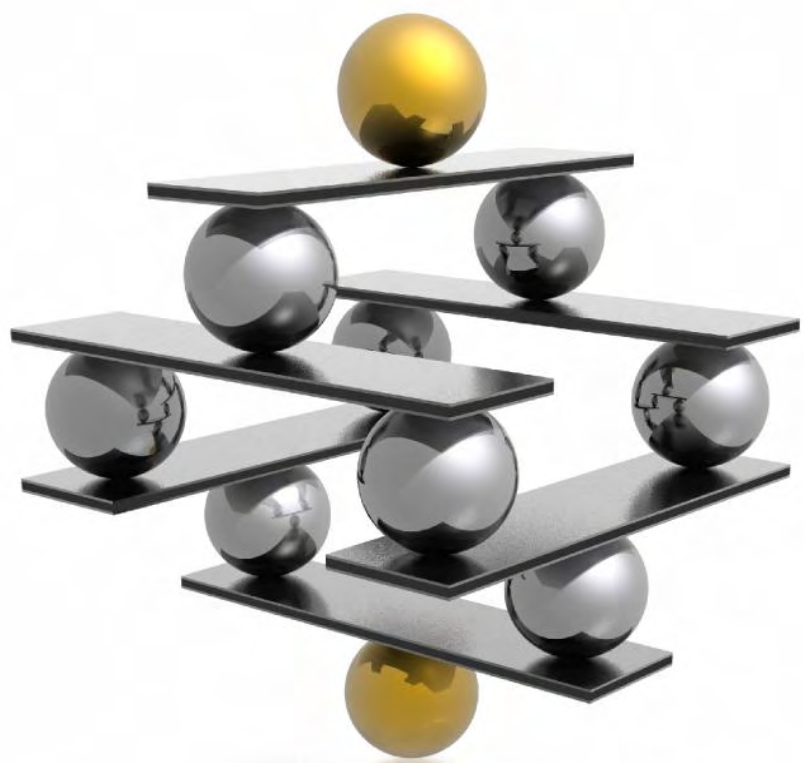
Aon Hewitt Response

To the Consultation Paper
Issued by the Department of Finance Canada

Pension Innovation for Canadians: The Target Benefit Plan

June 23, 2014



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Introduction

On behalf of Aon Hewitt, we thank the Department of Finance for undertaking the consultation process and preparing a thoughtful paper with highly relevant questions. We appreciate the opportunity to review the Consultation Paper (the "Paper") and submit our response.

Our submission is made from the perspective of practicing consultants with backgrounds in the actuarial, investment and legal fields. We have drawn upon our experience working with many Canadian pension plan sponsors, administrators, service providers, trustees and custodians.

The views expressed in this submission are those of Aon Hewitt. We are not writing on behalf of, or to express the views of, any client of Aon Hewitt.

Interest in TBPs among employers and employees

Our clients across the country have been expressing an interest in Target Benefit Plans (TBPs) for several years, even before the promulgation of any legislation concerning TBPs. Over the past 5 years, Aon Hewitt has worked with several employers in different jurisdictions on various stages of TBP plan design and implementation. In addition, we have had discussions with many more regarding the concept. We find that while interest in TBPs does exist, the actual adoption of TBPs will be subject to clarity, simplicity and consistency of regulation and the existence of conversion opportunities.

Objectives and Principles

We support the objectives and principles presented in the Paper, but have the following general suggestions:

- **Benefit security** - The concept of "benefit security" may be somewhat unclear. The Paper states that there should be "a reasonable level of benefit security … so that the pension plan delivers on its pension promise." The difficulty with this statement is that a TBP doesn't actually have a pension promise, in the sense that this concept exists in a defined benefit plan. There is no minimum guarantee of benefits. The only promise is, perhaps, to divide the plan assets equitably. We suggest that a more useful objective might be "benefit stability", i.e., that there would be "a reasonable expectation that benefits delivered will be within an acceptable range of the target."
- **Variance of the deal** - There may be some parties who believe they would be prepared to accept greater volatility of contributions and/or benefits, i.e., that their "acceptable ranges" for contributions and benefits could be relatively wide. While we believe that the parties creating the plan should have some flexibility in setting the widths of the "acceptable ranges", we do support the concept that the regulator should protect members, both current and future, by requiring: maximum boundaries on the widths of these ranges, and minimum probabilities to clarify what is meant by "reasonable expectation".

Target Benefit Plan Elements

The remainder of our response focuses on our answers to the questions posed in Section 4 of the Paper, by TBP element.

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4.1. Administration and Governance

Questions:

Is this governance framework appropriate for federally-regulated private sector and Crown corporation pension plans wishing to convert to a target benefit plan?

We agree in general with the framework outlined in the Paper, but do feel that some adjustment is necessary. In particular, we believe that the framework should be based on the following key concepts:

- **Establishing the Plan** – The party or parties who establish the plan shall be responsible for establishing the terms of the Plan Text, the Benefits/Funding Policy and the Governance Policy (the terms of which could be subject to negotiation or collective bargaining, but there should be no requirement that they be negotiated or collectively bargained).

- **Documents that Establish the TBP –** These are, collectively, the Plan Text, the Benefits/Funding Policy and the Governance Policy. These documents could be separate or combined, but would generally cover the following:
  - *Plan text* – includes eligibility, target contributions and benefits, administration, and other terms as currently required in a pension plan text;
  - *Benefits/Funding Policy* – must include at a minimum the benefit affordability test that must be applied at every valuation and the consequences to contributions and benefits of a full range of possible benefit affordability test results;
  - *Governance Policy* – includes the items outlined in the Paper.

- **Administrative Board –** This is the body responsible for administering the TBP in accordance with the Documents that Establish the TBP. The Administrative Board may recommend changes to the Documents that Establish the TBP, but the Administrative Board should not have the power to amend the Documents that Establish the TBP unless otherwise set out in the Documents that Establish the TBP.

Regarding the matter of conflict of interest, we agree that persons should not be appointed to the Administrative Board if they are currently in a conflict of interest situation. However, greater focus should be on the requirement to have a Conflict of Interest Policy, so that individuals who find themselves in a conflict of interest situation with respect to a specific decision or with respect to their participation in general, can recuse themselves from participating in that specific decision making process or cease to participate on the Administrative Board generally.

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Should the federal legislation or regulations be prescriptive regarding the composition of the governance body (e.g., proportion of plan members and retirees, presence of independent trustees)?

We support the idea that “minimum” composition requirements (proportion of plan members/retirees/other beneficiaries) be prescribed, but there should be some flexibility beyond the minimum requirements. The actual composition should be set out in the Documents that Establish the TBP.

We suggest that the minimum representation level for members/retirees/other beneficiaries be 50%. However, it should be possible for a plan sponsor to retain up to 50% representation, subject to negotiation or collective bargaining that reduces the plan sponsor’s representation level in the Documents that Establish the TBP. The legislation could also prescribe the minimum retiree representation (for example, under the current PBSA – with respect to pension committees and pension councils, a minimum proportion of retiree representation is provided where there are 50 or more retirees).

We agree that plan sponsors should be permitted to have representation on the Administrative Board and also agree that this should not be an obligation. Plan sponsors should be free to negotiate representation on the Administrative Board.

We do not agree that the level of representation of each party must be negotiated or collectively bargained. We believe that the composition levels should be set out in the Documents that Establish the TBP, as prepared by the party or parties that establish the TBP. As long as the Documents that Establish the TBP comply with the minimum prescribed requirements, then no negotiation or collective bargaining should be required. However, there would be flexibility for negotiations and collective bargaining to increase the representation levels of the members/retirees/other beneficiaries above the prescribed minimum levels when the party or parties that establish the TBP prepare the Documents that Establish the TBP.

The presence of independent trustees on the Administrative Board is worthy of consideration. Aon Hewitt has seen the benefits of this in our experience with Quebec pension committees (and also pension committees outside of Quebec).

Should the Board of Trustees have powers to amend plan documents?

We do not believe the legislation should prescribe that the Board of Trustees has the power to amend plan documents.

We believe that the legislation should only require that the Board of Trustees be responsible for adjusting the benefit levels and contribution levels in accordance with the Documents that Establish the TBP.

However, the legislation should be flexible. The Documents that Establish the TBP should state which party has the power to amend these documents. The power to amend these documents should lie with the plan sponsor, unless otherwise set out in the Documents that Establish the TBP. The plan sponsor should be permitted to establish the Documents that Establish the TBP, but can give the power to amend those documents to another party. This could be negotiated or collectively bargained, but should not be required to be negotiated.

What should be the plan member support level requirement for making substantial amendments to the plan text?

This depends on what is meant by "amendment". Most adjustments to contributions and benefits should be anticipated and set out in the Documents that Establish the TBP. There will be a minimum member/retiree/other beneficiary representation on the administrative board, which should protect their interests when benefit levels and contribution levels are altered in accordance with the Documents that Establish the TBP. Other types of plan amendments – those that are not pre-determined in the Documents that Establish the TBP – would require amendment to the Documents that Establish the TBP and would need to follow the amendment procedures outlined in those documents (presumably these procedures will most typically require the agreement of the parties that established the TBP). With proper communication/notice requirements, members/retirees/other beneficiaries should be protected.

Should there be different governance framework provisions applicable to federally-regulated pension plans in unionized and non-unionized environments?

A consistent approach is preferable. We do not believe that there should be a different framework for unionized and non-unionized environments. Even in a unionized environment there will be retirees and others who are not represented by the union. However, if any approval or consent is required from individual members of a union, we would agree that the union should be able to give that approval or consent on behalf of the members that they represent.

What type of process could be used for negotiating provisions of the plan with employees in federally-regulated non-unionized environments?

We do not believe that any special rules are required for establishing a TBP in non-unionized environments. The Documents that Establish the TBP may be established by a plan sponsor or any number of parties and may or may not be subject to negotiation or collective bargaining. This should not be any different than an employer who wants to set up a defined benefit or defined contribution pension plan, where member involvement is not required to establish the plan. The Documents that Establish the TBP should clearly provide for all significant future scenarios, including the risk management procedures, a spectrum of contribution/benefit actions for a range of affordability test results, a "disaster" plan, and the process for amending the Documents that Establish the TBP. Members are protected as long as there is clear documentation and communication of the entire pension arrangement. It may be necessary to adopt a special process in the situation where an existing DB plan is to be converted to a TBP – see section 4.8 below.

4.2. Funding Policy

Questions:

Is the going concern valuation sufficient to measure and fund target benefits?

A going concern approach to evaluating benefit affordability is entirely appropriate. The objectives stated in Section 3.1 of the Paper focus on sustainability and security of plan benefits while the plan is ongoing. The affordability testing should be clearly defined, should take a long-term view of the plan as a going concern entity and should give plan trustees the information they need to take corrective action long before the plan encounters difficulties.

While it is appropriate to disclose the benefit that could be supported were the plan to be wound up on the valuation date, a windup measure should not be the basis for evaluating an ongoing, sustainable TBP.

Which approach should be adopted under the federal legislative and regulatory framework: the margin or the probability test?

We appreciate that the federal government is examining alternatives that either have been put in place or are being strongly considered by other Canadian pension regulators. This is extremely helpful as consistency across Canada is important for plans that have members in multiple jurisdictions. Either of these approaches could be used to evaluate benefit affordability under a TBP.

We are concerned; however, should plans not be allowed the flexibility to set their own criteria for benefit and/or contribution adjustments. We suggest the affordability testing and PfADs can be plan specific – to support the particular risk sharing agreed to by the parties that established the plan. We have been successful using a couple of alternate approaches to evaluating benefit affordability for the TBP clients we work with. Our recommendation, therefore, is to permit any of Approach #1, or Approach #2, or an alternate method approved by the Superintendent and demonstrated to be consistent with the risk sharing agreement articulated by the parties that established the plan and communicated to plan members. We would be happy to discuss the particulars of our alternate methodologies with you, but felt that, for this submission, such detail was not necessary.

There are, however, some aspects of any approach to benefit affordability testing that we believe are important. All of our affordability testing thus far has involved open group projection methodology. Further, new plans are being designed using stochastic projections to evaluate the probability of achieving the targeted benefit and to set parameters defining when the targeted benefit is affordable, when adjustments are required and what the nature of those adjustments will be. Once these parameters are identified and documented in the Benefits/Funding Policy, then deterministic tests are used for ongoing monitoring.

Is the PfAD approach appropriate as a funding margin or should a different margin calculation be provided for or allowed (e.g., through a discount rate margin)?

We prefer explicit reserves as being more transparent to all parties and as providing more useful information for the evaluation of TBP affordability. A discount rate margin could be acceptable but we suggest the actuary also disclose the PfAD explicitly, generally as a percentage of plan liabilities.

What is the appropriate time horizon for the purposes of calculating the PfAD?

The time horizon should support the objective of ensuring plan sustainability and benefit security over the long term. As such, we have used time horizons between 10 and 25 years.

Should going concern valuations be required on a closed group or open group basis?

We prefer open group methodology and believe it should be required for initial plan design (i.e., the setting of the Benefits/Funding Policy) and at any subsequent change to the Benefits/Funding Policy intended to rebalance the contributions/benefits equation. However, for ongoing testing, a closed group valuation with a margin should be adequate.

If the valuation does use open group methodology, plan trustees should be encouraged to be realistic when determining the projection assumptions and there may need to be checks in place to ensure the projection is not used to defer affordability issues. For example, if the group is allowed to grow in size or reduce in average age, then there should be adequate demonstration that such scenarios have a high likelihood.

How frequently should valuations be required?

Consistent with the long term and going concern nature of the plan, three years is adequate. More frequent valuations do not necessarily provide greater insights into the working of the plan. Moreover, if trustees know that their decisions regarding benefits and contributions will be implemented for three years, not just one, then they will be encouraged to focus on the long-term and avoid “surprises” to plan stakeholders. Regardless, valuations should be required whenever there is a change to the funding or target benefit levels in the Benefits/Funding Policy.

Should some of the specifics on the funding policy (e.g., PfAD rates) rely on guidance from sources such as the Canadian Institute of Actuaries (CIA) or should they be more fully prescribed in legislation or regulations?

We strongly recommend that the policy be called a “Benefits/Funding Policy” to highlight the fact that funding cannot be separated from benefits in a TBP. In fact, funding can be relatively straightforward, given that contributions are typically fixed. The purpose of the Benefits/Funding Policy is to outline the terms of the close relationship between benefits and funding for the individual TBP.

Relying on guidance from the CIA would allow for considerably more flexibility if changes were required. It would also provide for more consistency across jurisdictions. However, regulators will probably want to be clear regarding the purpose(s) to which any such guidance will be applied.

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4.3. Contributions

Questions:

Is this approach to contributions for federally-regulated plan appropriate?

TBP is meant to operate with fixed contributions. Allowing for contribution increases before benefit reductions could be acceptable but the range should be kept small. We should pay attention to intergenerational equity if members' contributions are increased to reflect adverse plan experience.

If a plan allows for contribution increases, this should be the first step before cutting benefits. The same triggers should apply for contribution increases and benefit reductions.

Should some of the specifics concerning contributions be determined by plan members or more fully prescribed in legislation or regulations?

Neither. It would be best if any ongoing variations in contributions were established in the Benefits/Funding Policy, except for limited one-time amendments to benefits and contribution levels that would require an amendment to the Documents that Establish the TBP.

4.4. Benefit Structure

Questions:

Is the approach of categorizing benefit in two classes appropriate?

This is only one way to prioritize the order of benefit reductions. This could be a best practice for TBP to identify ancillary benefits to be reduced first but the legislation could be more flexible and request that the order of benefit reductions be established in the Benefits/Funding Policy or in the plan text. Some plans may prefer to reduce the base benefits.

Should base and ancillary benefits be determined by pension plans or more fully prescribed in federal legislation or regulations?

Prescribing "base" and "ancillary" benefits would ensure consistency of treatment among TBPs. However, we would prefer that the order of benefit reduction not be prescribed.

4.5. Funding deficit recovery plan

Questions:

Should the deficit recovery measures and their prioritization be determined by plan members or more fully prescribed in federal legislation or regulations? If the latter, what measures should be prescribed and what should be their order of priority?

Should deficit recovery measures be triggered as soon as the PfAD starts to be depleted or the probability test is not met?

The use of the words “deficit” and “surplus” in association with a TBP seem as odd to us as they would if they were to be applied to a defined contribution (DC) plan. In a DC plan, there is no “deficit” or “surplus”; there are only the assets, the contributions and the benefits these funds can provide.

To keep it simple, we agree that every TBP should be required to file a Benefits/Funding Policy (“deficit” recovery plan) that outlines at least the following:

- The benefit affordability test that must be applied at every valuation;
- The consequences to contributions and benefits of a full range of possible benefit affordability test results.

The Benefits/Funding Policy is agreed to at the outset by the parties that establish the plan. Plan trustees, then, simply apply the Benefits/Funding Policy whenever they are presented with a valuation and an updated benefit affordability test. In the event that the benefit affordability test results are not contemplated in the Benefits/Funding Policy, then the parties that established the plan will have to agree and amend the Benefits/Funding Policy to accommodate the new situation. However, if the governance process is working, then trustees should be able to provide plenty of advance notice that the unusual result is becoming a possibility.

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4.6. Funding surplus utilization plan

<u>Questions:</u>

Should the surplus utilization measures and their prioritization be determined by plan members or more fully prescribed in legislation or regulations? If the latter, what measures should be prescribed and what should their order of priority be?

What would be an appropriate margin (over the fully-funded level) to allow surplus utilization? What would be an appropriate cap on the utilization of surplus?

While continuing to object to the use of the word "surplus" in association with a TBP, we do support regulations that would require a minimum reserve be maintained before benefits are improved or contributions are reduced.

If every TBP were required to file the Benefits/Funding Policy ("surplus" utilization plan) suggested already, then the parties that established the plan will have agreed up-front as to the appropriate action to be taken in the event of a build-up of reserves as a result of contributions exceeding the "real cost" of benefits and positive plan experience. Plan trustees simply apply the Benefits/Funding Policy. This supports both transparency and the long term mindset essential to supporting plan sustainability and benefit stability.

We have done studies on how much reserve needs to be kept in "good times" to allow a plan to weather the "bad times". Specifically, we looked for the reserve level that allowed us to avoid improving benefits one year only to be faced with a subsequent benefit cutback. Based on these studies, we accept the suggested 5% on top of the regular PfAD as a requirement before benefits can be improved. It is lower than our studies had revealed; however, some plan stakeholders will be uncomfortable with creating excessive intergenerational inequity. Clearly, there is a trade-off between maintaining reserves to achieve benefit stability and achieving intergenerational equity. We believe it is best for each plan to determine the trade-off with which the parties are comfortable.

A cap on the utilization of "surplus" is not necessary as the requirement for a margin effectively imposes a cap – i.e., actions cannot be taken until there is sufficient margin revealed in the affordability testing. Plans will also need to comply with the Income Tax Act ("ITA"), which effectively would allow for benefit improvements up to the benefit maximums allowed under the ITA and then would require cash distributions in the event that there were still funds in excess of acceptable margins.

We do have one further comment with respect to the last paragraph on page 25 of the Paper. There it is stated:

"The federal legislation would not impose the sharing of the surplus between the employer and plan members and beneficiaries, nor would it state that only members and beneficiaries should be entitled to the surplus … Provisions relating to entitlement to the surplus should be clearly articulated in the plan text."

We believe that the legislation <u>should</u> prohibit assets from being returned to the employer. This is the nature of a TBP, where, similar to a DC plan, all contributions belong to members. We agree that the Benefits/Funding Policy could specify a level of affordability test results where the action might be a reduction in both employer and employee contributions. However, we do not see this action as implying "entitlement to surplus".

In any event, it is more helpful to TBP design and understanding if the defined-benefit-related words, "deficit" and "surplus", are avoided.

4.7. Disclosure and Communications

Questions:

What are your views on the proposed additional disclosure requirements listed above?

We agree with the proposals, particularly the requirement to provide a comprehensive explanation of the TBP's Benefits/Funding Policy and the implications for individual member benefits. We further suggest that the annual member statement could show the current and a history of affordability test results, in a manner that demonstrates the impact of the test on benefits and contributions (i.e., where in the "spectrum" of affordability test results outlined in the Benefits/Funding Policy is the TBP tracking).

It will be important for the industry to develop ways of communicating TBPs to members so as to facilitate member understanding of the pension deal and the potential volatility in contributions and benefits.

As a minimum there should be a reminder every year that the benefits are estimates only, are not guaranteed, and may be adjusted.

What are your views on the timing, frequency, and sequence for communicating these additional disclosure items?

Different disclosure items lend themselves to different vehicles. The array of vehicles currently required by the PBSA is sufficient and the new items need only be worked into that framework. For example:

- *Member booklets* – the comprehensive explanation of the Benefits/Funding Policy;
- *Annual statements* – current and historical affordability test results and their implications, the reminder that benefits are not guaranteed, and the reporting of the benefit value had the plan been terminated on the statement date;
- *After each valuation* – the notification to relevant parties of the affordability test results revealed by the valuation and of any upcoming actions required by the Benefits/Funding Policy (note that we support the suggested minimum requirement of 180 days for members to be notified before changes take effect);
- *As needed or prior to conversion* – notification to members and provision of the address of the Financial Consumer Agency of Canada.

What are your views on requiring the plan administrator to report the solvency funding ratio of the plan in its annual reports for informational purposes only?

We believe that the use of the term “solvency funding ratio” is misleading, as it will have nothing to do with funding. However, reporting the level of benefits that could be provided in a hypothetical windup scenario would be helpful to TBP trustees and stakeholders, and informing a member of the benefit he/she could expect “were the TBP to have been wound up on the statement date” is a useful communication item for members. Of course, the benefit promise on plan termination would be in accordance with the Documents that Establish the TBP.

4.8. Conversion of Pension Plans to Target Benefit Plans

Questions:

What are your views on how benefits are treated upon conversion?

We appreciate the department's openness to considering past service conversions to TBPs. There are several possible motivators for a past service conversion:

- Gain permanent relief from solvency funding;
- Prevent having to administer what would essentially be two pension plans, a traditional defined benefit covering past service and a TBP covering future service;
- Address existing intergenerational equity issues in the plan.

We believe that it would be better to address the first motivator by dealing with solvency funding matters directly through further refinements to the solvency funding standards rather than indirectly through what would likely be a complicated plan conversion on whatever basis would ultimately be acceptable under future pension standards.

While much of the discussion on conversion seems to focus on the possibility of benefit reductions post conversion, there is also the possibility of benefit enhancements per the plan Benefits/Funding Policy should the TBP generate reserves in excess of thresholds specified in that policy. This is the primary benefit to existing plan members of participating in a conversion.

We support the approach being proposed and have additional comments as follows:

- *Conversion on a going concern basis* – This makes sense given the plan is meant to operate over the long term. Funding of deficits at conversion could be treated as a fixed contribution by the plan sponsor with no adjustments in the future for changes in the plan financial position. We support the "5-year rule" where the conversion would be declared null and void if the plan were to be terminated within five years of conversion.
- *Requirement for consent* – Consent makes some sense given that conversion involves a one-time change to the nature of the benefits earned to date. This would work best on a negative consent basis (e.g., not more than one third object). A key issue is representation and whether unions should be allowed to represent their memberships or whether individual members should have an independent say. We would expect unions to be able to negotiate on behalf on their members.
- *Inclusion of all accrued benefits in the base benefit* – This makes sense and it provides a sense of security for existing members where the first tranche of reductions would be ancillary benefits;
- *Treat future indexation for retirees as ancillary benefits* – This also makes sense to rebalance intergenerational equity within the plan.

Do you have any other views on how accrued benefits should be calculated at the time of conversion?

Covered in the previous response.

What views, if any, do you have on converting federally-regulated DC plans to TBPs?

It makes perfect sense.

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4.9. Portability and Locking-in Rules

Questions:

Are there any TBP-specific issues in relation to locking-in and portability that should be addressed in the federal legislative and regulatory framework?

We agree that current defined benefit rules should apply in regard to locking-in and portability. However, the following adjustments would be appropriate:

- The Board of Trustees may purchase annuities in an ongoing TBP only if there is no reduction in the retirees' pension amounts and the annuity purchase does not adversely impact the plan's financial position.
- The legislation should allow the Board of Trustees to force members with non-locked-in benefits to transfer their termination value out of the plan if this value is at least equal to present value of the targeted benefit. The Board of Trustees may wish to do this to manage risks and reduce pension plan fees.

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4.10. Individual Termination

<u>Questions:</u>

What are your views on the methodology used to calculate the individual termination value?

To avoid gains or losses, the termination value must be determined using the same methodology and assumptions as that used for the affordability testing of the plan, although without future salary projections. In addition:

- The present value of the pension should not be calculated at the age that maximizes the pension value (as is done currently), but based on the retirement assumptions used in the affordability testing;
- Margins or provisions for adverse deviations should not be required to be part of the present value of the pension, although the Documents that Establish the TBP could specify otherwise.

The termination value must be equal to the individual present value of the pension, multiplied by the funded ratio. The funded ratio must be less than or equal to 1. However, legislation may allow use of a funded ratio greater than 1, if defined in the Documents that Establish the TBP. The funded ratio must be calculated based on:

- *Plan assets* - at market value (even if smoothed value is used for affordability testing)
- *Plan liabilities* - same methodology as used for the individual present value of the pension calculation without explicit PfADs added to liabilities, but including all margins embedded in the assumptions. However, if the Documents that Establish the TBP include provisions for adverse deviations in the individual present value of the pension calculation, the plan liabilities used for the calculation of the funded ratio must be calculated including provisions for adverse deviations.

To avoid circular references when reduction of benefits is required, the 50% excess contributions rule should not apply to a TBP. However, a minimum benefit value of no less than employee contributions with interest should apply.

4.11. Plan Termination and Wind-up

Questions:

What are your views on the formula used for calculating termination value? Would it be more appropriate to use the solvency funding ratio?

Using a methodology different from the one used for the affordability testing will create inequity between members. We agree with the termination value methodology defined in the Paper.

However, we do note that using affordability testing methodology means that even if the target benefits are deemed affordable, upon windup, retirees' pensions may be reduced if the annuity purchase price is greater than the going-concern liability. This issue should be addressed by an appropriate annual communication to members.

Transfer of the termination value must be allowed to all members (including retirees, deferred and active members eligible for an immediate pension)

Any decision to terminate the plan must be taken only by the parties who established the plan or as documented in the Documents that Establish the TBP.

The requirement of 60 days minimum delay to notify OSFI of plan termination may be problematic in case of bankruptcy.

By default, a company's bankruptcy triggers a wind-up (or a partial wind-up) of a pension plan. However, the legislation could allow members or unions to keep the plan active. This could be especially applicable to MEPPs.

What are your views on applying solvency requirements in the case of plan termination within 5 years of conversion from a federally-regulated DB plan?

It's acceptable to us.

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4.12. Application to multi-employer plans

Questions:

To what extent could the proposed elements of the federal TBP framework apply in a multi-employer context?

The TBP framework would work equally well for multi-employer plans (MEPPs) as they both operate on the same fundamental principles. The extension of the TBP framework to multi-employer plans would set minimum standards that aren't currently prescribed for MEPPs. Therefore, appropriate transition rules would be required. We see two primary advantages to using the same standards:

- Consistency of regulation between plans with the same essential features; and
- The proposed approach involves rigorous prospective testing of long term sustainability. The present rules encourage plans to focus on sustainability over a single valuation cycle. Although this shorter-term focus can work for plans with employer-backed guarantees, it can introduce excessive benefit risk to members of TBPs.

What elements of the plan design would need to be different from the single employer environment?

The designs of TBPs and MEPPs need not be that different. MEPPs, however, do have the option of renegotiating contributions. Also, what we would tend to see more frequently in MEPPs is participating employers having different fixed contribution levels, reflecting the fact they had been negotiated separately. This can all be addressed in the Benefits/Funding Policy.

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