April 27, 2018

Target Benefit Funding Framework
Pension Policy Branch
Ministry of Finance
5th Floor, Frost Building S
7 Queen's Park Crescent
Toronto, ON M7A 1Y7

Dear Madam or Sir:

Re: Target Benefit Multi-Employer Pension Plan Framework (the "Framework")

MEBCO appreciates the recognition that the funding regime for target benefit multi-employer pension plans (MEPPs) ought to differ from the regime for single employer pension plans (SEPPs), and that solvency funding requirements are not appropriate for MEPPs. Beyond that, however, **MEBCO is disappointed that its prior submission dated December 15, 2017 appears to have been disregarded in critical ways. The Ministry of Finance (MoF) proposed framework, if implemented, would be adverse to the continued accomplishments of the one private sector pension model that is working well, preserving essential retirement benefits, and not being abandoned – MEPPs**.

MoF seems persuaded that benefit security can be enhanced by its proposed funding requirements (particularly the high PfADs – even higher than for SEPPs), whereas the reality is that the primary impact will be to *lower benefits and increase intergenerational inequity* with no added benefit security.[1] Further, MoF does not appear to recognize that the contributing active participants will resist giving up current cash compensation by agreeing to higher pension contributions when little or none of the added value goes to them. If the relationship between MEPP benefits for active employees and their negotiated contributions becomes adverse, the active members may think that a defined contribution plan (for which all contributions fund benefits for actives) is a much better deal. Of course, under a defined contribution arrangement, the individual takes on all investment and longevity risk.

[1] Our prior submission explained this reality in detail; we will only comment briefly here. All a high PfAD will do is ensure that money intended for benefits will be stuck in the fund, unable to be used to pay benefits. This surely was not what was intended and serves only to suggest to plan participants that they are disadvantaged by contributions that are frozen. This makes no sense.

Early indications are that the best-funded MEPPs may barely meet the new requirements, whereas others will need to reduce benefits unless the active employees are somehow willing to increase contributions (resulting in lower wages) and get no added benefits for those contributions. MEBCO notes that the last ten years have generally been years of favourable investment returns and high employment. That is not likely to persist indefinitely, particularly in cyclical industries like construction. That suggests that the MEPPs that can meet the proposed requirements will, sooner or later, be faced with benefit reductions because, at a time of lower employment, it will simply be impossible to negotiate higher contributions. Those benefit reductions may be solely to satisfy the proposed requirements, even though the probability of the unreduced benefits being paid indefinitely is quite high.

As MEBCO previously indicated, holding large PfADs compels lower benefits than a plan can reasonably afford. In the likely case where those PfADs are not needed, they get released in the form of higher benefits to a future generation – today's active plan members and retirees paid for benefits that go instead to future retirees – and the rigidity of the proposed funding model will compel those deferred higher benefits to be delayed until several generations later.

The MoF proposal treats benefit improvements for future years of service more favourably than spending the same amount on increases for all years of service. The reality is that diverting money from wages to pensions is most likely to be acceptable if those near retirement prevail on their younger colleagues to increase pension contributions. A "future service only" enhancement does little or nothing for those near retirement, thus making it difficult or impossible to negotiate additional pension contributions.

We have an overriding concern with respect to the rigidity and inflexibility of the MoF proposal. Once again, we urge you to review our submission dated December 15, 2017, a copy of which is attached for your ease of reference. As indicated in those submissions, MEBCO would support a minimum requirement for PfADs, but these minimum PfADs should be established at much lower thresholds than in the current MoF proposal. Establishing lower minimum PfADs would strike a better balance between benefit adequacy, affordability and security that is appropriate for the individual plan. Lower minimum PfADs would also permit greater flexibility to better balance the various plan objectives, including benefit adequacy, affordability, security, stability and intergenerational equity. The greater flexibility in our earlier submissions would also permit PfADs to be built up in favourable times and drawn down in times of adverse plan experience. This highlights a major drawback of the MoF proposal as MEPPs would not be able to utilize PfADs to offset adverse plan experiences; rather, the MoF proposal simply creates a fixed additional liability that is of no utility to current pensioners and active members.

MEBCO is concerned about the implication that, when benefit reductions are required,[2] the regulators will dictate the details of how those reductions must be implemented. Regulators are often concerned with uniform rules that are easily monitored – that means that different situations are treated alike. That is likely to give worse outcomes than the current deference in such matters to a MEPP's trustees, who are best qualified to reflect appropriate responses for specific circumstances. For example, a regulatory requirement to protect pensioners may force benefit cuts to actives that undercut their support for continued contributions, whereas a requirement to protect actives may lead to increased poverty among pensioners. And some forms of reduction, such as changes in early retirement rules, may make it difficult for employers to retain the experienced skilled workers that are critical to their operations. Trustees who are knowledgeable about their membership are in the best positon to manage equity in rendering decisions concerning both possible benefit reductions and benefit improvements.

MEBCO is also concerned that continually adding to the panoply of funding, benefit, and governance policies that differ by jurisdiction will lead to unmanageable or illogical intra-plan differences for multi-jurisdictional MEPPs. Examples would be different reductions required for members in different provinces in bad times, or different transfer value computations for members in the same plan.

Once again, MEBCO strongly urges MoF staff to meet with us to design jointly a framework that protects benefits without forcing pensions that are unnecessarily low or compelling intergenerational inequity. The proposed framework is not an appropriate model for the MEPP environment.

Robert Blakely
President
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[2] Historically, benefit reductions for MEPPs have been rare, except as a result of the 2008 recession, and most MEPPs have been able to restore the 2008 reductions. Wind-ups for Ontario MEPPs have been nearly non-existent – MEBCO is only aware of three in the last 25 years.

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.

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