27 February 2009

The Honourable Dwight Duncan
Minister of Finance
Attention: Comments on Report of the Expert Commission on Pensions
C/o Pension and Income Security Policy Branch
5th Floor, Frost Building South
7 Queen's Park Crescent
Toronto, ON M7A 1Y7

Emailed to: Pension.Feedback@ontario.ca

Dear Minister Duncan

Financial Executives International Canada (FEI Canada) is pleased to submit the following recommendations in response to your call for comments on the report of the Expert Commission on Pensions, "A Fine Balance: Safe Pensions, Affordable Plans, Fair Rules."

With more than 2,000 senior Canadian financial executives across the country, and more than 850 in Ontario alone, FEI Canada's members typically hold senior positions at medium-to-large corporations and in public sector organizations. FEI Canada has been consulting on pension matters since the 1970's, at which time we initiated a series of pension plan surveys, the first of their kind in Canada. Since then the association has sponsored several pension papers. These include Canada at the Pension Crossroads (1978) and Business Committee on Pension Policy Papers (1983). FEI Canada submitted a brief to and appeared before the Expert Commission on Pensions in October 2007 and has participated in subsequent stakeholder discussions.

In your call for comments on the recommendations tabled by the Expert Commission on Pensions, you asked that participants be mindful of the terms of reference outlined for the Commission. In doing so, we acknowledge, along with Mr. Arthurs, that his mandate and our comments prevent exploration of a supplement, to or a replacement of, the current voluntary system as outlined in section 9.5 of the report. FEI Canada is in support of and endorses the recommendations outlined in that section. We do so as the analysis of the Commission indicates that defined benefit (DB) pension plan coverage is in decline because of the major demographic and economic changes in Ontario described in the report, and what Mr. Arthurs noted as "a virtual impasse in the process of reforming Ontario's pension system."

FEI Canada members are employed by corporations, many of which have DB pension plans that the Report refers to as Single Employer Pension Plans (SEPP). These plans are at the centre of the current pension crisis that has been exacerbated by the recent global credit contraction and collapse of equity values with the resulting current recession that may prove to be lengthy. These financial conditions are a fitting stress test for the Report's recommendations concerning SEPPs.

These same conditions give urgency to the implementation of the many excellent recommendations in the Report concerning properly funded and staffed Pension

Regulator/Superintendent, Pension Agency, Pension Champion, Pension Community Advisory Council, and their respective responsibilities.

FEI Canada supports the harmonization with the ITA and the pension statutes of other provinces. Also, we favour the definition of surplus within the Pension Benefits Act that we recommend be written so that amendments can be implemented by regulation rather than by legislative process. We would like to see this consistent application for any additional regulatory improvements and adjudication recommendations. We welcome a clear definition of partial wind-up with no distribution of surplus and some form of pension portability for employees whose working lives more frequently include several employers. We also support the recommendation concerning plan mergers and splits as corporate plan sponsors reconfigure themselves in changing economic and employment circumstances.

Mr. Arthurs recommended new forms of pension plans and related changes in the regulatory environment, including only providing funding on a going concern basis without paying premiums to the Pension Benefit Guarantee Fund (PBGF). We support this recommendation as such new forms will enable our SEPPs more ready access to the proposed jointly governed targeted benefit pension plan (JGTBPP). Joint administration mechanisms *per se* do not reduce plan risks, nor do they improve the quality of decisions. On JGTBPPs, we recommend a simple majority voting structure, rather than the two-thirds majority of all members suggested by the Arthurs Report. Those with pensions-in-pay would probably stay with the original plan. There is a need to develop a mechanism to address the needs of the many SEPPs that have both union and non-union members.

FEI Canada supports arrangements which would enable larger DB plans to enjoy economies of scale in investment and administration and to facilitate forming of new plans as described in section 9.4 of the report, "A New Strategy for Ontario's Occupational Pension System." Mr. Arthurs does not advocate any particular funding framework, as supported by James Wooten's research. We agree there is a lack of reliable pension plan data, as identified in the report, and we recommend this be improved.

Based on our collective experience with SEPPs, the essence of such plans is the sponsor's promise to pay a future benefit to the member for life retirement. Point-in-time valuations, required by pension plan regulations and generally accepted accounting principles, produce transitory present values that lead to volatile surpluses and deficits. If the Report recommends that surpluses can be withdrawn in excess of 25 per cent of plan liabilities, we argue that contributions that are deductible from taxable income can be made up to that level. On the other side of the coin, deficiencies of 25 per cent or less of the plan liabilities should be funded over the lesser of 15 years or the expected lives of all members.

If the remaining SEPPs continue to be encumbered with the burden of solvency as well as going concern valuations, we object to the funding of grow-in provisions. No other province in Canada requires such funding. Nova Scotia is the only other province that requires a calculation of grow-in obligations, but without a funding requirement. We object to the concept of a PBGF. If there is one, the premiums should be risk rated to reflect the financial strength of the sponsor and then to the investment profile of the plan. FEI Canada does not support the Report's recommendations on funding for SEPPs to 105 per cent of solvency liabilities including grow-ins, or the five-year funding of solvency deficiencies up to 95 per cent of such liabilities and eight year funding for the remainder. We continue to find such funding requirements an undue burden on SEPP sponsors.

In its December 16, 2008 news release, the government recognized that current economic circumstance require a longer funding period. It recommends 10 years with a year lag for commencement, as well as greater use of actuarial gains to reduce such funding. Any redesign of the pension architecture must include measures to address the circumstances that we are now experiencing and may experience again in the future.

FEI Canada recommends that the Ontario government implement, in the upcoming budget, the revisions recommended in your news release with the amendments that the longer payment period be set at 15 years and that it not be subject to member approval as such a requirement could result in some parties withholding their agreement until the SEPP sponsor is near insolvency.

Beyond the inclusion of amendments in the next budget, FEI Canada recommends that the government implement the recommendations outlined in the Expert Commission on Pensions Report as described and amended above.

FEI Canada is privileged to have the opportunity to provide this consultation and look forward to continuing to work with the government to improve the pension regime in Ontario.

Sincerely,

Michael Conway
Chief Executive & National President

D. Peter Donovan
Chair, Pensions Task Force
Issues and Policy Advisory Committee

William E. Hewitt
Chair, Issues and Policy Advisory Committee