



Office of the Superintendent – Pension Commission
Room 1004 – 401 York Avenue
Winnipeg MB R3C 0P8

Pensions@gov.mb.ca

Dear Madam or Sir:

Re: Manitoba *THE PENSION BENEFITS ACT* REVIEW Consultation Paper

Thank you for the opportunity to provide comments on the *Consultation Paper Pension Benefits Act Review* (CP). We would like to point out that the CP's commentary that target benefit plans are new is not accurate. In fact, they've existed for many decades in most Canadian jurisdictions, including Manitoba. These plans have typically been multi-employer pension plans (Multi-Unit Pension Plans - MUPPs – under the Manitoba PBA) which have all of the features of “new plans” as defined in the CP.

We provide our responses to the CP's specific questions.

Part 3 – New Plan Designs

1. *Should Manitoba develop a regulatory framework for a new target benefit or shared risk pension plan design?*

Yes, target benefit plans should be subject to a regulatory framework appropriate for this type of plan. The risk assumption, contribution structure and governance are different for a target benefit plan and other defined benefit pension plans. The regulatory framework should reflect these differences. The regulatory framework should also recognize that MUPPs have successfully operated as target benefit plans for several decades and any new framework should recognize existing features of MUPPs rather than impose any new requirements.

2. *If so, should a target benefit or a shared risk pension plan framework be developed?*

Yes. Please note that the shared risk pension plan framework is a misnomer. Under New Brunswick shared risk rules, it appears that the “sharing” is between active and retired participants, with the employer sharing little or none of the risks.. Further, this structure imposes rigid financial modeling into the funding requirements. We do not believe that such approaches are reasonable or appropriate as mandatory funding requirements for MUPPs.

3. *Should the new plan design be available to both single employer and multi-employer plans, and both private sector and public sector plans?*

MEBCO takes no position on single employer or public sector plan issues. For MUPPs, there is no need for a new plan design – the current model is successful.

4. *Should conversion to the new plan design be permitted for future benefit accruals only?*

MEBCO takes no position on single employer or public sector plan issues. For MUPPs, there is no need for a conversion – the current model is already a successful target benefit plan.

5. *If conversion of existing benefits is permitted, should union or member consent be required?*

MEBCO takes no position on single employer or public sector plan issues. For MUPPs, there is no need for a new plan design – the current model is successful.

Although not asked in the CP, MEBCO believes that target benefit Multi-Employer Pension Plans (“MEPPs”) should be restricted to the unionized environment. Voluntary employer participation can lead to the demise of a pension plan if employers can elect to leave without any other repercussions. The organizational structure provided through a union ensures plan members have a democratic voice in the management of their pension plan. Further, unionized employers tend to have better longevity than non-unionized organizations (where MEPPs are prevalent), which is critical to the long-term sustainability of the target benefit MEPP.

Also not asked, but of great importance, is the computation of transfer values for target benefit 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. Part 4 – Solvency deficiency funding rules

With respect to the CP’s questions #7 - #11, MEBCO provides the following comments. MEBCO’s core position is that solvency funding should not apply to MEPPs, there should be reasonable going concern funding requirements, and there should not be legislated provisions for adverse deviation (PfADs). This is because 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 or PfADs) 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, if the PfADs turn out to be unneeded, there is forced generational inequity – the

amounts withheld from today's pensioners will be distributed in the form of larger pensions for future pensioners.

This approach is consistent with the CP's stated fundamental policy objective, which is "...to create a stable retirement income system to enhance the well-being of older citizens."

Part 5 - Locking-in provisions and access to locked-in pension funds

MEBCO believes that target benefit MEPPs should not be required to administer hardship or other withdrawals, given that they are regulated as defined benefit plans. Rather, any statutorily authorized hardship or other withdrawals should only be available from defined contribution accounts, such as RRSPs to which a commuted value has been transferred.

Part 6 – Compulsory pension plan membership

MEBCO is strongly opposed to permitting opting out of a collectively bargained target benefit MEPP. In addition to labour relations issues, such an option would result in the deterioration of the MEPP's financial position. Collective agreements call for each employer's contributions to be determined as the same amount for each unit of work, whether that work is done by a younger (lower pension cost) worker or an older (higher pension cost) worker. If, as is likely, those opting out are lower-cost, then the average per capita cost for the remaining employees goes up but the average per capita contribution stays the same. Also, if part of the negotiated contribution is required to meet a MEPP's fixed cost (e.g., administrative expenses or unfunded actuarial liabilities), the MEPP's lost contribution income may lead to substantial required reductions in benefits.

Part 7 – Division of pensions on relationship breakdown

MEBCO takes no position on these issues.

Part 8 – Clarification/legislative gaps

MEBCO provides its comments on the following questions.

19. *For plans not already designated as a multi-unit pension plan (MUPP), is it reasonable in a Manitoba context to replace MUPPs with multi-employer pension plans and specified multi-employer pension plans, consistent with the provisions in other jurisdictions and the Income Tax Act (Canada)?*

Yes, MEBCO agrees that this is a more appropriate approach to regulating plans with more than one employer. But MEBCO believes that the current requirement in the Manitoba PBA for MUPPs 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 of 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.

20. *Should the provisions setting out when an individual ceases to be an active member of a DB Plan be amended to provide that a member can choose to suspend membership and contributions at normal retirement age (normally age 65) while remaining employed, and upon subsequent commencement of a pension, receive the actuarially increased value of the pension accrued to age 65?*

As discussed above, MEBCO does not believe that allowing individual workers to opt out of the MEPP contributions that are part of their collective agreement is appropriate.

21. *Should the provision setting out entitlement to ancillary benefits be amended to clarify when an ancillary benefit is vested and must be included in the calculation of commuted values?*

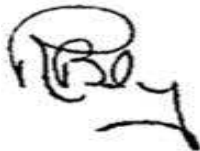
MEBCO believes that, in a fixed contribution environment, it would be inappropriate to mandate inclusion in vested obligations of benefits where all the conditions for vesting have not yet been met, as the cost of such a provision would come at the expense of the adequacy of pensions for career workers.

22. *Should the pension committee requirements be amended to clarify that if there is no inactive member in the plan, or no inactive member willing to be on a pension committee, the inactive member position can remain vacant?*

MEBCO agrees with this position, so long as it does not result in the participants' representatives having less than half of the Trustees. However, MEBCO believes that having a designated representative for inactives is inappropriate with respect to a MEPP's Board of Trustees. It is essential for all Trustees to represent all plan participants in order for there to be even-handedness in plan decisions.

We will be pleased to meet with you to discuss these issues further.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'R. Blakely', with a stylized flourish at the end.

Robert Blakely
President

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.



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