MULTI-EMPLOYER BENEFIT PLAN COUNCIL OF CANADA

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Revised Exposure Draft – Amendments to Section 3500 Of The Practice- Specific Standards For Pension Plans – Pension Commuted Values

Comments by the Multi-Employer Benefit Plan Council of Canada (MEBCO)

About 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.

Scope of feedback

We welcome this opportunity to comment on the Revised Exposure Draft. As the representative organization for traditional target benefit multi-employer pension plans (MEPPs), our comments are limited to subsection 3570: Target Pension Arrangements.

Approach for calculating CVs payable from target pension arrangements

We were pleased that the revised exposure draft does not require CVs to include a share of any going concern surplus, unless mandated by legislation or the plan's terms or policies.

MEBCO's view is that CVs should be calculated using the going concern assumptions with any margins or provisions for adverse deviation removed.

Including margins in the assumptions for CVs leads to the same problems as paying out a share of any surplus. The designated group noted some of the key problems in its recent memo, including restricting the ability of plan trustees to accumulate, manage and allocate surpluses over time in the best interests of all stakeholders. Margins can be included in assumptions for valuation purposes as an alternative to maintaining a greater surplus – they are different means to the same end, both being tools for managing volatility and reducing the risk of benefit cuts being required.

Although it is not clear from the wording of the revised exposure draft, we understand that the designated group's intention is that CVs should include any explicit PfADs as well as margins in the assumptions. Including PfADs would significantly increase CVs for members of target benefit plans in BC and Alberta (and possibly other provinces) because current pension legislation excludes the PfAD from minimum CV calculations. Further, since the PfAD is not required to be funded on the valuation balance sheet in these jurisdictions, paying out a share of the PfAD to departing members may reduce the plan's funded status and dilute the security of the remaining members' benefits. It follows in logic that members who remain in the Plan ought not to be disadvantaged compared to those who leave.

In our view, CVs should not include any provision for the plan's administration expenses. When a member takes a CV, their plan incurs one-off expenses in calculating, communicating and paying out the benefit, but the future costs of paying pension instalments are eliminated. If the plan has to meet the actual administrative costs of the CV as well as paying out a valuation reserve for future expenses, in effect it is paying expenses twice. Since MEPPs are constrained by the fact that contributions are fixed in collective agreements, the consequence of an increase in administrative expenses is a decrease in the assets available to provide benefits to members that remain in the plan.

The revised exposure draft allows for changes to be made to going concern assumptions that are considered appropriate for valuation purposes but overly simplified for CV purposes (3570.07). We support this practical measure, and suggest the Standard is expanded to cover the opposite situation, where the going concern assumptions are more granular than is appropriate for CVs. For example, different mortality assumptions might be used for different deferred members based on gender, type of work, earnings, pension amount, geographic location or other factors. Legislation explicitly prohibits offering different CVs based on gender, but might allow discrimination based on other factors that are relevant for determining life expectancy. In our view, all members with the same age and benefits should be offered the same CV, so a single equivalent mortality assumption should be used. To do otherwise would go against the principles of collective bargaining that is the foundation of target pension arrangements.

Please feel free to contact us to discuss these matters.

Yours truly,

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