Pension Funding Framework Review

What We Heard

April 2018

NOVA SCOTIA

Pension Funding Framework Review: What We Heard
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Introduction

In September of 2017, the Nova Scotia government released a discussion paper entitled *Pension Funding Framework Review And other issues affecting pension plans*. This paper was seeking the public's responses to various discussion questions posed throughout the paper. The paper also welcomed comments relevant to the funding framework for pension plans and other regulatory issues. The deadline for feedback was November 10, 2017.

Fifty-four submissions were received (including 25 individual submissions that contained essentially the same content and appeared to be part of the same initiative). The respondents broke down as follows:

- 9 plan sponsors/trustees;
- 4 labour groups/unions;
- 2 retiree organizations;
- 6 actuarial consulting firms;
- 5 industry organizations; and
- 28 from private individuals (25 of those were letters from private individuals stating they belong to a union).

Varied opinions and points of view were presented in the submissions and not all submissions addressed all the topics in the Discussion Paper. Not all opinions and/or ideas expressed in the submissions are summarized in this document. Only high level themes are discussed here, although all feedback is being weighed in the consideration of any changes to pension law in Nova Scotia.

Changes to the Funding Framework for Defined Benefit Pension Plans

Pension Plan Sponsors/Trustees

There was strong support for solvency funding reform among pension plan sponsors/trustees that are subject to solvency funding requirements. These sponsors/trustees were open to some form of change to the existing funding framework. Preferences in respect of the desired reforms varied amongst respondents, with each of the three options presented in the Discussion Paper favored by at least one submission. There was support for 1) maintaining full solvency funding, but introducing measures to help reduce volatility (respondents supported a longer amortization period, consolidation of deficiencies and establishing solvency reserve accounts); 2) eliminating solvency funding and enhancing going-concern funding; and 3) reducing the level of solvency funding required (respondents also support strengthening going-concern funding requirements).

Five respondents that are currently exempt from solvency funding requirements took the position that the solvency exemptions currently in place should remain in place. All but one of these respondents advocated that any enhanced going-concern funding requirements should not be required to apply to solvency exempt plans. In contrast, one respondent supported enhancing going-concern funding requirements for all plans and, in particular, those plans currently exempt from solvency funding.

Labour Groups/Unions

While these groups generally supported maintaining 100 per cent solvency funding, some were open to moderate changes to the existing regime. There was support for the exemption of solvency funding for broader public sector pension plans and other pension plans with low risk of insolvency. There was also a strong call for robust member consent provisions for any solvency relief or exemptions and to establish a provincial pension guarantee fund. None of these organizations supported replacing solvency funding with enhanced going concern funding or supported the reduction of solvency funding to a threshold lower than 100 per cent.

Retiree Organizations

One respondent suggested stronger funding rules and would also support less than 100 per cent solvency funding only if a Pension Guarantee Fund was created. The other submission had no comments on the funding framework.

Actuarial Consulting Firms

Generally these respondents viewed the current funding framework as overly stringent and volatile. There was little support for maintaining full solvency funding. Most of these respondents supported the option of eliminating solvency funding and enhancing going-concern funding. Respondents supported longer going-concern amortization periods and PfADs (provision for adverse deviations). There was little support for imposing restrictions on return on investment assumptions.

Industry Organizations

Three submissions preferred eliminating solvency funding and enhancing going-concern funding. One organization believed 100 per cent solvency funding should be maintained. One submission did not take a position on funding reform. Two submissions emphasized that harmonization with other jurisdictions should be considered when making any reforms.

On the individual submissions, one commented on the funding framework of defined benefit plans. That individual supported eliminating solvency valuations and encouraged a funding framework based on going concern valuations and equal cost sharing between members and plan sponsors.

The following additional reforms and considerations, among others, were brought forward by various respondents:

- Removal of the requirement for annual valuations for plans exhibiting "solvency concerns";
- A transition period and transition rules to any new framework;
- Consideration of the impact any change to the funding framework would have on plans with solvency exemptions, including SMEPPs (specified multi-employer pension plans);
- Implementation of a funding framework that is customized to each pension plan and/or considers the risk of the sponsoring organization defaulting on its pension promises;
- Implementation of a pension benefit guarantee program (similar to Ontario's);
- Revision of commuted value payouts to be a proportionate share of assets, or to be based on the pension plan's most recent solvency ratio with no requirement for any top-up.
- Requirement for member consent for any ability to reduce special payments from the current legislative requirements;
- Removal of designated pension plans from the provincial funding framework; and
- Consideration of alternative settlement methods on pension plan wind-up.

Target Benefit Plans (TBPs)

While several of the employer/plan sponsor submissions did not comment on target benefit plans, of those that did, the majority supported Nova Scotia developing a regulatory framework for TBPs. Those that supported the idea of TBP regulations did not feel TBPs should be restricted to unionized environments and largely supported permitting the conversion of past benefits to target benefits.

Labour groups/unions and retiree groups were generally not opposed to the idea of TBPs if they were designed to increase pension coverage and did not allow employers to "walk away" from their pension responsibilities. All submissions in this category were opposed to the conversion of past benefits. Labour Unions preferred that TBPs be restricted to unionized employees while retiree organizations saw no need for such a restriction.

Actuarial consultants and industry groups generally support the idea of TBP regulations. They do not feel TBPs should be restricted to unionized environments and support the conversion of defined benefits, including past benefits, subject to certain conditions (consent, risk management requirements and transparency).

Several private individuals wrote to express concern with permitting TPB's, and did not support permitting the conversion of past benefits.

Discharge on Annuity Purchase

All respondents, except for one, were supportive of providing a statutory discharge for liabilities associated with an annuity buy-out purchase. Suggested conditions/considerations included:

- Purchase should be from a qualified provider (regulated insurance company)
  - Annuity provider should have a high credit rating
  - Annuities purchased should have full Assuris protection
- The purchase should not have any negative impact on the funded status of the pension plan
- Benefits and rights provided to the affected members should remain the same
- Requirement for Superintendent approval of insurance
- Retention of annuitants' surplus ownership rights
- Retroactive applicability of discharge

Permitted Investment Rules

There was general support for mirroring the federal permitted investment rules and incorporating them by reference in Nova Scotia's *Pension Benefits Regulations*. Those not in support believed Nova Scotia should retain its independence in determining what rules are appropriate. There was concern raised about federal legislation removing "the 30 per cent rule" and the belief that the Nova Scotia government should not follow suit in respect of this change.

In Closing

Many submissions provided valuable information on the advantages and disadvantages of various funding framework options as well as advocated that certain value propositions be considered when making any policy decisions. This input, although not all summarized here, was greatly appreciated. The Province thanks all respondents for their input and will consider all information provided in response to the Discussion Paper in determining what, if any, actions will be taken.