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March 16, 2009

Diane Lafleur  
Financial Sector Policy Branch  
Department of Finance  
L'Esplanade Laurier  
20<sup>th</sup> Floor, East Tower, 140 O'Connor Street  
Ottawa, Canada K1A 0G5

Dear Ms Lafleur:

**Re: Strengthening the Legislative and Regulatory Framework for Private Pension Plans Subject to the *Pension Benefits Standards Act, 1985***

Please find attached written comments on the above noted consultation paper. MTS, like most other companies in Canada who sponsor defined benefit pension plans, is facing solvency funding regulations which have had, and will continue to have, a significant negative impact on the company. Although a financially strong company, MTS is forced to fund its three defined benefit pension plans as if the plans and the company are winding up. These unrealistic assumptions, along with the current low interest rate environment, and extremely volatile financial markets, are accelerating funding requirements to pension plans when in most cases there has been no change in the risk to benefit security.

The accelerated funding also compounds the problem of asymmetry that exists for pension plans, where the company is responsible for 100% of deficiency funding but is not entitled to 100% of the surpluses when they exist. As a result, the current solvency deficiency funding could very well become trapped capital in the future when interest rates increase and plan surpluses are created.

Solvency funding has been a problem in the past and was temporarily addressed by the Government in its temporary solvency relief measures in 2006. As noted in the consultation paper, a permanent solution is required. We believe that a viable permanent solution exists that both provides plan sponsors with the flexibility needed to continue appropriately funding their pension plans and continues to ensure the security of pension benefits for employees and retirees.

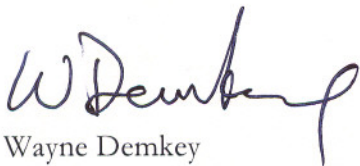
On a going concern basis, MTS' pension plans are on aggregate over 95% funded. We feel it is important that funding a pension plan by financially strong companies be done on a systematic basis and not on an arbitrary solvency basis without regard for the probability of occurrence. Companies need more flexibility to fund pension plans over a period of time that more closely reflects the long-term nature of the pension plan. This will dampen the impact that short-term changes in long-term interest rates and bear markets have on pension plan funding without impacting benefit security. We feel strongly that the solvency funding amortization period needs to be extended to at least 10 years to be consistent with the long-term nature of a pension plan and that this permanent extension be done without any conditions including member consent or the use of letters of credit. Letters of credit should, however, be allowed in lieu of solvency funding. They are a practical solution to the issue of risk/reward asymmetry in defined benefit pension plans.

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These changes need to be implemented before the deadline for the next actuarial valuations, which are currently required to be filed by June 30, 2009. We believe the future of defined benefit pension plans is at risk if a solution is not found.

Thank you for considering our views on this important topic. We do not object to our comments being posted on the Department of Finance Web site.

Yours truly,

A handwritten signature in black ink, appearing to read "W Demkey". The signature is written in a cursive style with a large, sweeping initial "W".

Wayne Demkey  
Chief Financial Officer

Attachment

**MANITOBA TELECOM SERVICES INC.**  
**WRITTEN COMMENTS ON**  
**“Strengthening the Legislative and Regulatory Framework**  
**for Private Pension Plans Subject to**  
**the *Pension Benefits Standards Act, 1985*”**  
**Department of Finance**  
**Consultation Paper**

The following comments are provided by Manitoba Telecom Services Inc. (“MTS”), a publicly traded national telecommunications company headquartered in Manitoba with offices, employees and retirees across the country. MTS and its wholly owned subsidiaries are the plan sponsors of three defined benefit pension plans and one defined contribution pension plan. Most of the issues outlined in the Consultation Paper directly affect MTS and its subsidiaries. Comments have been provided on these issues in the order that they appear in the Consultation Paper.

## **ISSUES FOR DISCUSSION**

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

### ***Solvency Funding:***

There is currently a mismatch between the solvency funding period and the long-term nature of pension plans. Greater solvency funding flexibility that mitigates some of this mismatch can be provided without impacting benefit security.

The current environment that pension plans are faced with today is different from what has been experienced in the past. The combination of a low interest rate environment and solvency deficiency funding has not been seen since the creation of the solvency deficiency funding rules. When the solvency deficiency funding rules were put in place, the going concern valuation drove the funding requirements of a pension plan as the interest rate in the going concern valuation was lower than in the solvency valuation. The solvency valuation deficiency calculation acted similar to a stop loss provision in that if the going concern deficiency became too large, it would trigger a solvency deficiency and the corresponding requirement to fund that excess deficiency over a shorter period of time. Today, solvency valuation deficiencies exist in situations where going concern deficiencies do not, thereby inappropriately driving the funding of Canadian pension plans.

MTS believes there is a significant problem with the current solvency deficiency amortization period of 5 years. First solvency valuations assume that not only the pension plan winds up on the valuation date but that the plan sponsor also no longer exists. This is an unrealistic assumption for most companies in Canada that results in financially strong companies having to fund their pension plans as if they will not be in business within the next 5 years. In the current interest rate environment, not to mention the economic environment, this puts the company at a significant disadvantage as it must allocate a significant amount of its cash resources to funding an event that has an extremely low risk of occurring. This can also represent a significant competitive disadvantage to the company if its competitors do not have a defined benefit pension plan or have a defined benefit pension plan that is not subject to the same funding requirements.

Financially strong companies should be required to fund their pension plans on a systematic basis that more closely resembles the plan sponsor's financial condition and the long-term nature of the pension plan. Consequently, MTS believes the solvency deficiency amortization period should be at least 10 years. Providing this additional funding flexibility to plan sponsors will not impact benefit security but will dampen the impact that short-term fluctuations in long-term interest rates and bear markets have on pension plan funding, and by doing so make defined benefit pension plans more affordable for plan sponsors.

It is imperative that this longer amortization period be provided without any conditions.

- Requiring member consent in an area as complex and sensitive as pension benefit security requires a complicated and difficult communications process that will be impractical for most plan sponsors to implement. As well, it is a process that will inevitably create tensions which are attributable to the current funding rules being excessively onerous.
- Letters of credit (used to provide security under the temporary solvency relief measures) are no longer an inexpensive, readily accessible means of securing pension benefits. Letters of credit can, however, serve as a pragmatic approach to addressing risk/reward asymmetry in DB pension plans, as discussed later in this submission.

The existing Regulations under the PBSA permit the solvency deficit amortization period to be so extended, thereby permitting this change to be enacted promptly. We urge the Government to make this change during 2009, since companies require more certainty around future years' pension contributions as they proceed with the development and implementation of their corporate capital and operating plans.

### ***Solvency Calculation:***

Several companies have, over the last several years, expressed concerns with respect to the conservative nature of the discount rates used to calculate solvency liabilities for both active and retired members. We are encouraged by recent developments, namely the CIA's new commuted value standard and the recognition by the CIA, with OSFI's concurrence, that large and/or indexed pension plans cannot immediately settle their obligations by purchasing annuities.

Given this recognition by the CIA and OSFI, it is important for the Government to take leadership in prescribing a discount rate for solvency liabilities that is better aligned with the marketplace. We recommend that the Government introduce a regulation to prescribe the discount rate based on a benchmark AA corporate bond index. In the meantime, it is imperative that OSFI continue to exercise its judgment and discretion, based on the recently adopted CIA standards, especially for large and/or indexed plans such as ours.

We would like to emphasize the importance of continuing to allow sponsors 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. We believe that the Government's Budget 2009 announcement that introduces 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. We believe that OSFI should accept caps higher than 110% without a deemed trust applying.

Two of our defined benefit pension plans contain automatic inflation indexing provisions. The calculation of solvency liabilities is especially burdensome when automatic inflation indexing provisions exist. We believe that the best way to address the untenable situation faced by sponsors of indexed plans, like MTS, is to exclude indexing 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 proposed change, which is consistent with provisions that have been in effect in Ontario and Nova Scotia for more than 15 years, would greatly facilitate the maintenance of automatic inflation indexing provisions in private sector pension plans.

***Risk/Reward Asymmetry:***

The Consultation Paper only indirectly seeks comments regarding risk/reward asymmetry (attributable to plan sponsors being solely responsible for any pension deficits while their access to surplus is restricted). Although surpluses may appear remote at the present time, the conservative nature of the solvency liability calculation, together with the required amortization of solvency deficits, ensures that trapped capital and risk/reward asymmetry issues will emerge at a future date. We encourage the Government to address these issues at the present time.

A practical approach to addressing 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. The letters of credit must be permitted to be reduced or canceled if a solvency surplus later develops. We note that Alberta and British Columbia have adopted this approach on a permanent basis.

For letters of credit to be effectively utilized for this purpose, they must be an alternative source of funding that sponsors can voluntarily utilize. They cannot be a trade-off for lengthening solvency deficit amortization periods for the reasons outlined earlier in this submission.

We request that the Government permit sponsors to utilize letters of credit for this purpose.

We understand that other organizations may be proposing to Finance that solvency valuations include a provision for adverse deviations (PfAD), and that, as a minimum, no contribution holidays be permitted until the plan's assets exceed the plan's solvency liabilities by an amount equal to the PfAD. We believe strongly that such a PfAD is not appropriate unless the PBSA were to be amended to provide plan sponsors with clear entitlement and access to surplus assets.

**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.**

Given the importance of extending the amortization period for solvency funding payments as described above, we believe it is reasonable to expect plan sponsors to fully fund pension benefits when a plan is fully terminated. We also agree that the funding obligation on plan termination should be amortized over a five year time period. It would also be imperative that the outstanding

obligation is treated as unsecured debt of the company and not rank ahead of any of the company's other unsecured debt. If the outstanding obligation was ranked ahead of the company's unsecured debt, this could affect the company's credit rating as well as financial metrics used to obtain debt capital in the financial markets, further undermining the company's ability to invest in capital projects and grow its business.

**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.**

We support the elimination of the concept of partial plan terminations from the Act. In exchange, we propose 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.

**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.**

We would support greater disclosure to all plan members of a plan sponsor's funding policy through 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.

Allowing the disclosure of information to plan members through electronic means would create efficiencies and should be allowed by the PBSA. It is also fair to expand the categories of members required to receive plan information to deferred members and retirees as long as the information is relevant and appropriate to that group. It is already our company's policy to distribute plan information to all plan members, including deferred members and retirees, in the form of an annual report.

**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.**

As noted above, we would expect that a formal statement of funding policy would include the plan sponsor's policy on contribution holidays. We would also support a requirement that contribution holidays can only be taken in a year where a valuation report has been filed with OSFI showing a surplus in the plan on a solvency basis.

**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.**

We would support a change to the regulations prescribing a solvency ratio of 0.85 before plan amendments can be made.

**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.**

We believe that proper investment choices are critical for members of defined contribution plans in order to meet retirement goals. In addition, despite significant attempts at communication and education of members, many plan sponsors find members unwilling to make an investment choice and consequently relying on a default investment option. As a result, it is important for plan sponsors and administrators to be allowed to choose a risk appropriate fund as a default option without having any legal liability concerns. Safe harbour protection should be given to plan sponsors and administrators to address this issue.

There are many possible options for a qualified default option. Consequently, any criteria should be broad and encompass the standards of prudent person investing rather than setting specific criteria.

**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'.**

We are satisfied with the standard of care that currently exists.

**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.**

The use of defined benefit surplus to offset employer's defined contribution current service costs in hybrid pension plans is currently allowed for federally regulated pension plans. We would support strengthening these rules by solidifying them in the Act.

**The Government of Canada is seeking views on required administrative practices that may impede the proper and efficient administration of defined contribution plans.**

We would support a requirement that former members of a defined contribution plan who are vested be required to have their assets transferred to a pre-determined alternative tax-deferred retirement savings account.

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

We believe that pension investments should be held to the standard of a prudent person and all quantitative limits on investing should be eliminated.

The global nature of financial markets, and the greater range of investment options and strategies that are available, allow for more diversification and reduced risk. In this environment, quantitative limits are not effective and serve only to reduce a plan's ability to appropriately balance risk and returns on a global basis. For example, the 10% single issuer rule restricts investments in such liquid assets as U.S. Treasury bonds and other similar bonds of U.S. government agencies. This restriction reduces a plan's ability to invest in these risk free securities and hence potentially reduce the risk in the portfolio.