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Response of the Canadian Federation of Pensioners (CFP) to **"A Review of the Solvency Funding Framework under the Pension Benefits Standards Act: Report on Stakeholder Committee Process – August 2019"**

The Canadian Federation of Pensioners was pleased to provide a written submission and participate in a stakeholder meeting regarding the solvency funding framework review. We are very disheartened to read the stakeholder committee report and strongly urge that it be shelved.

The Canadian Federation of Pensioners (CFP) advocates on behalf of defined benefit pension plans and their members. Founded in 2005, the CFP is the united voice of 19 retiree groups who work together to improve pension security across Canada. .

The recent report implies that the only way to encourage companies to continue or start new defined benefit plans is to guarantee they won't have to provide promised pensions. This argument is irrelevant since BC has not seen a new private sector defined benefit pension plan, in many years.

Due to the chronic underfunding of DB plans, most of our members live with the fear of their pension benefits being reduced in the event of corporate insolvency. This fear is real. It has happened at Nortel, Sears and dozens of smaller companies in recent years, including Harmac Pulp in BC. Thousands of older Canadians, who had paid into these plans, were abandoned by their former employers and had their pensions dramatically cut.

This following response is focused solely on private defined benefit pension beneficiaries. CFP does not take a position on the implications of proposed changes on members of government sponsored plans or those resulting from collective agreements.

CFP respectfully asks the Premier, Minister of Finance and Cabinet to do the right thing and protect the interests of British Columbia's corporate DB pensioners.

Solvency Funding of DB Pension Plans Should Remain at 100%

A requirement for 100% solvency funding of DB plans has been the standard since the first PBSA was established in 1993. The reason for this requirement is obvious: the only option normally available in the forced windup of an under-funded plan (e.g. due to insolvency) is to purchase annuities for those impacted, and solvency funding defines the ability of a plan to afford these annuities.

Simply put, converting a 100% solvency funded pension of an insolvent company forced to annuitize results in pensioners receiving 100% of the commitment made to them. A lower solvency requirement means private DB pensioners who do not have the luxury of a government backstop will be short changed in the event of insolvency.

Existing regulations have not been strong enough to keep solvency funding at 100% in the short term, but there is ample room for improvement towards that goal within the existing regulatory framework.

The CFP strongly urges the government to maintain solvency funding requirements at 100%.

BC Should Be a Leader in Pension Protection

The review states that no practical means exists to protect pensions in insolvency. This is incorrect. The US, UK and other jurisdictions provide some form of pension insolvency protection. The government of BC has the opportunity to be a leader in pension protection.

The CFP is calling on BC to create a provincial pension insurance program that insures 100% of the pension liability. This should be fully funded by the plan sponsors.

The concept of creating such a fund has attracted considerable interest and now forms part of the policy platform of the Federal NDP party.

The CFP is also calling on the federal government to amend insolvency legislation to extend super-priority to the unfunded pension liability. While this is outside the provincial purview, it is an area in which the government can exert pressure on its federal counterpart.

<u>This review will not result in more DB pensions</u>

In recent years with nominal solvency funding requirements of 100 % plans, the average DB fund has been at least 10 % underfunded with many in much worse shape. With the proposed target of 85% solvency funding contributions will be expected to drop further. Regardless of whether funding is based on a solvency or going concern approach, the end result will be lower assets for the plan, a loss of investment income on plan assets and less ability to absorb future changes in interest rates or investment returns.

No new private DB pension plans have been created in over seven years in BC. The review erroneously suggests that this is due to onerous funding requirements, and relaxing those requirements could reverse this trend. No evidence is offered to support this suggestion. In fact, there has been a trend across Canada to eliminate DB plans for many years, including prior to relatively recent stress imposed by low interest rates. DB plans have become a rarity outside of the public sector.

While both Ontario and Quebec have made similar changes to those recommended in this review, CFP's member organizations in those provinces are unaware of any new private DB plans.

<u>Time to Even the Playing Field for DB Pensioners in BC</u>

BC has attempted to alleviate the funding pressures on DB pension plans using a broad array of measures:

- Making solvency relief available
- The use of letters of credit to fund solvency deficiencies
- Extensions to deadlines

- In 2016 the use of a one-time extension to the solvency amortization period from 5 year to 10 years
- Solvency reserve accounts to ensure that employers could recover any excess money contributed to pension plans.

Some of these have measures worked against the best interests of members by allowing plans to remain underfunded by a greater amount, for a longer period of time.

In light of so many actions already by government to support employers, some of which compromise the interests of plan members, there is no need for additional relief for employers. Rather, the BC should even the playing field and protect pensioners.

The BC Government Has A Duty To Protect Pensioners

DB pension plans are offered at the discretion of an employer. Employees pay into these plans in the form of deferred wages with the expectation that the money will support them in their retirement. Employers knowingly sponsor these plans, and understand their obligations.

Yet pensioners have been left in the cold. Private sector pensioners are the only stakeholders with no backstop for the commitments made to them, and no ability to negotiate the terms of their financial relationship with the companies. Their interests are entirely dependent on legislation.

BC must stop focusing on the creation of new DB plans,, and take action to protect the DB plans already in existence and the employees and pensioners who rely on them.

Respectfully,

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