



**FETCO - ETCOF**

**Strengthening the Legislative and Regulatory  
Framework for Private Pension Plans Subject to the  
Pension Benefits Standards Act**

**Submission to Department of Finance**

**By**

**FETCO  
Federally Regulated Employers  
Transportation and Communication**

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## Introduction

Federally Regulated Employers-Transportation and Communication (FETCO), is an organization consisting of a number of major employers and associations in the transportation and communications sectors coming under federal jurisdiction. FETCO's interests relate to public policy issues at the federal level affecting employer-employee relations, including pension regulation.

FETCO members employ about two-thirds of the unionized workforce in the federal sector. FETCO members include broadcasters, telecommunications companies, airlines and airport services, trucking companies, mail and courier companies, railways, longshoring and grain elevator operations. FETCO members are both individual employers and employer associations employing approximately 586,000 employees.

This consultation paper is submitted on behalf of the following companies that are members of FETCO:

Air Canada	Canadian Trucking Alliance
B.C. Maritime Employers Association	Iron Ore Company of Canada
Bell Canada	Maritime Employers Association
Canada Post Corporation	NAV Canada
Canadian Airports Council	Purolator Courier Ltd.
Canadian Broadcasting Corporation	Telus
Canadian National Railways	VIA Rail Canada
Canadian Pacific Railway	Western Grain Elevator Association

Many FETCO members are sponsors of pension plans registered under the Pension Benefits Standards Act (PBSA). These plans deliver pension benefits to thousands of Canadians and have a significant economic impact.

FETCO members sponsor numerous pension plans with a variety of designs including large single employer defined benefit plans, multi-employer defined contribution plans with trustees determining the defined benefit formula, defined contribution plans and hybrid plans with DB and DC components. Several companies have a combination of different plan designs for different employee groups.

Given the breadth of existing plan designs among FETCO members, the consensus among FETCO members is largely confined to major single employer defined benefit plans that cover the vast majority of FETCO members' active employees and pensioners. This consensus nevertheless, represents the collective view of the vast majority of FETCO members. Individual employers reserve the right to supplement this consensus with individual representations reflecting the unique nuances in their plan design or financial circumstances.

Defined benefit pension plans have played a significant role in the Canadian retirement income system, but today their survival is severely threatened. Without meaningful, permanent changes to the current solvency funding rules, companies' ability to maintain DB pension plans will be seriously challenged.

We commend the government for recognizing the need to make changes to the legislative and regulatory regime governing pension plans. The need to move quickly on this issue is even more critical given continued volatility in the financial markets and continued uncertainty in the economy.

This submission recommends a package of changes that provide balance, transparency and security.

## **Solvency Funding Rules**

The solvency deficit amortization period should be permanently increased from five years to ten years. This longer amortization period should be available to plan sponsors without any of the conditions that have been applied to temporary measures, such as member consent or letters of credit.

Making this change immediately will provide companies with more reasonable timeframe to repay deficits accrued due to a volatile market and more certainty around future years' pension contributions.

## **Solvency Measurement**

The calculation of solvency liabilities should also be amended as follows:

Discount rate - It is recommended that the Government introduce regulations to prescribe the discount rate. The AA corporate bond index is the preferred benchmark discount rate.

Asset smoothing - It is recommended that plan sponsors be allowed to continue to retain asset smoothing methods for solvency funding purposes to mitigate the contribution volatility resulting from the mark-to-market nature of the solvency funded status. The Government's recent introduction of a deemed trust requirement if a smoothed asset value exceeds 110% of the market value is an unnecessary complication, as asset smoothing methods are, by their very nature, self-correcting over short periods of time.

Indexing – It is recommended that indexing be excluded from the calculation of solvency liabilities when determining solvency amortization payment requirements. Funding of the indexed benefits, including deficit amortization, would continue to be provided through the going-concern funding valuation (which more closely matches the period of funding to the long-term nature of this portion of the pension liability). This proposal is consistent with provisions that have been in effect in Ontario and Nova Scotia for more than 15 years.

## **Partial Plan Terminations**

The concept of partial plan terminations should be eliminated. In exchange, it is recommended that pension benefits fully vest after one year of plan membership (as opposed to two years at present). One year vesting (as opposed to immediate vesting as proposed in the Consultation Paper) is a compromise that reflects the small benefit value that typically applies for members who terminate with less than one year of plan membership versus the administrative costs associated with processing vested benefits.

## **A Balanced Approach**

We recognize that the government must seek a balanced approach regulatory change. We believe the following measures offer that balance.

1. Plan sponsors of single employer defined benefit plans should be required to fully fund any deficit on plan termination (with such funding either, at plan sponsor discretion, made in a lump sum or amortized over a period of up to five years). The outstanding obligation should be treated as unsecured debt of the sponsor and not rank ahead of any of the sponsor's other unsecured debt.

In cases of multi-employer defined benefit plans, where employers and unions negotiate contribution rates and the employers' contribution is limited to negotiated amounts, such as the plans that exist, for example, in the longshoring industry, such employers insist on remaining exempt from the requirement of full funding on plan termination.

We would support provisions that would allow a plan to be terminated in an underfunded position by virtue of an agreement between the sponsor and the plan members. With respect to member

consent thresholds for such an agreement, we suggest that the member consent provisions contained in the 2006 temporary solvency funding relief regulation would be appropriate.

2. Almost all single employer defined benefit plan sponsors recommend that plans should be required to file actuarial valuation reports annually with OSFI, irrespective of the plan's funded status. Removing the ability for a plan sponsor to continue to take a contribution holiday for another year or two as if the plan still has a surplus, when in fact the markets may have dramatically deteriorated, will have a material beneficial impact on benefit security once the markets recover and surpluses return.
3. We support greater disclosure to all plan members of a plan's funded status, the plan's investment policy and a statement of funding policy. The statement of funding policy should address the sponsor's policy with respect to contribution holidays, but should refrain from addressing those funding issues which are linked to the sponsor's management of the financial risks associated with the operation of its business and are typically reserved for decision by the sponsor's board of directors and therefore considered confidential.
4. A prohibition should exist on plan improvements if a plan is less than 85% funded on a solvency basis (or if the improvement would result in the funded status dropping below this 85% threshold).
5. The current Canada Revenue Agency "excess surplus" limit on employer contributions should be increased to 25% from the current 10%. This would give employers the option to pre-fund cyclical market downturns and reduce the occurrence and severity of deficits.

### **Addressing Risk/Reward Asymmetry**

A practical approach to addressing the issue of trapped capital and risk/reward asymmetry is to permit plan sponsors to use letters of credit in lieu of solvency contributions, to the extent that these contributions exceed going-concern deficit contributions. Companies should be able to reduce or cancel letters of credit if a solvency surplus later develops. Both Alberta and British Columbia have adopted this approach on a permanent basis.

### **Conclusion**

Preserving the viability of defined benefit pension plans without jeopardizing the financial capacity of plan sponsors is critical. FETCO believes that the recommendations contained in this submission represent a balanced approach that will provide an acceptable degree of funding flexibility for sponsors and both transparency and pension benefit security for plan members.