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TELUS Corporation ("TELUS") is a federally regulated company with annual revenue of \$9.7 billion and is the largest telecommunications company in Western Canada and the second largest in the country. TELUS provides customers with a full range of telecommunications products and services across Canada, utilizing next generation Internet-based technologies. At December 31, 2008 TELUS had 35,900 team members including approximately 15,400 team members who belonged to Canadian defined benefit pension plans and approximately 6,880 team members who belonged to defined contribution pension plans.

TELUS sponsors seven defined benefit plans with aggregate pension liabilities of approximately \$5.5 billion and also contributes to a negotiated contribution jointly-trusted defined benefit plan with liabilities of approximately \$2.6 billion. TELUS has also established a defined contribution plan with member assets of \$132 million. These plans have a total membership including actives, deferred pensioners and retirees of over 45,800 people.

This letter is in response to your invitation to comment on how to strengthen the legislative and regulatory framework for pension plans registered under the *Pension Benefits Standards Act, 1985* (the "PBSA" or "Act").

We appreciate the opportunity to comment on this subject of importance to Canadian pension participants and trust that you will find our input constructive and useful. We consent to the posting of these comments to your Web site.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. McFarlane', written over a white background.

Robert McFarlane
EVP & Chief Financial Officer

Issues for Discussion Pertaining to Defined Benefit Plans

A. Solvency Measurement and Funding Rules

The Government of Canada is interested in stakeholders' views regarding the rules for funding solvency deficiencies and the solvency calculation itself.

TELUS believes that the requirement to fund solvency deficits on a five-year amortization basis is an important legislative requirement that enhances benefit security for plan members and should be maintained. The provision of temporary relief to plan sponsors in funding deficits over longer periods in extraordinary situations such as the recent global credit crisis is a reasonable approach given current exceptional circumstances but should not become a permanent change. Authority should also be provided to OSFI to grant exceptions in extreme situations such as CCAA or BIA and only if the plan is carefully monitored and restrictions implemented in areas such as benefit improvements. These exemptions may include provisions for reductions in contributions for up to a two year period.

Federal pension plans have historically been permitted for solvency valuation purposes to determine an asset value using a smoothing method of up to 110% of the market value, and for year-end 2008 are permitted to determine an asset value using a smoothing method of up to 115% of the market value. TELUS believes that this relief provided by the Solvency Funding Relief Regulation, 2009, combined with the temporary relief contained in the 2008 Economic and Fiscal Statement is sufficient to provide required relief to plan sponsors while at the same time maintaining an appropriate balance between the interests of plan sponsors and the protection of plan members and retirees.

Asymmetry in surplus ownership under the PBSA has been a material disincentive to companies wishing to adequately fund their plans. Employers which adopt conservative funding policies that incorporate a safety margin should not in effect be penalized. The PBSA should be permanently amended to permit plan sponsors to utilize letters of credit to secure the amount they would otherwise need to fund with respect to a plan's solvency deficit. This would provide plan sponsors with additional flexibility in managing the funding of their DB pension plans and would not negatively affect the security of benefits.

The current 10 per cent pension surplus threshold over which employer contributions to a defined benefit pension plan must be suspended under the Income tax Act should be relaxed or increased. This would enhance the ability of pension fund sponsors to manage the funding position more effectively over time, given that a surplus is transitory and the funded status of a plan is subject to significant volatility.

B. Requiring Full Funding on Voluntary Plan Termination

The Government of Canada is seeking views on whether to require that plan sponsors fully fund pension benefits when a plan is fully terminated, but provide that payments can be made over a period of five years, and treat the outstanding obligation as an unsecured debt of the company. In addition, the Government is seeking views on conditions, if any, where a plan could be terminated in an underfunded position by virtue of an agreement between the sponsor and plan members.

TELUS supports fully funding pension benefits on voluntary plan termination with payments over a period of five years. This support is premised on reasonable pension solvency valuation positions being maintained by appropriate calculation methodologies and deficit amortization.

C. Partial Termination and Immediate Vesting

The Government of Canada is seeking views on whether to eliminate the concept of partial termination from the Act but require immediate vesting of pension benefits for all members.

The March 5, 2009, Supreme Court of Canada denial of the application for leave to appeal filed by the former employees of Marine Atlantic Inc in *Cousins et al. v. Attorney General of Canada and Marine Atlantic Inc.*, is a welcome outcome in providing certainty that no surplus distribution on partial termination of a federally regulated plan is required. Distribution of surplus on the partial wind-up of a defined benefit plan greatly exacerbated the asymmetry issue and was a material disincentive to companies wishing to adequately fund their plans.

Given the Supreme Court decision, the concept of partial termination should be eliminated from the Act. The maximum two year period for vesting should be maintained as it is administratively efficient to return contributions and interest to short service employees.

D. Disclosure of Information

The Government of Canada is seeking views on whether to:

- *require administrators to establish a Statement of Funding Policy (SFP) in a similar fashion as the Statement of Investment Policies & Procedures (SIP&P). The SFP would be examinable upon request, like the SIP&P.*
- *allow required disclosure items to be disseminated by electronic means, at the option of the receiving member or beneficiary.*
- *expand the categories of members required to receive plan information to include former members and retirees, where it is appropriate.*

A Statement of Funding Policy is a useful document to assist an employer in establishing at a high level its approach to funding. It serves as a point of reference but is not binding as the employer may need to balance competing corporate interests or threats at a future date. Requiring disclosure of the document could open up the possibility of allegations of implied commitments on the part of the plan sponsor in reference to the contents of the Statement of Funding Policy, and could serve to constrain the sponsor in its decision making regarding funding. As a result, TELUS does not believe that this approach would be constructive, and is of the view that disclosure of the SIP&P upon request is sufficient.

Plan sponsors should be permitted to distribute required disclosure items to members by electronic means unless the member provides a written request to receive mailed materials. Communication to former members and retirees should also be permitted by electronic means, and should include similar information to that provided to members and their spouses (apart from retirees who have been annuitized with a third party).

E. Contribution Holidays

The Government of Canada is seeking views on whether:

- *plan sponsors be required to develop a formal policy on contribution holidays for inclusion in a Statement of Funding Policy; and*
- *to the extent that employer contributions are permitted under the tax rules, plan sponsors only be permitted to take a contribution holiday in the year in which a valuation report, filed with OSFI, shows a surplus in the plan on a solvency basis.*

Plan sponsors will wish to maintain flexibility and are therefore unlikely to specify a formal policy regarding contribution holidays which is more onerous or restrictive than the requirements of the PBSA and applicable tax rules. TELUS believes that the existing requirements of the PBSA regarding contribution holidays provide adequate protection to benefit security.

F. Void Amendments

The Government of Canada is seeking views on whether to amend the regulations to prescribe a solvency ratio level of 0.85 for the purpose of implementing the void amendment provision in the Act.

TELUS believes that given the volatility of the funding status a solvency ratio of 100 per cent would be a more appropriate threshold for net benefit improvements. Plan sponsors would also be well served by developing funding policies which may specify higher levels of solvency before net benefit increases would be considered. Net benefit improvements for plans with a solvency ratio of less than 100 per cent should only be permitted if offsetting funding is provided at the time the improvement comes into effect.

Issues for Discussion Pertaining to Defined Contribution Plans

A. Safe Harbour Protection for Qualified Default Investment Options

The Government of Canada is seeking views on the practicality and desirability of safe harbour protection, and what considerations should be made in the determination of the qualified default investment options.

TELUS supports protection for plan administrators in setting a default investment option such as a balance or target date mutual fund. A plan member would retain the right to make alternative investment decisions.

TELUS does not believe that fiduciary protection, of the type potentially provided by “safe harbours”, should be limited to defined contribution plans. Rather, TELUS supports the provision of protection for decisions made by pension fiduciaries in all contexts where such decisions are made scrupulously and with proper diligence, similar to the protection provided to corporate directors by the common law “business judgement rule”. Such decisions should not be subject to question when made in good faith, on an informed basis, in the interests of the plan and its members and free from conflicts of interest. Such a standard would encourage plan fiduciaries to follow appropriate governance practices and processes, without fear of second-guessing of their decisions.

TELUS is aware that the Alberta-British Columbia Joint Expert Panel on Pension Standards, in its November, 2008 report to the governments of those two provinces, proposed a similar concept (which they termed the “pension judgement rule”), and TELUS supports a similar concept being adopted in the PBSA.

B. Retirement Benefits Paid from the Pension Fund

The Government of Canada is seeking views on whether to allow the payment of variable retirement benefits directly from the defined contribution account.

The payment of variable retirement benefits directly from a defined contribution account should be permitted. This is consistent with the treatment of RRSPs and is aligned with TELUS’ view that upon retirement, a defined contribution plan should provide an additional source of periodic income, in addition to government programs and the employee’s personal savings.

C. Standard of Care Changes

The Government of Canada is seeking views on whether it is appropriate to revise the standard of care for employers sponsoring defined contribution plans to 'good faith' rather than 'fiduciary'.

TELUS strongly supports this change. The primary purpose of a defined contribution plan is to leave decision making as regards investment choices in the hands of plan members. In this context, it is untenable for sponsors to assume risk associated with fiduciary obligations, and the potential risk associated with fiduciary obligations may well serve to dissuade employers from offering defined contribution plans rather than Group RRSP plans. Further, plan members may be disadvantaged as a result of the reluctance of plan sponsors to become more actively involved in providing certain types of information to members due to the perceived risks in doing so. Group RRSPs avoid these issues, but defined contribution plans with locking in mechanisms are often a better retirement saving vehicle as they are more likely to provide employees with reasonable income replacement levels upon retirement.

D. Use of Surplus in Defined Contribution Plan Components

The Government of Canada is seeking views on whether it is appropriate to clarify that defined benefit surplus can be used to offset employer's defined contribution current service costs for hybrid plans.

We believe that this clarification would be a constructive change and help address the pension surplus asymmetry issue for many plan sponsors.

TELUS understands that the decision in *Nolan et al. v. Kerry (Canada) Inc.* is expected from the Supreme Court of Canada shortly and should address this issue. However, regardless of how the Court rules, TELUS is of the view that the federal government should directly clarify the permissibility of this practice in the PBSA. Where the defined benefit and defined contribution components of a plan reside in the same trust, TELUS does not believe there is any reason to prevent the use of surplus assets in this manner.

Other Issues Respecting the Framework for Private Pension Plans

B. Multi-Employer Pension Plans

The Government of Canada is seeking views on whether there are legislative impediments to the creation or operation of multi-employer pension plans, and if there are improvements that could usefully be made to the legislative framework for these arrangements.

We are aware of proposals whereby large, pooled defined contribution arrangements would be established for employers and employees who do not already have a private pension plan. We believe that significant benefits could be realized through these arrangements and that they should be further explored.

D. Distinction between Defined Contribution and Defined Benefit Plans under the Act

The Government of Canada is seeking views on the appropriateness of reorganising the Act to provide greater clarity on the differing legislative provisions applicable to defined benefit and defined contribution plans. Specific examples of legislative impediments and uncertainties are particularly desired.

The PBSA, like most pension legislation, was originally drafted with defined benefit pension plans in mind. Over the course of time, other types of plans have become popular, such as defined contribution plans and multi-employer pension plans, but the legislation has not necessarily kept pace nor does it properly recognize the differences between equally valid types of plans in all instances. TELUS supports a legislative framework that provides for certain common requirements for all pension plans, but which also contains appropriate provisions tailored to the distinct nature of other types of plans, including defined contribution plans.

E. Investment Rules

The Government of Canada is seeking views on ways to improve the regulatory framework governing pension investment.

Schedule III of the regulations to the PBSA is outdated and should be modernized. In particular the quantitative rules should be eliminated as they are unnecessary and do not serve the purpose originally intended.