June 18, 2014

Department of Finance
Government of Canada

Sent by email to pensions@fin.gc.ca

Re: Consultation Paper – Pension Innovation for Canadians: The Target Benefit Plan

Dear sir or madam,

I am providing my comments on the consultation paper **Pension Innovation for Canadians: The Target Benefit Plan** that was issued by the Department of Finance Canada on April 27, 2014. My comments address my interest in the target benefit plan (TBP) option for federally-regulated Crown Corporation pension plans and my views, from a retiree perspective, on the approach and elements of a federal TBP approach.

1 Interest in the TBP Option

I have no objection to offering TBP as an option for new pension plans. However, as a retiree of an existing federally-regulated Crown Corporation defined benefit (DB) pension plan (Canada Post Corporation), I am not at all interested in the option of converting an existing DB pension plan to a TBP for the following reasons.

1.1 Transfer of Responsibility for Funding Risk

The option to convert a DB pension plan to a TBP ignores the original pension promise and transfers most of the funding risk to retirees and members.

1.2 Benefit Security Risk

A TBP will subject retirees of the Canada Post DB pension plan with more risk than under a DB pension plan, as the burden of protecting retirees will be transferred from the Government of Canada to members and retirees. Under Section 31 of the Canada Post Corporation Act, *where at any time the available revenues of the Corporation are not sufficient to pay all the operating and income charges of the Corporation as and when due, the Minister of Finance, on the* *application of the Corporation approved by the Minister, may, with the approval of the Governor in Council, place at the disposal of the Corporation such amounts as may be required to enable the Corporation to meet all such charges.*[1] As Canada Post is an agent Crown Corporation, the Government of Canada is ultimately responsible for the Corporation's financial obligations, including its pension obligation.

1.3 Greater Risk on Termination and Plan Wind-up

Canada Post DB retirees and members with pensionable service prior to October 1, 2000 have priority in the event of termination or wind-up of the DB pension plan. Under the DB pension plan provisions if the pension plan is terminated and wound up, and the assets of the pension plan are insufficient to fully provide for all accrued benefits, then the assets of the fund are allocated firstly to provide for accrued benefits in respect of pensionable service prior to October 1, 2000. If the assets of the pension fund are insufficient to fully provide for all benefits then each participating employer shall contribute an additional amount or amounts, as determined by the Administrator. If assets remain after the allocation to pensionable service prior to October 1, 2000 they are used to provide for pensionable service after October 1, 2000. If the assets allocated for this purpose are insufficient to fully provide for all such benefits then they shall be applied to provide such benefits for affected members on a pro rata basis.[2] A TBP will remove any priority to pension benefits some members enjoy under the Canada Post DB pension plan.

1.4 Funding Relief

Federal pension legislation provides solvency funding relief for DB pension plans. From fiscal 2011 to fiscal 2013, the total amount of solvency relief received by Canada Post under federal legislation was $2,390 million.[3] Under the existing legislation Canada Post was expected to reach the maximum relief available ($2,889 million) in fiscal 2014.[4] Without any solvency funding relief in 2014, Canada Post's required solvency funding payments were estimated to be $1.3 billion.[5]

In February 2014, the Government of Canada approved the Canada Post Corporation Pension Plan Funding Regulations. These regulations exempt Canada Post from making special payments into the DB pension plan for four years (from 2014 to 2017). Although the amount of solvency payments that will be foregone from 2014 to 2017 cannot be quantified, the funding relief already provided to Canada Post would have resulted in a significant return to the pension plan, given

[1] Canada Post Corporation Act. Page 17.
[2] Canada Post Corporation Registered Pension Plan Text. Section 21.3. Pages 89 – 91.
[3] Canada Post Pension Plan Report to Members 2013. Page 21.
[4] Canada Post Pension Plan Report to Members 2013. Page 21.
[5] Canada Post Pension Plan Report to Members 2013. Page 21.

the pension plan's annual returns from 2011 to 2013 (0.2% in 2011, 10.1% in 2012 and 16.9% in 2013)[6], if these funds had been available for investment.

Decisions by the Department of Finance to provide funding relief to Crown Corporations are made with the knowledge of its obligations under other federal legislation such as the Canada Post Corporation Act. Allowing an existing pension plan to convert to a TBP will not only transfer responsibility from the plan sponsor, it will also transfer funding risk from the federal government to retirees and members.

1.5 *Risk of Default on Temporary Solvency Contributions*

Temporary solvency contributions by the employer would be required to facilitate the conversion requirements which ensure solvency funding is maintained for a certain number of years following conversion of a federally-regulated DB plan to a TBP.[7] What happens if the employer is not able to meet the solvency payment requirement during this period? Even more risk will be transferred to retirees and plan members.

1.6 Additional Complexity with a Supplementary Retirement Arrangement

The Canada Post DB pension plan operates together with a Supplementary Retirement Arrangement (SRA) to provide overall defined pension benefits to eligible employees. Benefits to be provided by Canada Post under the Public Sector Investment Board Act or otherwise that are not permitted in a registered pension plan under the Income Tax Act (Canada) are provided by the SRA to the extent specified in that arrangement[8]. An SRA is not subject to federal pension legislation and its related administrative, governance and funding requirements. The impact on an SRA of converting a DB pension plan to a TBP needs to be fully understood by retirees and plan members as pensions over the allowable income tax limit and survivor benefits are paid from an SRA.

1.7 Representation on the Administrative Body

Negotiation of the level of representation on a TBP may be problematic if agreement cannot be reached by stakeholders on the level of representation. Given the size and complexity of some organizations, their history of labour relations, the lack of retiree organization, and size differences between the various stakeholders (employees, retirees, survivors, deferred members) negotiation could be a long, protracted and expensive process.

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[6] Canada Post Pension Plan Report to Members 2011, 2012, 2013. Pages 11, 8, 10.

[7] Consultation Paper – Pension Innovation for Canadians: The Target Benefit Plan Page 12.

[8] Forward to the Canada Post Corporation Registered Pension Plan text.

1.8 Who is in Charge Anyway?

The Board would not have the power to amend these documents (plan text, benefits policy, funding policy, including deficit recovery and surplus utilization investment policy, etc.) which would remain the prerogative of the employer, members and retirees.[9] If amending these documents is the prerogative of employers, members and retirees, the process by which this happens could be long, complicated and costly as negotiation will be required.

1.9 Effective Representation

It will be extremely difficult for retirees to be effectively represented in the TBP decision-making process. At December 31, 2013, the Canada Post pension plan had nearly 29,000[10] retirees located in every province and territory. These retirees are not organized. Financial resources would be required to set up an organization structure with effective governance, communication, and administration to ensure retirees are effectively represented. Based on my understanding of New Brunswick's experience with TBP, retirees were not separately represented in the negotiation process.

1.10 Plan Demographics

Plan demographics are an added risk for retirees. In the case of the Canada Post DB pension plan, the number of active members is decreasing while the number of retirees is increasing. From 2009 to 2013, the percentage of active members of the DB pension plan decreased from 76.6% to 64.0% of total members while the number of retirees increased from 21.4% to 33.1% of total members[11]. In 2009, there were 3.58 active members for each retiree; in 2013 there were only 1.9 active members for each retiree. A TBP, with a continuing decline in active members, increases the risk that retirees will not be provided with a reasonably secure benefit and their benefits will be reduced significantly.

1.11 Planning for Retirement

Canadians are encouraged to plan for their retirement, and the earlier the better. Retirees made many decisions in their career based on the expectation that their pension was secure and they would be receiving a DB on retirement. These decisions included: should I remain with Canada Post or seek opportunities elsewhere; when should I retire; and how much should I save for retirement. In the early years of the Canada Post DB pension plan employees were told that their pension was secure. As over 21,000 retirees at Canada Post are age 60 or over[12], it is too late to tell them their pension benefit is uncertain and may be reduced in the

[9] Consultation Paper – Pension Innovation for Canadians: The Target Benefit Plan Page 8.
[10] Canada Post Pension Plan Report to Members 2013. Page 8 .
[11] Canada Post Pension Plan Report to Members 2013. Page 8.
[12] Canada Post Pension Plan Report to Members 2013. Page 8.

future. If benefits are reduced, retirees and their beneficiaries have limited means of making up for the loss of pension income Also, depending on the age of the retiree and the period of plan recovery, a retiree may not benefit from improvements in the plan's financial position. Retirees do not expect a "reasonable level of security". They expect the pension promise to be delivered.

1.12 Cost Effectiveness of TBP

There is no data available on the cost of administering a TBP and who will bear the cost of implementing a TBP. It seems like an expensive model to administer compared to the DB model.

1.13 Predictability

The Consultation Paper states that TBP would retain a number of the attractive features of DB pension plans, such as strong level of benefit security and predictability. I fail to see how a TBP can be compared to a DB pension plan, especially one like the Canada Post DB pension plan, in terms of retiree benefit security and predictability.

2 Views on the Approach and Element

Following are my views on the approach and elements contained in the Consultation Paper.

2.1 Funding Policy – Section 4.2

This probabilistic approach could provide plans with a certain degree of flexibility on how the plan is funded, as long as they meet the "probability test". Such an approach could however be more complex from a plan administration standpoint as it is dependent on individual actuarial judgement. Further, there are currently no professional actuarial standards for the probability test.[13]

Comment. I don't know how anyone can be expected to evaluate a proposed funding test approach when there are currently no professional actuarial standards for the probability test.

2.2 Funding surplus utilization plan – Section 4.6

The rules for allowing surplus utilization and related limits should ensure that, at a minimum, no plan assets should be distributed or used as surplus until the value of

[13] Consultation Paper – Pension Innovation for Canadians: The Target Benefit Plan. Page 10

plan assets fully covers the going concern liabilities and either the PfAD is funded or the probability test is met, depending on which approach to funding is taken.[14]

Comment. Given the volatility of plan results from one year to the next and the more conservative nature of the solvency valuation, why not give consideration to solvency liabilities instead of going concern liabilities in the determination of some of the surplus utilization options available for use. For example, if a pension plan has a solvency deficit it does not make sense to improve base or ancillary benefits.

Question. Should the surplus utilization measures and their prioritization be determined by plan members or more fully prescribed in legislation or regulations?[15]

Comment. Determination of surplus utilization measures and their prioritization by plan members may result in the largest group having an advantage and may not necessarily result in the best decision for the plan. In addition, determination by plan members will increase the complexity and cost of administration and could potentially result in legal challenges.

2.3 Disclosure and Communications - Section 4.7

Additional disclosure requirements for federally-regulated TBPs would include: Details in the annual statements on the expected base and ancillary benefits if the plan continued to perform under existing conditions and accumulated termination value that would be awarded if the plan were terminated immediately; and[16]

Comment. Retirees do not receive annual personalized statements. The Canada Post Corporation Pension Plan Funding Regulations Regulatory Impact Analysis Statement, published in the Canada Gazette on March 12, 2014, noted that a proposal was received that the Government should move forward with enhancements to the disclosure provision, including the requirement for an annual statement for retirees, announced in October 2009 by the Department of Finance Canada. In response the Government indicated they intended to propose, **as soon as possible**, amendments to the PBSR that would enhance the disclosure requirements, including the annual statement for retirees and former members, as part of the third tranche of regulatory amendments implementing the changes announced in 2009.[17] The Ontario government recently proposed that administrators provide benefit statements to former and retired members. I sincerely hope the Government of Canada will soon take concrete action to strengthen the retiree disclosure requirements thereby putting retirees on an equal

[14] Consultation Paper – Pension Innovation for Canadians: The Target Benefit Plan. Page 17.
[15] Consultation Paper – Pension Innovation for Canadians: The Target Benefit Plan. Page 19.
[16] Consultation Paper – Pension Innovation for Canadians: The Target Benefit Plan. Page 20.
[17] Canada Post Corporation Pension Plan Funding Regulations Regulatory Impact Analysis Statement. Page 2.

footing with other plan members.

2.4 Disclosure and Communications - Section 4.7

Additional disclosure requirements for federally-regulated TBPs would include: Plan sponsors would be requested to provide the address of the Financial Consumer Agency of Canada web page in advance of converting to a federally-regulated TBP so that plan members and beneficiaries better understand the risks and benefits of these plans.[18]

Comment. I looked at the information provided on this website. Unless significant changes are contemplated to the nature and content of this website, I do not find the information contained on pensions useful to retirees. Also, it should be noted that not all retirees are computer literate, own or have access to a safe computer. Many retirees rely on friends, relatives and strangers to access information on their behalf. The privacy of retiree information and retiree safety could be jeopardized if retirees resort to accessing their pension information in public places with free Wi-Fi such as Tim Hortons and MacDonald's.

Sincerely,

(*Original signed by*)

Mary Bishop
Elected Retiree Representative
Canada Post Pension Plan Advisory Committee

Cc Canada Post Pension Plan Advisory Committee members

[18] Consultation Paper – Pension Innovation for Canadians: The Target Benefit Plan Page 20