August 21, 2017

Re: Revisions to Subsection 3260 of the Practice-Specific Standards for Pension Plans – Reporting: External User Report; Advice on the Funded Status or Funding of a Pension Plan

Comments of MEBCO

The Multi-Employer Benefit Plan Council of Canada (MEBCO) was established in 1992 to represent the interests of Canadian multi-employer pension and benefit plans (MEPs). MEBCO consults with provincial and federal governments regarding proposed or existing legislation and policies affecting these plans. MEBCO is a federal no-share capital corporation, operating on a not-for-profit basis.

MEBCO is representative of all persons and disciplines involved in MEPs, including trustees (union, independent, professional and employer), professional third party administrators, non-profit or "in-house" plan administrators, and professionals including actuaries, benefit consultants, lawyers, investment managers, investment counsel and chartered public accountants. MEBCO is administered by a Board of Directors consisting of representatives from each of the above groups. The Board of Directors serve MEBCO on a volunteer basis, and are responsible for identifying issues that impact MEPs, developing a strategy to address those issues, and then carrying out the strategy. MEBCO's member-plans provide comprehensive health coverage to over 1,000,000 Canadians.

MEBCO believes that sponsors of defined benefit plans should be informed of the risks related to the maintenance of such plans. However, which risks are of consequence varies significantly based on the characteristics of the plan and the sponsor. Based on this reality, MEBCO believes that disclosure of risk is essentially a consulting matter and is not a suitable topic for actuarial standards of practice, at least as proposed in the Exposure Draft (ED).

MEBCO notes that the ED includes special provisions that would primarily apply to typical multi-employer pension plans (MEPPs). MEPPs have fixed contributions, and therefore any increase in expenses (such as for additional actuarial work) leaves less for participant benefits. MEBCO is not persuaded that universal mandatory compliance with the ED as part of every going concern actuarial valuation for a MEPP is a good use of limited funds.

Further, the risks are borne by the participants, not the intended users of that actuarial report – the Trustees and the regulators. In short, those who bear the risks are not intended users.

With respect to the potential impact of a decline in the contribution base of a MEPP, any illustrative calculations are likely to be an unreliable forecaster of the actuarial impact, primarily because that decline can come about due to a variety of causes, individually and especially in combination. Possible sources of a decline might include:

- Hours worked per active member decline. Contributions decline by person, but actuarial costs may stay the same or change disproportionately, depending on the service credit rules.
- Retirements may accelerate, causing actuarial losses but also lowering the average age of the actives.
- Actives with the least service may lose their jobs, thus increasing the average age.
- Employers may go out of business or withdraw from the plan, thereby triggering certain benefit reductions for those who worked for that company.
- Most likely, the decline will be from an *unpredictable* combination of causes.

In summary, any disclosure of funding risks is only useful if it meets the needs of the intended users of that report. That is best handled as a consulting matter, not an actuarial standard. Many MEPPs are getting that sort of advice from their consultants now, tailored to the needs and desires of the Trustees. MEBCO strongly supports such advice for all MEPPs, as well as meaningful communication of the funding risks to the plan participants. The ASB's attempt to mandate the existence and form of such disclosure, however, is unlikely to do anything more than the current disclosure. This is because of the unpredictability of the impact of risks on most MEPPs most of the time. In short, if the events of a plausible adverse scenario actually appear to happen, the outcome is highly likely to diverge significantly from the forecasted effect, because those events will not happen in isolation. That will actually reduce Trustee confidence in the actuarial reports. MEBCO therefore believes that the ED should not be adopted as presented. If there is to be a pension risk disclosure standard, MEBCO suggests that it be limited to language directing the actuary to disclose the areas of perceived risk for the plan under review and to make recommendations for additional studies, if any, that would be enlightening for the intended users with respect to those risks. This would also allow the Trustees of MEPPs to manage costs better.

We would be pleased to discuss any of these comments with you.

Yours truly

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President

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