February 21, 2018

The Honourable William Francis Morneau, P.C., M.P.
Minister of Finance
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Minister Morneau:

MEBCO is making this submission on behalf of our member pension plans - target benefit multi-employer pension plans (MEPPs). MEBCO's mission is to represent MEPPS to governments and regulators across the country. MEBCO's membership includes all stakeholders of our member plans – employers, unions (and thus plan members) and professionals expert with MEPPs (actuaries, lawyers, administrators, auditors and money managers). MEBCO's structure is unique in that its representation covers the complete universe of stakeholders of MEPPs and makes all submissions with the approval of all of its stakeholders.

One of the major philosophical views of MEBCO is that MEPPs do not fit well into the traditional single employer regulatory model, and we support the creation of a MEPP-specific regulatory framework appropriate for this type of plan. The risk assumption, contribution structure and governance are different for MEPPs compared to other defined benefit pension plans. As such, the applicable regulatory framework should reflect these differences. A MEPP plan type, the Negotiated Contribution Plan, currently exists in the Pension Benefits Standards Act (PBSA), but the applicable regulatory framework hinders MEPPs from providing a reasonable level of retirement financial security to their members and should be altered to address the specific characteristics of MEPPs.

MEBCO's core position is that solvency funding should not apply to MEPPs, and an appropriate funding framework should only include reasonable going concern funding requirements. This is due to the fact that MEPPs have fixed contributions, negotiated outside the MEPP by the bargaining parties. Benefit security can perhaps be enhanced by higher employer contributions, but MEPPs do not have that option. Higher funding requirements for MEPPs (through the legislated imposition of solvency funding) simply result in lower benefits, and that cannot improve benefit security. Rather, it results in today's pensioners receiving smaller pensions than the MEPP can reasonably afford to provide. Further, by implementing benefit reductions to address a deficiency that would exist in a hypothetical scenario that is highly unlikely to occur, there is forced generational inequity – the amounts withheld from today's pensioners will be distributed in the form of larger pensions for future pensioners.

Solvency funding further complicates MEPPs in that its results are highly volatile. This funding volatility translates into either an unreasonably low level of benefits or benefit level volatility. Neither of which are desirable for MEPPs, or any pension plan. The current significant funding requirements due to solvency shortfalls caused by continued low long-term interest rates and challenging market conditions have magnified this issue. In the absence of funding reforms, federally registered MEPPs will have to reduce benefits and advise their members that these benefit reductions are the direct result of the current regulations and the Federal government's failure to act and implement measures appropriate for MEPPs.

We note that the federal jurisdiction is the last major pension regulator to still require MEPPs to be subject to solvency funding. This poses another significant risk to MEPPs if the jurisdiction of registration is forced to change. For example, if a large federally regulated employer were to join a MEPP currently registered in Ontario - and exempt from solvency funding - resulting in the jurisdiction of registration becoming Federal, this could result in extensive benefit reductions as a result of now being required to fund on a solvency basis.

The PBSA currently permits a Negotiated Contribution Plan to make an amendment that has the effect of reducing pension benefits or pension benefit credits, subject to the authorization of the Superintendent. MEBCO believes that this current requirement for Negotiated Contribution Plans to receive regulatory approval of reductions in accrued benefits should be eliminated. Experience elsewhere suggests that this is problematic and unneeded. It delays required balancing of benefits and contributions. It requires intervention by someone who is not close to the situation and who may be more interested in uniformity among plans than in recognition of real differences between plans. And the patchwork of differing rules is a nightmare for multi-jurisdictional MEPPs.

Lastly, another key issue of great importance is the computation of transfer values for MEPPs. MEBCO is opposed to providing transfer values from MEPPs at all, as that permits a terminating participant to convert the defined benefit type pension negotiated by the union into a defined contribution account. If transfer values continue to be available, MEBCO strongly recommends that MEPPs be permitted to determine the amount as the funded percentage determined on a going concern basis (but not in excess of 100%). This will recognize the risk of a post-transfer benefit reduction and, given the emerging pattern in other provinces, it will promote uniformity among jurisdictions and within multi-jurisdictional plans.

In closing, MEBCO would like to highlight that the MEPP model continues to be a success story among the otherwise bleak picture of private sector defined benefit type pension plans. MEBCO supports a regulatory framework specific to MEPPs, including an exemption from the solvency funding requirements, to maintain their continued success in serving the participants and their employers well. MEBCO representatives are available to meet with you to facilitate the process of establishing the appropriate regulatory framework for MEPPs. Thank you for the opportunity to express our views in this submission.

Respectfully submitted,

Robert Blakely
President
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Copy to: Ian Foucher, Senior Policy Advisor, Office of the Minister of Finance
Lynn Hemmings, Senior Chief, Pension Policy, Department of Finance

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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.