself making solvency contributions only to have surpluses in later years. The above recommendation would go a long way to ensure surpluses would not sit in the plan when not required.

   - Line of Credit available as an option.

2. Are there other methods of modifying solvency funding which you feel should beconsidered?

   We would recommend that the Plan Sponsor and Plan's actuary set the interest rate used in solvency calculations subject to some guidelines.

3. If the period of time for funding solvency deficiencies is lengthened, what is theappropriate new time period?

   We would recommend a minimum of 10 years, preferably a longer period, say 15 years to match going concern funding.

4. If SRAs are allowed, under what circumstances should the employer be allowed to withdraw payments that have been made into the account?

   As mentioned above, we are in favour of SRAs and we would like to see employer withdraws at anytime, provided solvency is at a minimum level (say 105% or 110%) or at Plan termination for amounts above 100% solvency.

5. If LOCs are allowed, should the amount be limited to a certain percentage of liabilities?

   No, there is no need for a limit. LOCs should either be allowed or not. Limiting the amount of LOCs would just add to the complexity of administration and understanding by Plan members.

Discussion Questions – Partial Solvency Funding or No Solvency Funding

1. If the current solvency funding threshold of 100% is reduced to require only partial solvency funding, is a threshold of 85% appropriate?

   Yes, we would say that 85% is appropriate and reasonable. Common in other jurisdictions.

   We believe the 85% strikes the right balance of protecting the plan members (pensioners) and avoiding an over contribution (surplus) when the company is always funding 100% of solvency.

2. What is the main risk(s) that a PfAD should mitigate?

   We do not see the need for or agree with the use of a PfAD. It just adds to the complexity and cost for the Plan. In other jurisdictions, PfAD has made Plans more difficult for Plan Members to understand and has added to the costs to run the Plan, i.e. Valuations.

3. What do you feel is the best method of determining the level of PfAD?

   It would be far more effective and easier for Plan Members to understand if the going concern amortization was decreased vs. using a PfAD. And/or in addition, if solvency funding was decreased/eliminated going concern funding could be increased from 100% to say 105%.

4. Should the method of determining PfAD be different if there is no solvency fundingrequired than if there is a certain level of solvency funding required?

   As already noted above, we do not see the need for or agree with a PfAD. If required to use one we would say that it should not be need if solvency is at 100% or more, or if solvency is only required to a certain level (i.e. 85%) then the PfAD should not be required. Note as mentioned above, this will only make if more difficult for Plan Members to understand their Plan and add to Plan costs.

5. Should the PfAD have to be funded on current service contributions, even if the plan is in a going concern surplus?

   No.

6. If the period of time for amortizing going concern deficiencies is shortened, what is the appropriate period?

   We would recommend something in the 10 to 12 year range.

7. Are there other methods of enhancing going concern funding which should beconsidered?

   As mentioned above, no Pfad but increase funding from 100% to say 105% and/or shorten funding amortization.

8. Are there any other features to the funding rules which should be considered, such as consolidation of unfunded liabilities?

   Yes to consolidation of unfunded liabilities at each Valuation. This will make it easier for Plan members to understand and will also lessen the administration burden.

9. Are there any options from the previous section (**Change the Way in Which SolvencyDeficiencies Are Funded**) which should be incorporated if only partial solvency funding is required, or if it is eliminated completely? In particular, would solvency reserve accounts and letters of credit be useful mechanisms if a solvency deficiency has to be funded only to a certain level?

   We are in agreement with both letters of credit and solvency reserve accounts as long as there are reasonable circumstances that will allow for employer SRA withdrawals.

Discussion Questions – Full Funding on Plan Termination

1. Assuming the solvency funding framework is changed, are there any types of SEPPPs for which an employer should not have to fully fund a deficit if the plan is voluntarilyterminated? For example, if members are required to contribute towards a solvencydeficit, the framework could be structured so that only a portion of the deficit has to be funded by the employer if the plan is wound up.

   If members are required to contribute to the Plan then the framework should be structured so that only the employer's portion has to be funded by the employer if the plan is wound up.

2. Are there any options presented in "Two Main Approaches" which should not requirethe full funding condition, if the Regulations are amended to include only that option? For example, if the only change made to the Act or Regulations is to allow a longer period of time for amortizing a solvency deficiency, should full funding on plan termination still be a condition for electing the option?

   Yes, for more conservative changes like a re-amortization of deficiencies.

Discussion Questions – Restrictions on Contribution Holidays

1. Should contribution holidays be restricted further than they are currently?

   No.

If so,which method best protects member benefits?

2. If a plan is required to be funded at a higher level than 100% on a solvency basisand/or a going concern basis before taking a contribution holiday, what is the appropriate level?

   105%

3. Should the ability to take a contribution holiday be determined on an annual basis,whereby a cost certificate would have to be filed each year to determine whether the plan remains in a surplus position?

   No, unnecessary expense to the pension plan. The determination should only be necessary when the Plan wants to withdrawal surplus contributions.

Discussion Questions – Annuity Discharge

1. If annuity discharge provisions are added to the Act, what are the appropriate conditions that a plan should have to meet in order to be eligible to qualify?

   Besides the annuity being purchased from a Canadian Insurance Company other conditions to receive discharge should be:

   - Benefits must be equivalent
   - Buy-out cannot adversely impact the funded position of the plan

Conclusion

We appreciate the opportunity to make recommendations toward Saskatchewan's solvency funding framework for SEPPPs

Following is a recap, in order of our importance, of recommendations that we would like to see implemented:

- Optional SRAs with guidelines for employer withdrawal without Regulator's consent i.e. 110% or at termination for any amounts above 100%
- Elimination of solvency funding or at least no funding required at 85% or higher.
  - If not eliminated, then consolidation and re-amortization at each Valuation.
- PfAD is confusing to Plan Members and adds cost to the Plan. Instead, we would suggest reduced going concern amortization. If it is felt that reducing amortization doesn't reduce risk enough then increase funding from 100% to say, 105%. This would reduce risk more realistically that a Pfad, be less expensive to the Plan and very important would be easier and more transparent to Plan members.
- Contribution holidays
- Annuity Discharge

Thank you.

Peter Gruening
Pension Manager
HR Advisory Services
Federated Co-operatives Limited

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Saskatchewan Government and General Employees' Union

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Attn: Financial and Consumer Affairs Authority of Saskatchewan

Re: Solvency Funding Review

June 3, 2021

On behalf of our more than 20,000 members across Saskatchewan, this letter is to register SGEU's support for the positions taken by the Saskatchewan Federation of Labour in its submission to the FCAA's Solvency Funding Review.

SGEU recognizes the critical importance of pension stability as a source of security and dignity for working people. We also recognize that, given the complex pension landscape in Saskatchewan, many of our members may belong to households that depend on SEPPPs as part of their long-term financial well-being. For these reasons, we strongly urge you to heed the concerns raised by the SFL in its submission.

While SGEU endorses the SFL brief in its entirety, we want to emphasize three key points from their brief as being of heightened importance from SGEU's perspective.

First, we urge you to advance changes that will require full funding of all pension benefits – regardless of type or sector – upon the termination of any pension plan. This severe shortcoming in our pension legislation leaves Saskatchewan workers subject to a risk that other jurisdictions do not tolerate. In the event of plan insolvency, there is no justification for Saskatchewan workers to be entitled to anything less than the full value of their pensions.

Second, any changes to pension legislation that offer additional options to employers – including the reduction or elimination of solvency funding, or flexibility on the amortization of solvency deficiencies – must stipulate that those options can be exercised only with the consent of plan members (as expressed though their unions, where applicable.)

Third, we echo the SFL's call that this consultation should be paused until the full suite of analyses and documents on which the FCAA has based its proposals are released to all stakeholders. An issue of this complexity, which may have extensive consequences for working families, requires a full understanding of the context by all stakeholders.

I trust that you will give careful consideration to the many concerns and ideas raised by the SFL, in the knowledge that they represent the serious and legitimate concerns of more than 100,000 working people in Saskatchewan.

Sincerely,

Tracey Sauer
President
Saskatchewan Government and General Employees' Union

Holly Ballan
Financial and Consumer Affairs Authority of Saskatchewan
Director, Pensions
Pensions Division
601-1919 Saskatchewan Drive
Regina, SK
S4P 4H2

April 23, 2021

Re: Feedback Requested - Pension Funding Framework for Single Employer Defined Benefit Plans in the Private Sector Consultation

Dear Ms. Ballan:

The Saskatchewan Retirees Association (SRA) is pleased that the Financial and Consumer Affairs Authority of Saskatchewan (FCAA) is including the SRA in consultation processes that affect the membership of SRA.

While members of the SRA are primarily involved with defined contribution pension plans, we do also have members from the era where defined benefit pension plans were available in Saskatchewan. The SRA does not have the expertise to comment directly on this defined benefit pension plan matter as outlined in the information provided to us for comment.

The SRA remains committed to monitoring developments related to pensions for our members. We are especially interested in pension preservation and support all efforts to ensure older adults receive the pensions they expected when they retired.

The SRA appreciates receiving this request and looks forward to future opportunities for input on matters that may affect our membership.

Sincerely,

Randy Dove
President
Saskatchewan Retirees Association

306-536-7869

Ballan, Holly FCAA

From: Pawagi, Harish - Mondelis <harish.pawagi@mondelis.com>
Sent: Monday, April 5, 2021 9:42 AM
To: Pensions FCAA
Subject: Solvency Funding Review

Comments on the review of the pension funding framework for single employer defined benefit plans in the private sector (Consultation Paper March 23, 2021).

Discussion questions – partial solvency funding or no solvency funding:

1. Lower threshold would help sponsors manage cash flow.
4. Yes different PfAD if no solvency funding vs some level of solvency funding.
5. No. But set the requirement that if is above 105% funded on going concern then no PfAD on current service contributions.

Discussion questions – restrictions on contribution holidays:

1. Yes.
2. 105% for both going concern and solvency before holiday.

Discussion questions – annuity discharge:

1. Remaining members not adversely affected (solvency ratio not impaired for remaining members after buyout). Additional comment: full discharge of liability should be allowed on annuity buyout.

Harish Pawagi, FSA, FCIA
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March 25, 2021

The Saskatchewan Financial and Consumer Affairs Authority
1919 Saskatchewan Dr.
Regina, SK S4P 4H2

SENT BY EMAIL

RE: Solvency Funding Review

We would like to thank you for providing us with the opportunity to submit some input to the Saskatchewan Financial and Consumer Affairs Authority ("FCAA") for your review of your province's pension funding framework. We understand the solvency funding challenges faced by the single employer private sector pension plans (SEPPP).

We understand that the Pension Benefits Act (the "Act") will be amended following FCAA's pension framework review. We think that FCAA should take this opportunity to also consider excluding Individual Pension Plans (IPPs) as defined under the Income Tax Act ("ITA") from the application of the Act, as is now done in 8 other provinces. Our submission will present our understanding of the rationale behind these exclusions for FCAA's consideration.

Buck believes that exempting IPPs from the application of the Act or most of its provisions meets FCAA's objectives for this review of Saskatchewan's DB plan funding framework, which are:

- Adequate Benefit Security
  The objective of IPP plan participants is to maximize their tax-sheltered registered retirement savings.
- Plans That Are Affordable and Sustainable
  IPPs that are exempted from any minimum funding requirements are affordable and sustainable.
- Stable Contribution Rates
  IPP plan sponsor can stabilize their cash flows requirements by funding IPPs when free money is available.
- Balanced Stakeholder Interests
  We believe that stakeholder interests are well balanced and respected when more flexibility is provided to Saskatchewan business owners.
- Transparent Rules
  The rules would certainly be transparent.
- Pension Coverage
  We believe that more Saskatchewan business owners would take advantage of IPPs, which would be significantly more flexible, if exempted.

Buck is an industry leader in the Canadian IPP market. We have partnered with large Canadian financial institutions to support their investment advisors by offering a fully supported IPP solution for their clients. We deliver experienced pension consulting at any stage of an IPP's lifespan, from plan set up, to plan windup, providing our partners and their clients ease and understanding of their IPPs.

Buck fully supports the trend across the country to exempt IPPs and designated pension plans, as defined under section 8500(3) of the Income Tax Regulations, from the application of the Act and regulations. The most recent provinces to join the trend are New Brunswick, Nova Scotia and Ontario in 2020.

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The following terms are defined under the ITA:

- Individual pension plan (IPP)
  A registered pension plan that has a defined benefit provision and has less than four members and at least one of them is related to a participating employer.
- Connected Individual
  A person that owns directly or indirectly at least 10 % of the company that sponsors a pension plan.
- Specified Individual
  A person that is a Connected Individual or that earns at least 2.5% times the year's maximum pensionable earnings, as defined under the Canada Pension Plan.

As mentioned earlier 8 provinces do not supervise certain or all IPPs. FCAA will find a summary of how each of these provinces has done it. As is often the case with provincial pension legislation, there are variances in the way that this is done across the country.

- British Columbia and Alberta
  These 2 provinces have exempted IPPs that cover connected members, as defined under the ITA, from all provisions of their pension legislation, except mainly spousal benefits and locking-in provisions.

- Manitoba
  Exempts IPPs that cover Specified Individuals from most provisions of their pension legislation. Spousal benefits and locking-in provisions still apply. Designated participants can have their own IPP.

- Ontario
  Exempts IPPs that cover Connected Individuals from all their pension legislation.

- Quebec
  Exempt IPPs that cover Connected Individuals from most provisions of their pension legislation, since 2001. Spousal benefits and locking-in provisions still apply. Locking-in provisions do not apply.

- New Brunswick
  Exempts IPPs from all their pension legislation. Regular employees can participate in the same IPP as the business owner.

- Nova Scotia
  Exempt IPPs that cover Connected Individuals from most provisions of their pension legislation. Spousal benefits and locking-in provisions still apply.

- PEI
  Does not have a pension legislation.

The two provinces left, Newfoundland and Saskatchewan, currently provide some favorable terminal funding rules for IPPs. FCAA's should consider at least not inadvertently reinforcing any terminal funding requirements for IPPs as a result of this review.

In an IPP for a Connected Individual, nobody but the business owner is penalized when an IPP plan sponsor delay a pension plan contribution, which raises questions about their need to be supervised by FCAA. It is a given that non-connected members generally need FCAA's supervision.

It is not as clear whether Specified Individuals need FCAA's supervision. Exempting IPPs, as opposed to only those that cover Connected Individuals, allows business owners to further reward key employees and high earners who would also fully benefit from the tax deferral opportunities offered under the ITA. Many such individuals are looking for ways to save for their retirements on a tax supported way.

We believe that Saskatchewan should take advantage of this review of the Act and, as a housekeeping item, fully exempt IPPs from the Act and its Regulations. Saskatchewan's business owners would fully benefit from the registered retirement savings opportunities offered under the ITA and this, without having to commit to mandatory going concern and solvency funding, which can be a serious problem in difficult business times. Saskatchewanians know when it is better to invest in their business or in their own pension plan.

Finally, we would like to discuss how some of the other provinces have made the transition between regulating IPPs to exempting them from most or all of their pension legislation to help FCAA reflect should a decision be made to follow the trend and come with some exemptions for Saskatchewan IPPs. Should FCAA and Saskatchewan decide to exclude some IPPs from their pension legislation, we strongly recommend that they keep the process simple.

- Quebec
  The regulator created a one-page application form that had to be completed by the IPP plan sponsor. The process went well and some IPP plan sponsor may have elected to maintain the application of the Act.

- New Brunswick
  The regulator sent a letter to IPP plan sponsors informing them that the NB pension legislation no longer applies to their pension plan. No option to stay under the supervision of the Act was offered. The process was seamless.

- Nova Scotia
  Plan sponsors had to send a signed letter containing some certifications to be exempted. The process went well and some IPP plan sponsor may have elected to maintain the application of the Act.

- Ontario
  Plan sponsors, Plan participants and the Plan participants' spouses each had to complete a complex form designed by the regulator. The participants' forms had to be witness by Commissioner for Oaths. The process was a nightmare for all parties involved, including mainly the regulators, which return countless incomplete forms and still has a large backlog of forms to review.

We thank you again for your attention to this issue, and for the opportunity to provide our comments on the consultation. We would be pleased to answer any questions on this submission or on IPPs in general.

Sincerely,

Normand Frenette, FCIA, FSA
Principal, Senior Consulting Actuary
normand.frenette@buck.com

C.C. Simon Marette, Director and Consulting Actuary

Ballan, Holly FCAA

From:	Deborah Thompson <d22thompson@gmail.com>
Sent:	Thursday, March 25, 2021 9:53 AM
To:	Ballan, Holly FCAA
Cc:	McKinnon, Alex
Subject:	Feedback Requested - Pension Funding Framework for Single Employer Defined Benefit Plans in the Private Sector Consultation

Dear Ms. Hallan,

Thank you for the opportunity to respond. I am the President of the Multi-Employer Benefit Plan Council of Canada (MEBCO) which is a not-for-profit corporation representing the interests of Canadian multi-employer pension and benefit plans.

As such, we only represent MEPPs, and will therefore not be responding to this consultation paper. Should you have any further questions, please do not hesitate to contact me.

Yours truly,

Alex McKinnon
MEBCO President