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June 23, 2014

Ms. Lynn Hemmings
Senior Chief, Payments
Pensions
Finance Canada

Dear Ms. Hemmings:

Re: Consultations on Potential Target Benefit Pension Plan Framework

Thank you for the opportunity to provide input on the 'Pension Innovation for Canadians: The Target Benefit Plan' Consultation Paper. Ontario Teachers' Pension Plan's (Teachers') view is that finding a solution for better retirement security for all Canadians is one of the most important issues for today's policy makers.

Teachers' strongly supports the need to find a retirement security solution for all working Canadians. The need to find the right solution has become even more acute in the aftermath of the 2008 global financial crisis. Teachers' remains concerned about the number of Canadians who are without any workplace plan, relying solely on existing benefits available under the Canada Pension Plan or Québec Pension Plan and minimum income supplements available to some through the Old Age Security and Guaranteed Income Supplement plans.

We welcome the Government of Canada's proposal on a potential Target Benefit Pension Plan (TBP) for federally regulated private sector and Crown corporation plan sponsors. This proposal offers a number of robust policy considerations and lays the groundwork for efficient legislation.

We will provide comments and recommendations in four areas: Governance, Risk Management, Communications and Simplification. These recommendations are based on our experience managing Canada's largest single-profession pension plan and may provide the Government with useful advice as it goes ahead with the proposed TBP pension plan. On the whole, we urge the Government to apply a principles-based method of regulation so that boards carry the responsibility and have the flexibility to properly address policy goals.

Governance

To properly operate a complex organization such as a pension plan, a strong, independent Board with relevant investment and financial experience is needed. Equally important is an arrangement

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that gives members and sponsors shared responsibility for funding the pension plan. We note with interest that the Government of Canada's proposed TBP includes a 'joint governance structure' that would involve the participation of employers/sponsors, active members, retired members, etc. We support this recommendation as we believe any effective governance model should include participation of those bearing the risk.

We support a governance body made up of professionals with expertise in finance, investments, actuarial science, accounting and pension plan management. The selection process of board members and the identification of required skills should rely on best established practices. Teachers' pension plan is jointly sponsored by the Ontario government, through the Minister of Education, and the executive of the Ontario Teachers' Federation (OTF). Our board members have extensive experience in a wide range of disciplines necessary to oversee a sophisticated pension plan and they possess expertise in fields noted above. Teachers' also supports the need for ongoing director education in areas relevant to the plan. As noted above, we believe it is important to use a principled approach to regulation in this area so the board has the responsibility and flexibility to adapt to particular circumstances to reflect policy goals

In addition, we support a governance model which requires board members to act independently of both the plan sponsors and management, and to make decisions in the best interests of all plan beneficiaries. We support Board representation that provides for the appointment of independent directors. Teacher's governance model can provide guidance to the Government ahead of the establishment of the TBP. As well, it is important to delineate the responsibilities of the board (for example, administration, financial results and investment policy) as opposed to the sponsors (benefit/contribution levels).

Risk Management

Teachers' believes in having a strong risk management governance framework which is approved and can be modified by the board. The details of these policies should be left to the board, which is best qualified to opine on the risks facing the plan, with the assistance of experts if required.

Teachers' believes that a risk strategy should begin with a determination of the level of risk that is appropriate, now and over the long term. Teachers' allocates considerable resources to measuring investment risk against the plan's liabilities and mitigating risks at all levels of the organization. This is something TBP may consider, as risk management is essential in ensuring members pay expected contributions and/or receive expected benefits.

With the emergence of the plan's first funding deficit in 2003, the Government of Ontario and the OTF developed a Funding Management Policy (FMP). The FMP guides decisions on using surplus funds and addressing shortfalls. We recommend the TBP legislation support the creation of a funding policy document by the sponsors of the plan. Such a document will provide a useful roadmap to pension plan administrators and lay out options (improve/maintain/reduce benefits and/or contributions, etc.) when faced with different funding level zone scenarios.

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Member Communications

The Government of Canada's Proposed TBP Consultation Paper stresses the need for transparency and openness with plan participants in its 'Disclosure and Communications' section. We believe that, to be successful, any pension plan must have an effective system to educate members about the nature of the plan. Pension plans are complex policy instruments and the Government of Canada will benefit from reaching out to other plan administrators to leverage best practices and enhance communications to its own members. Better communications on the topic of funding mechanisms (contributions and benefits) and governance will, in turn, foster greater trust between plan partners.

Simplification

Teachers' encourages consistent interpretations of pension rules, simplification and harmonization where possible. We also recommend that the creation of the Federal Government's TBP be done in consultation with other Canadian pension plans to facilitate its harmonization with other retirement systems.

We welcome the opportunity to meet with you should you wish to discuss any section of this submission in greater detail.

Yours truly,

(Original signed by)

Marc Dupont
Director, Government and Public Affairs