The Canadian Pension Environment

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First: a message from the World Pension Alliance (WPA)

- The WPA is in the midst of its 2nd year of operations
- The WPA has members from the United States, Europe, Latin America and Canada
- Its members represent pension plans/members in the public and private sectors
- The WPA represents over 400 million pension plan participants and $10 Trillion USD

- ***worldpensionalliance.org***

The Canadian Pension Environment: what dominates:

- Solvency
- Decumulation
- Governance including
    - Environmental, Social and Governance (ESG) concerns

Canadian pension concerns

- Defined benefit solvency
- Defined contribution decumulation
- Governance & ESG

DB Solvency

- Like elsewhere DB solvency has resulted in the closure of DB plans
- DB plans still prevail in the multi-employer sector and the public sector

Canadian pension plan participation

Public sector	Private sector	Coverage rate
Membership +	Membership -	38.1% (2014) 37.8% (2015)

Pension plan participation

DB plan participation

- 4%

67% of employees in a pension plan are in a DB plan (1980- 90%)

DC plan participation

+ 2.8%

18% of employees in a pension plan are in a DC plan

Hybrid plan participation

+ 19.3%

DB/DC plans

Responses to solvency: the full spectrum

- ignore/hide /avoid
- Moratorium on solvency funding
- Abolishment of solvency funding requirements: target benefit plans

Target (DB) benefit plans

- These plans can and must reduce benefits if funding cannot be achieved
- Supported in the Canadian private sector multi-employer environment
- Broadly opposed by the public sector
- Will be available to single employer plans

Target plan funding

Going concern funding

- Trustees set going concern assumptions

Provision for adverse deviation

- PfAD based on asset mix of plan + fixed income metrics

Target plan funding

- Plan must be funded to this level before benefits can be improved

The PfAD

- Meant to be dynamic – responding to asset mix of the plan
- Build up in good times; draw down in bad times
- Amortize deficiency in the PfAD over the plan's expected average remaining service life (EARSL) of active members

The PfAD: the concept

- The idea of the PfAD is that it is an expression of the plan’s chances of being 85% funded at the next tri-ennial valuation
- Must still be fully funded after benefit improvements
- Benefits must be reduced if not sufficient contributions to fund the PfAD

The PfAD

- A plan with a 50% allocation to equity and a going concern discount rate of 6% would have a PfAD of 21%
- Problem: the PfAD is volatile
- Problem: the PfAD could have intergenerational inequities

With the growth of DC – decumulation worries

- DB plans provide a lifetime income
- DC plans may not provide a lifetime income (there are government fences)
- Concerns around:
  - High fees
  - Sheltered employment lives: exposure in vulnerable retirement years
  - Education and communication
  - Reliance on government benefits

Decumulation concerns: early ‘solutions’

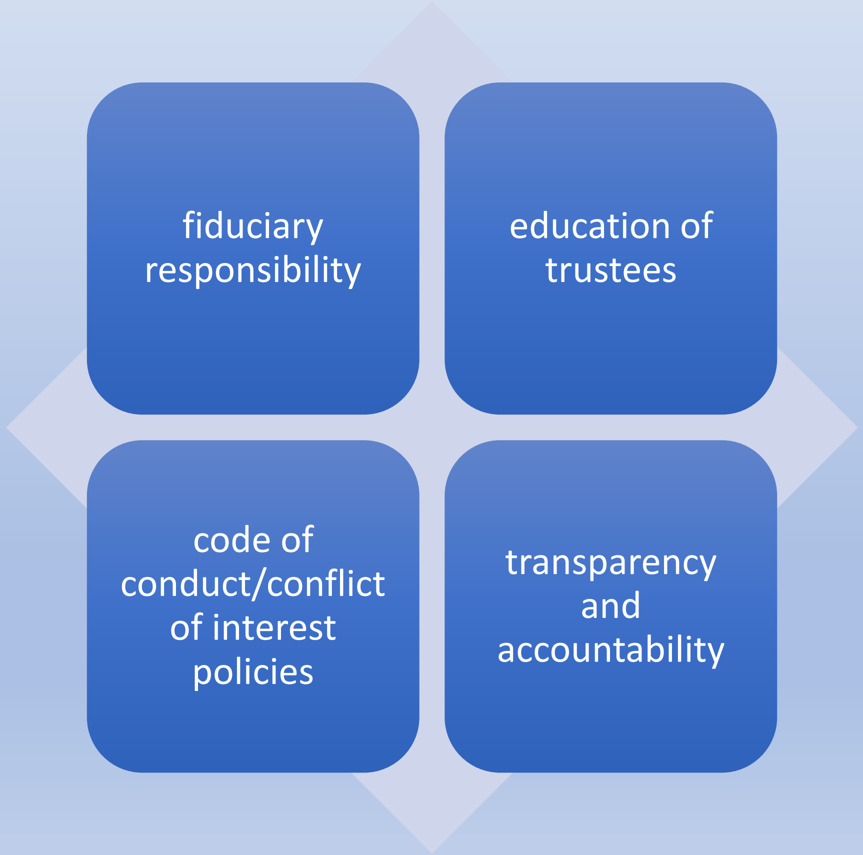
- Requirements for default options of target date funds/balanced funds
- Ability to have variable benefits paid from DC plans
- Improved disclosure to members

Governance: housecleaning to prepare for new funding models

- Regulators require governance policies, funding policies including annual measurement of *board and advisor performance*
- *New disclosures for retired members (to avoid another Nortel)*
- New initiatives for locating “missing members”

Canadian Association of Supervisory Authorities (CAPSA)

- Released a new version of its governance guideline in 2016
- 11 principles
- *Capsa-acor.org*



Environmental, social and governance (ESG)

- Required disclosure in Ontario member communication
- No other province on the bandwagon yet
- Encourages good questions around

board diversity	human rights	labour relations	climate
	compensation	independent directors	

Canadian pensions: the future

- Provinces will have a version of target benefit plans
- The horse is out of the barn: target plans unlikely to increase DB participation except for new private sector/public sector plans
- There will be a new industry around decumulation for DC plans – this may become regulated
- Government will stress that relaxing solvency requirements goes hand in hand with good governance