



The Canadian Federation of Pensioners
Advocating on Behalf of Pensioner Groups & Their Members

26 February, 2009

Pension Standards Review
Alberta Finance and Enterprise
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Pension Standards review
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Report of the Joint Expert Panel: *Getting Our Acts Together: Pension Reform in Alberta and British Columbia*

The Canadian Federation of Pensioners (CFP) congratulates the panel on its well researched findings and its well thought out proposals and recommendations contained in this excellent report. CFP would also like to thank the governments of Alberta and British Columbia for providing us with an opportunity to comment.

CFP is an umbrella organization for defined benefit pension plan (DB plan) retired member groups who have a total membership exceeding 100,000. Currently CFP is focusing on the need to improve the long term security of single employer defined benefit pension plans by:

- Participating in government and other forums established to review the many issues and challenges associated with DB plans; and
- Identifying and seeking action at the federal level on retired member financial issues when there is a forced wind-up of a DB plan that has a solvency funding deficit.

Attached is our submission in response to the panel's report. CFP would be pleased to discuss anything in our report in more detail and to answer any questions. We are anxious to participate in any way with the next set of government activities leading towards the implementation of the panel's recommendations.

Sincerely,

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CANADIAN FEDERATION OF PENSIONERS

Comments on the
Alberta – British Columbia
Joint Expert Panel on Pension Standards
Report,
*Getting Our Acts Together: Pension Reform in
Alberta and British Columbia*
Issued November 2008

The Canadian Federation of Pensioners (CFP) congratulates the joint expert panel on the quality and thoroughness with which it conducted its review and especially in preparing this excellent report. CFP strongly supports the report's recommendations as they apply to single employer defined benefit pension plans (DB plans). Below are a few additional considerations which we believe would further improve the financial security DB plan pensions.

We reviewed the panel's report from the perspective of our comments and suggestions included the original CFP submission to the panel in February 2008 and as highlighted here.

- End the pension plan information void, so that retired members - who are key stakeholders – may be assured of being kept fully informed on all relevant matters affecting their pension plan. See our detail comment below regarding Recommendation 7.1.2
- Update funding requirements to ensure continuous full solvency, so that the financial risk for retired members is at least minimized if not eliminated; *and*
- Support continuous solvency by establishing a pension plan reserve fund which serves not only to protect the financial security for retired members but also provides the sponsor with the ability to smooth its funding requirements throughout normal business, financial and economic cycles.

The panel's recommendations regarding funding levels, contribution holidays, etc. are a step in the right direction but still leave too much opportunity for deficits to occur. CFP strongly supports Recommendation 8.1.2-A on the establishment of a *pension security* fund and we believe it should be a mandatory requirement in that it ultimately benefits every DB plan stakeholder. For retired members, it would mean less risk of a DB plan being in deficit should it ever be forced to be wound-up.

- Expand and accelerate reporting to the regulator, to allow this body to perform as a proactive and effective 'watchdog' for retired members, in situations where problems or irregularities are suspected in the financial status or performance of the subject pension plans. The report does not provide a recommendation on this. CFP believes it is an area which should be reviewed and improved upon immediately and

also should be reviewed by the regulator ongoing. Current reporting is stale by the time it is issued, especially in light of the current solvency funding crisis along with the impact of the financial and economic crises on pension plan sponsors. As well, administrators have newer and better capabilities available to them to produce this information much quicker thanks due to constantly improving information systems and technologies.

- Introduce independent professional reviews and proactive regulatory monitoring to ensure adherence of pension administration functions to government regulations and guidelines, and for compliance with standards of practice established by applicable professional organizations. See the detail comments in the section below re Recommendations 6.4.1-A and 7.1.
- Prescribe annual inflation adjustments of pensions, to compensate for both the cumulative effects of inflation over time as well as the increasing longevity of seniors. There are no specific recommendations in the panel's report covering this item. Pensioners are living considerably longer than ever and therefore are exposed to the cumulative effects of increases in the cost of living for an ever longer number of years. This has been recognized and dealt with for the Canada Pension and Old Age Security plans. It's time that the DB plan model is updated to also provide for some form of annual indexing.
- Resolve the issue of surplus ownership ("Assymetry" Issue). The review panel has addressed this important issue and has made a comprehensive and worthy recommendation (Ref: 8.1.2-D).

Additional Comments on Specific Recommendations

6.4.1-A. The regulator should have the power to impose administrative penalties...

Retired members are increasingly concerned about their pensions in light of the reports in the media of pension plans being in financial difficulties or having to be wound-up with deficits because the financial failure of plan sponsors. DB plan retirees put their trust in a regulator who will ensure that their pension plan is being properly funded and administered according to legislation. This recommendation is therefore very important from the point of view of enforcing the need for the regulator to receive reports from pension administrators on a timely basis.

In addition, CFP is of the opinion that the regulator should be empowered and provided with the funding and the tools needed to be proactive in monitoring DB plans on a current basis. We understand that at least one other pension regulator in Canada does have modelling tools which enable it to flag a pension plan which could be having funding issues. This allows for the regulator to communicate with a plan administrator and if necessary can request an actuarial review be performed.

The regulator can thus work with the plan administrator to verify that action is being taken to correct an issue and thereby strive to help minimize potential risks for members and retired members. This is critically important right now given that many if not all DB plans are having funding solvency issues due to turbulence in the investment markets.

6.5.2-A. Joint Pension Advisory Council

The importance of having retiree representation on the council cannot be overstressed as it recognizes that retirees are key DB plan stakeholders. Retired members face the greatest financial risk should any proposed new or revised government policy or regulations have a negative impact on the financial status of their pension plans. Retired member representation is also needed to protect retirees in situations where there are conflicts of interests between them and active members.

7.1. Governance standards

Having a governance policy and a funding policy, mandating trustee/fiduciary education, etc., are positive recommendations and warrant serious consideration. But there is a need to ensure that having policies and standards in place also means they are being adhered to in practice. At a minimum, regulations should require that the pension administrator provide a certification that a plan does have up to date governance policies and practices and that these have been followed by the administrator.

The regulator should have the capacity and the mandate to conduct selected and/or random field reviews to ensure that the governance policies and practices for each pension plan are up to date and are being followed. One Canadian pension regulator has reported finding discrepancies in these areas during such reviews. This means that in these cases the respective plan members and retirees have been out at risk and likely the sponsors have as well.

7.1.2. Disclosure to members

DB plan retirees should have access to the same information that is filed with the regulator on an annual and triennial basis and it should be made available to them at the same time.

Today, most pension administrators should be capable of providing a website where members and retirees may access this reported information along with such things as the plan's governance policies - as long as there is an additional provision to accommodate retired members who do not have internet or e-mail access.

7.3. Investment rules

Smaller DB plans may not have affordable access to quality financial investment expertise and/or the investment opportunities (e.g. in public infrastructure capital projects) that are available to large funds. CFP urges that consideration be given as to

allowing plans to pool their funds for investment purposes. The results could be better fund management and fund performance at likely lower costs.

8.1.2-A. Pension Security Funds

CFP suggests that consideration be given to incorporating it as a separate but at the same integral part of a pension plan rather than have it sit outside as a trust fund or other financial instrument or vehicle. If the security fund sits outside the pension plan and is not covered within pension plan legislation, it could be difficult to find bullet-proof ways to protect it from a plan sponsor's creditors in case the business fails and also safeguard it if the business is sold, re-organized, merged with another company, etc.

8.1.2-B. Contribution Holidays/surplus withdrawals – regular fund

It is very tempting for a plan sponsor to look at the plan “surplus” as a potential source of funds especially when the business could be struggling financially. Because of this, CFP recommends that administrators or sponsors be required to apply to the regulator for permission to withdraw surplus funding before proceeding to do so. This could become a valuable regulatory checkpoint to ensure that the current funding requirements of the plan and related requirements in legislation and regulations can continue to be met or complied with.

10.1. Income tax rules

The current solvency funding crises for DB plans illustrates the need to encourage the funding of these plans over and above the full solvency level. It also provides an opportunity to study the most appropriate way to set the maximum funding level(s). The report suggests a 25% upper funding limit which may or may not be sufficient. The upper limit should encompass both the main fund and the recommended ‘security fund’.

CFP recommends further study be done regarding how the maximum funding limit should be set and should there be more than one maximum funding cap. For example, should the cap consider how much funding or overfunding is required be based on characteristics unique to each plan e.g., the ratio of active members to retired members? Is the plan open or closed to new members, etc.? Some types of industries and businesses are more prone to deeper economic cycles than others and this can have a significant impact on the sponsors' abilities to fund their pension plans when required.

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CFP Canadian Federation of Pensioners

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The Canadian Federation of Pensioners (CFP) was formed in 2005 to bring together retiree groups for the purpose of exploring pension plan issues from a pensioner point of view. Currently CFP is focusing on the need to improve the long term security of single employer defined benefit pension plan (DB plan) pensions by:

- Participating in government and other forums that have been formally established to review issues and challenges with DB plans; and
- Identifying pensioner issues with the current Canadian legislation for when a business is sold or merged, declared insolvent, bankrupt or is forced to wind-up, and the pension plan is underfunded.

CFP is a growing organization which currently has eight actively involved pensioner groups whose DB plans are sponsored by a wide spectrum of businesses and whose individual members encompass retired corporate officers, senior executives, management, non-management, union and professional employees. In addition, CFP liaises with a number of other retiree groups which, together with the 8 active groups, represent the interests of over 100,000 DB plan pensioners.