

Addressing Pension Fund Solvency - Canada

Domenic Barbiero, FCIA, FSA

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Traditional Pension Funding



Going concern

- Actuarial judgement
- Long term focus



Solvency

- Market value
- Short term focus

Should solvency funding apply to multi -employer plans (MEP) or target benefit plans (TBP)?

Solvency Funding for MEP/TBPs

The purpose of solvency funding:

To protect members against plan termination

- The likelihood of plan termination is very small
- Contributions are fixed
- The only corrective action is benefit reductions
- Vagaries of solvency funding create benefit volatility
- Large price to pay for remote risk

If pension contributions are fixed...

It's a balancing act ...



Pension Security

Being too **safe** can lead to intergenerational inequity

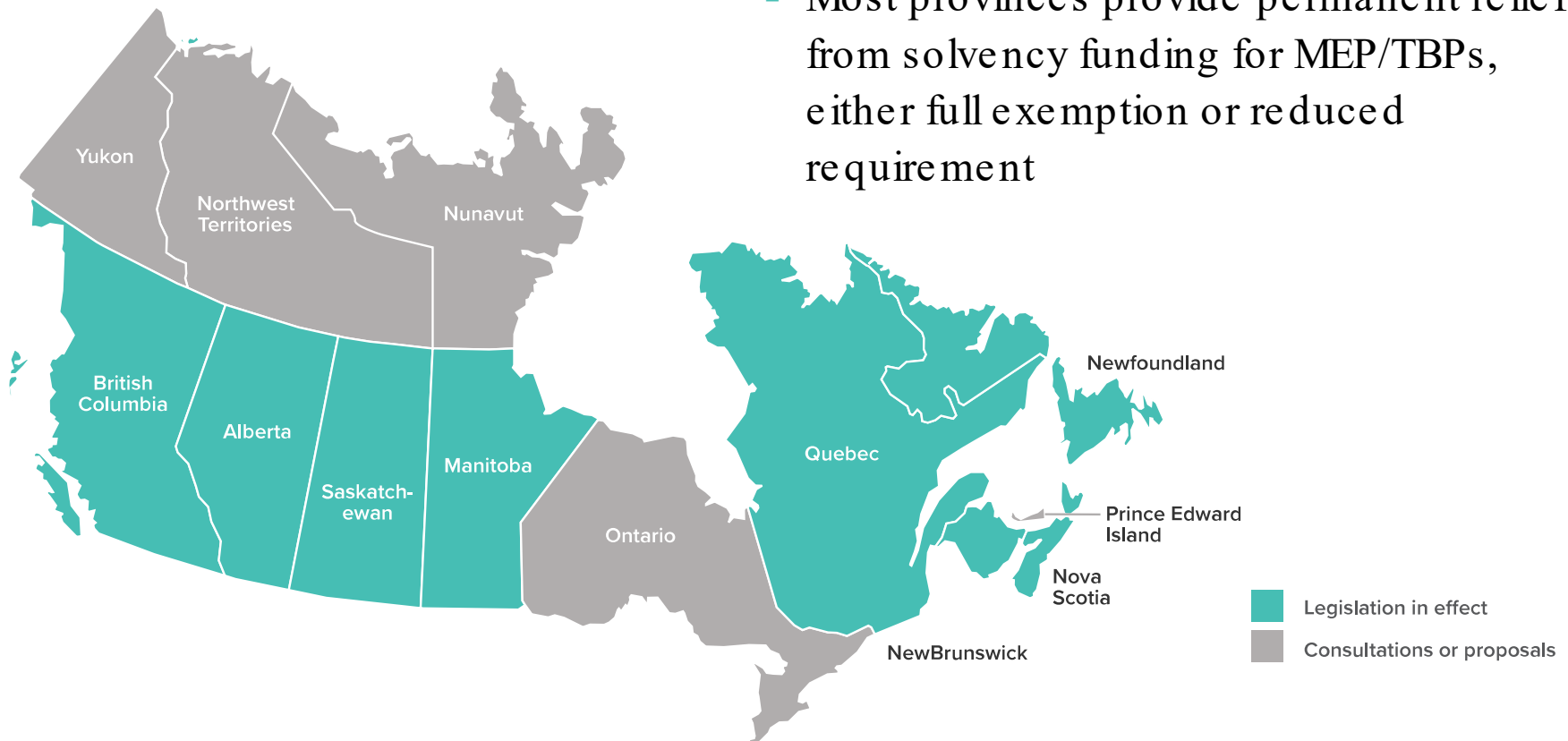
Pension Adequacy

MEP/TBPs have always done this dance; set prudent but **generous** pensions – they can be adjusted if necessary

Pension Funding Rules In Canada

Set by provincial legislation

- Laws are different by province
- Most provinces provide permanent relief from solvency funding for MEP/TBPs, either full exemption or reduced requirement



The regulatory trade-off for solvency relief

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

Introduction of Provision for Adverse Deviation (PfAD)

- Reserve held on balance sheet
- Levels vary
- Generally not funded on balance sheet
- Generally required in cost of benefits

PfAD - Details



- Approach/formula varies by province:
 - Based on asset mix, duration of liabilities, discount rate, long-term government bond rates
- Represented as a percentage
 - From 0% to 40%, depending on the province and market conditions
- Additive, not inclusive, of unfunded amortization payments

PfAD – Lessons Learned So Far

A number of provinces have implemented PfADs

- All are different

Those tied to long -term bond rates have experienced significant volatility

- Resulting in volatile funding requirements which have introduced a new challenge for Trustees

Solvency funding eliminated, but issues of solvency funding remain

- (under a different name ..)

Keys to Appropriate PfAD

1

Fixed and modest with no variable components

2

Trustees maintain some discretion

3

Avoid intergenerational inequities

ECKLER

Thank you.