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Pension Funding Evolution in Canada

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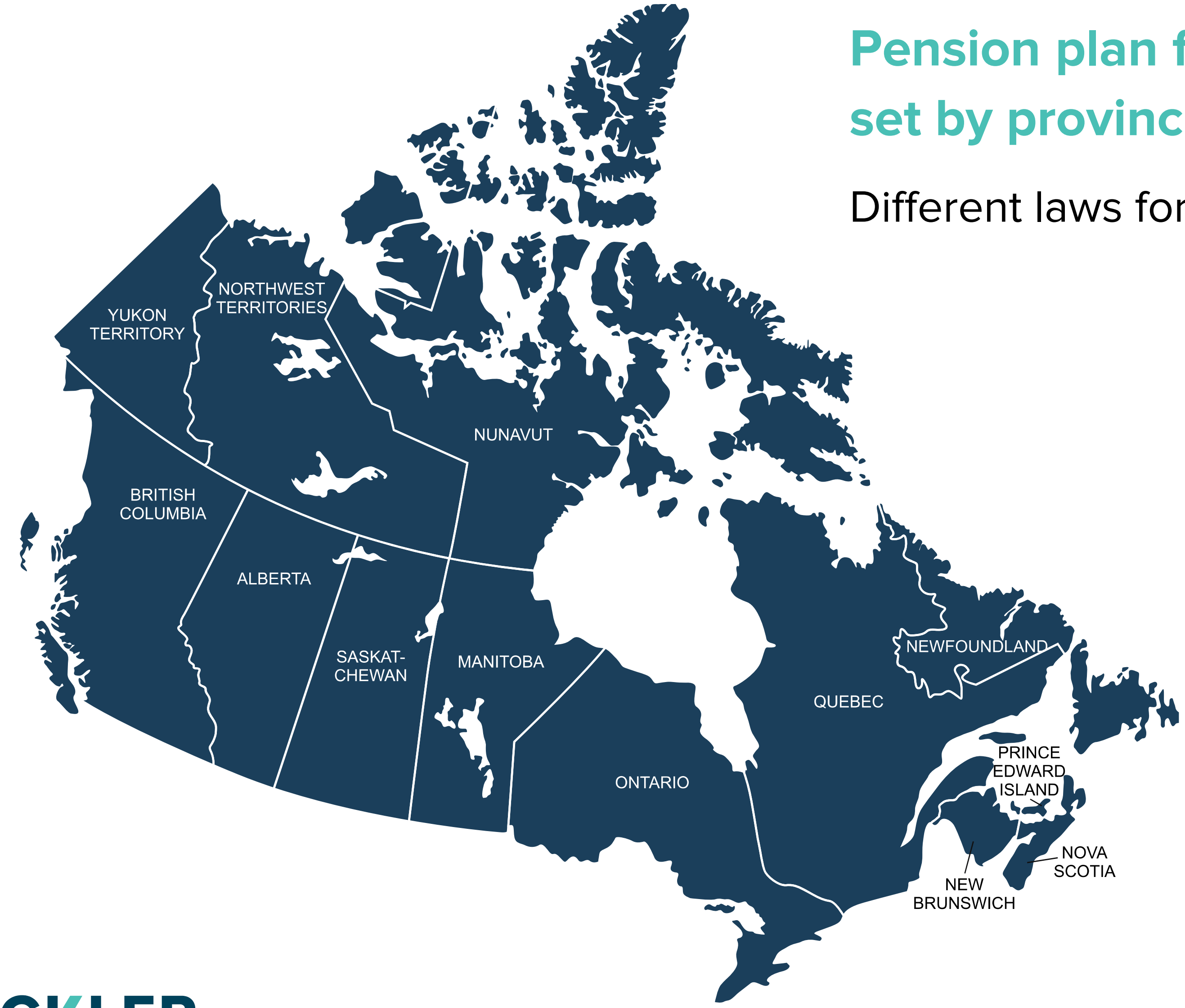
Pension Funding Rules In Canada



Pension plan funding rules set by provincial legislation

Different laws for each province

Traditional Pension Funding

Going concern

Actuarial judgement

Solvency

Market value

Types of Pension Plans

	Funding	Contributions	Ability to reduce accrued benefits	Risk assumption	Governance
Defined benefit	• Going concern • Solvency	No cap	No	Employer	Employer
Target benefit	• Going concern • Solvency	18% cap	Yes	Members	Union or joint
Jointly sponsored	• Going concern	No cap	No	Shared	Joint

Funding Challenges

1

Plummeting interest rates = skyrocketing solvency liabilities

2

2008 financial crisis = unsustainable contribution requirements

3

Target benefit plans faced with substantial benefit cuts

4

Flaws of solvency funding became apparent

Problems with TB Solvency Funding

Purpose of solvency funding is to protect members against plan termination

- Likelihood of plan termination is very small
- Contributions are fixed
- Only corrective action is benefit reductions
- Vagaries of solvency funding creates benefit volatility
- Large price to pay for remote risk

Regulatory responses

- Creation of “shared risk plan”
  - Risk is shifted not shared
  - Sophisticated modeling embedded in funding requirements
  - False sense of security
  - Model not copied across country
- Removal of solvency funding
  - Temporarily at first – becoming permanent
  - No change in going concern requirements
- Introduction of Provision for Adverse Deviation (PfAD)
  - Essentially reserve held on balance sheet
  - Levels vary
  - Generally not funded on balance sheet
  - Generally required in cost of benefits

PfAD Details

- Represented as percentage
  - Quantum depends on portion invested in risky assets and discount rate
  - From about 5% to 30%
- Creates volatility in funding if PfAD changes substantially from one valuation to next
- Additive, not inclusive, of unfunded amortization payments

Impact of PfAD

1. Margins stripped out of assumptions

2. May result in lower benefits that are more secure

3. May lead to intergenerational inequities

Observations for future

- Solvency funding needs to be permanently removed
- Reasonable PfAD makes sense
- PfAD should be applied appropriately

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Thank you.