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 2\textsuperscript{nd} 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
Membership +

Private sector
Membership -

Coverage rate
38.1% (2014)
37.8% (2015)
Pension plan participation

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Participation Change</th>
<th>Participation Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>DB plan participation</td>
<td>-4%</td>
<td>67% of employees in a pension plan are in a DB plan (1980-90%)</td>
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<tr>
<td>DC plan participation</td>
<td>+2.8%</td>
<td>18% of employees in a pension plan are in a DC plan</td>
</tr>
<tr>
<td>Hybrid plan participation</td>
<td>+19.3%</td>
<td>DB/DC plans</td>
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Responses to solvency: the full spectrum

- Ignore/hide avoidance
- 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

- Trustees set going concern assumptions

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

- 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

- fiduciary responsibility
- education of trustees
- code of conduct/conflict of interest policies
- transparency and accountability
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