

July 7, 2014

VIA EMAIL

Lynn Hemmings
Senior Chief of Pensions
Department of Finance Canada
140 O'Connor Street
Ottawa, Ontario K1A 0G5

Dear Ms. Hemmings,

This letter is in response to the consultation paper *Pension Innovation for Canadians: The Target Benefit Plan* that was posted for comment by the Department of Finance on April 24, 2014. We thank the government for reaching out to stakeholders and giving us the opportunity to provide input and comments on the consultation paper.

OPB is the administrator of the Ontario Public Service Pension Plan (PSPP), a major defined benefit pension plan sponsored by the Government of Ontario. Our membership is made up of certain employees of the provincial government and its agencies, boards and commissions. With \$21 billion in assets, 41,925 members, 35,707 retired members and 5,040 former members, the PSPP is one of Canada's largest pension plans.

While we administer a pension plan for the Ontario Public Service, we believe in, and advocate for defined benefit and target benefit or risk shared pension plans. These plans, we believe provide secure and meaningful retirement income for Canadians. Our recommendations outlined below are based on this broader perspective. We applaud the Government of Canada for developing what we consider to be a very thoughtful and forward-thinking proposal for consideration.

To provide Canadians with secure and meaningful retirement income, we believe there are three key objectives to consider:

1. **Adequacy** – a retirement regime should provide sufficient income in retirement;
2. **Coverage** – all working Canadians should have access to an employer-sponsored pension plan;
and
3. **Sustainability** – chosen retirement regime must be sustainable in the long-term.

With these objectives in mind, the following comments and suggestions outline what we believe must be addressed in any legislation governing target benefit or shared risk pension plans.

Administration and Governance

How a pension plan is governed and administered is critical to its success. We believe any legislation governing target benefit or shared-risk pension plans should address the following:

Governance Flexibility

The legislation should facilitate the establishment of these plans in unionized, non-unionized, multi-employer, and single employer environments by allowing plan sponsors flexibility in adopting a governance structure appropriate for them.

Expert Board

While we support the participation of all stakeholders in the governance of a pension plan, individuals should not be named to the Board merely by virtue of their stake in the plan. Decisions required of the Board are sufficiently complex that individuals appointed to the Board must be so appointed on the basis of the skills/expertise they can offer to the Board.

In single employer non-unionized environments, the Board should be made up of independent experts or professionals nominated half by the plan participants and half by the plan sponsor. Where plan participants are represented by a bargaining agent, Board members could be nominated by both the bargaining agent and the plan sponsor. The specifics around Board appointments would be set out in the Plan Documents.

Plan Documents

The legislation should be prescriptive on what documents must be developed by each plan and the detail to be provided in those documents.

The proposed governance policy should be required to explicitly set out the roles and responsibilities of the plan sponsor and of the Board. It should also set out a detailed skills/needs matrix with respect to the skills that must be possessed by the Board and the process for Board appointments. The persons responsible for, and the principles for, decision making about funding, benefit design and benefit/contribution adjustments must also be clearly defined in the documents and policies required by the legislation.

The required documents such as the funding policy (including the surplus utilization plan and the funding deficit recovery plan) should clearly define base and ancillary benefits and instruct the Board on what actions to take, and when, with respect to benefit adjustments and/or adjustments to contribution levels.

The legislation should set clear parameters around what benefit and/or contribution adjustments are permissible. The plan documents should be required to set priorities with respect to adjustments to benefits and, where the parties have agreed, adjustments to contributions affecting active and retired members of the pension plan.

In a single employer environment, the plan sponsor should have the ultimate power to amend the plan, that is, the sponsor would have final say on plan design and funding decisions with the Board acting as advisor.

While the professional board structure for a single-employer sponsored pension plan sounds theoretical, this is the governance model for OPB, which we believe works extremely well.

Funding/Risk Sharing

We believe that the legislation should provide flexibility around employer contributions to allow the plan sponsor, and the relevant parties, to decide on member and employer contribution levels as part of the ongoing review of the plan's funded status. The plan documents, specifically the funding policy (including the surplus utilization plan and the funding deficit recovery plan) should be permitted to set out the funding flexibility that is best for their particular workforce and situation. The Board should have the authority to modify contributions either up or down. We propose that the plan documents be required to establish a "contribution corridor" with upper and lower caps that the Board would not be empowered to exceed.

The legislation should prescribe that funding valuations be completed and filed at a minimum of every 3 years, and that annual valuations for management purposes be prepared to ensure quick action when funding targets are missed. Where a management valuation shows that the funding levels drop below a threshold level on a going concern basis, this should trigger the requirement for immediate filing. This will ensure the appropriate adjustments are made in a timely manner to ensure the long-term sustainability of the Plan.

A future projection of the plan's going concern ratio (i.e. funded ratio) over a certain number of years (e.g. 15 years), which includes estimates of future benefit accruals, contributions, and new members joining in the future, should be done in conjunction with the annual valuation. This would ensure that prospective monitoring of the plan's estimated funded position is incorporated.

Benefits

We believe that the legislation should require that the plan text establish those benefits that are base benefits and those that are ancillary benefits. As noted above, the plan documents, specifically the funding policy (including the surplus utilization plan and the funding deficit recovery plan), must also specify the order/priority of benefit and/or contribution adjustments, and the funding levels that would trigger such actions, as well as the extent of the action to be taken.

Conversions

We support the premise that employers/plan sponsors should be required to obtain active and retired member consent to convert an existing defined benefit plan to a target benefit plan or shared risk plan.

- We support the proposal that the level of consent required ought to be different for active members from that required for retired members
- The level of support required for conversion should be adjusted according to the funded status of the existing defined benefit plan. So, the higher the funded status of the existing defined benefit plan, the higher the positive support needed for conversion

- Minimum requirements for active and retired member support should be prescribed in legislation. At minimum, two-thirds of active members must support the conversion and less than one-third of retired members must reject the conversion.

We also support the requirement that the plan sponsor or administrator must provide communication materials that clearly explain the possible impact of converting from a defined benefit plan to a target benefit or risk shared plan.

Disclosure and Communications

With target benefit/shared risk plans, benefit reductions are a reality. For this reason, effective communications and disclosure are critical, particularly to educate plan members about the likelihood of actual benefit reductions and/or contribution rate increases.

Where benefit adjustments and/or contribution rate increases are to be triggered, we believe that plan members must be provided with advance notice to have time to understand and make necessary adjustments. The legislation should prescribe a minimum advance notice period.

We commend the Government of Canada on its commitment to broadening retirement income coverage for Canadians through target benefit and shared risk pension plans. If you would like to discuss anything outlined in this document, please do not hesitate to contact me directly at 416.601.4050 or peter.shena@opb.ca.

Sincerely,

(Original signed by)

Peter Shena

EVP and Chief Pension Officer

Copy: Vincenza Sera, Chair, Ontario Pension Board
Karl Walsh, Chair, Pensions Committee, Ontario Pension Board
Mark Fuller, President & CEO, Ontario Pension Board