OPB
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October 24, 2017

Mr. Alex Killoch
Director, Broader Public Sector Pensions
Ministry of Finance

Sent by e-mail

Dear Alex;

I am writing further to our discussions with respect to the treatment of the Public Service Pension Plan (the PSPP) under the proposed solvency funding rules and the enhanced going concern requirements.

We have in the past written to the Minister of Finance as well as to the Solvency Funding Review group of the Ministry outlining reasons why the PSPP ought to be exempted from the solvency funding requirements under the *Pension Benefits Act*. For ease of reference, I have attached copies of letters sent March 31, 2010, December 12, 2012 and October 7, 2016 that outline our reasons for seeking this exemption. In those letters we highlight the key factors and characteristics of the plan structure that should be considered, including:

- The employer's risk of insolvency, and the strength of the employer guarantee
- The separation of the Plan Sponsor and the Plan Administrator roles
- The degree of member involvement in plan governance
- The rigour applied to the funding of the pension plan, including the use of governance and funding policies
- The cost sharing between employer and employees
- Whether the plan is covered by the PBGF

The attached submissions provide greater detail regarding our position on these points and on this particular issue.

We believe that as the government introduces a new set of funding rules for most pension plans while maintaining the current funding rules for Jointly-Sponsored Pension Plans (JSPPs), consideration should be given to treating the Public Service Pension Plan (PSPP) like the JSPPs from a funding perspective. This would include an exemption from solvency funding, and an exemption from the PfAD requirements and the 10-year amortization period under enhanced going concern funding rules.

When one considers the operation of the PSPP, the actual peer group is in fact the large Ontario JSPPs. For all intents and purposes, the PSPP operates like those JSPPs:

- The PSPP is created by an Act of the Legislature, the *Public Service Pension Act*, as are many of the JSPPs.

- There is a separation of the Sponsor and Administrator where the Administrator is a Board with appointees from both the Sponsor and the members.

- The basic funding model is 50/50 sharing of cost. While the government is making special payments, those payments result from stopping special payments from the initial deficit too early and specific government human resources management policies like introducing a temporary 80-point factor to entice employees to retire early to facilitate downsizing the government workforce.

- There is no PBGF coverage under the PSPP like the JSPPs, however, the member protection is actually better than the JSPPs since the government provides a backstop to the PSPP obligations on plan wind-up.

- The PSPP has implemented a robust funding policy consistent with the types of funding policies adopted by the large JSPPs.

- The delivery structure for investment management purposes and member administration purposes is the same as the structure used for the JSPPs.

Furthermore, exemption the PSPP from these proposed funding rules would result in the same set of funding rules applying to the two pension plans that cover Ontario Public Service employees, the PSPP and OPTrust while recognizing the practical reasons for maintaining the two current structures for these plans.

I would be happy to discuss further at your earliest convenience.

Yours truly,

Peter Shena
EVP and Chief Pension Officer

Copy: Leah Myers, Assistant Deputy Minister, MOF
Lynn Lawson, Director, MOF
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Enclosures