ONTARIO PENSION BOARD

Briefing Note
Solvency Funding Rules Review

To: Treasury Board Secretariat
Date: 10 November 2017
From: Ontario Pension Board

Executive Summary

- As we understand it, the Ministry of Finance is nearing the end of its review of defined benefit pension plan funding rules under the *Pension Benefits Act*, and that legislation will soon be announced to implement new funding rules, affecting both solvency and going concern funding requirements.
- OPB is proposing to make a submission to the Deputy Minister of Finance to recommend that the Public Service Pension Plan be made subject to the same funding rules as the other major Ontario public sector pension plans (Teachers, OMERS, OPT, HOOPP and CAAT. These are all Jointly Sponsored Pension Plans (the "MOPPS JSPP plans").
- OPB is providing this briefing note to enable discussion with Treasury Board on this issue and as to whether OPB should proceed with a submission to MOF.
- OPB has formally made this recommendation on several previous occasions and believes we have a narrow window to make this submission once again before the new rules are introduced.
- The MOPPS JSPP plans are already exempt from solvency funding and will not be subject to new enhanced going concern rules. They were exempted from solvency funding several years ago, solely on the basis that they are jointly sponsored pension plans.
- While the PSPP is a sole sponsored plan, it has governance participation and otherwise operates in substantially the same manner as the other MOPPS JSPP plans.
- OPB believes that the current funding of the PSPP is adequate and the Plan Sponsor and OPB have in place a strong funding policy to maintain adequate funding. Subjecting it to the same rules as the MOPPS plans would enable the current funding approach for the PSPP to be maintained.
- On the other hand, our understanding is that the new rules will provide for reduced solvency funding requirements and enhanced going concern funding requirements.
- It is also our understanding that the new funding rules may relieve the PSPP from solvency funding pressures, but, at the same time, increase, possibly materially, the going concern funding requirements.
- The extent of the increased going concern funding requirements will not be known until the new funding rules (legislation and regulations) are released.

Additional background on this issue is provided below as well as in the attached letters/submissions to Ministry of Finance.

Issue

It is OPB's position that the PSPP be exempted from the solvency requirements as currently prescribed under the Pension Benefits Act ("the PBA"), or if enacted, the proposed new enhanced going concern funding rules.

Under the current provisions of the PBA the Government would be required to make significantly increased special payments into the PSPP to cover solvency deficiencies. Large solvency funding payments are not good use of taxpayers' money when the Government already provides a 100% guarantee on pension benefits.

Under the new rules, it is possible that the Government would be required to make significantly increased contributions to meet new enhanced going concern funding requirements. OPB believes that such increased requirements are unnecessary and that the funding policy and funding disciplines already in place as part of the governance of the PSPP provide sufficient funding protection for the PSPP.

Background

The PBA requires that pension plan administrators conduct and file a going concern funding valuation, which assumes that the pension plan continues indefinitely, and plans such as the PSPP are also required to conduct solvency funding valuations, which essentially show the funding that would be necessary to settle all benefits (through the purchase of annuities or the payment of lump sums) if the plan were to be wound-up as of the valuation

In Ontario, all registered pension plans must comply with the requirements of the PBA, unless specifically exempted by the government. With respect to the solvency funding rules, the government exempted the 6 public sector jointly-sponsored pension plans (these are the MOPPS JSPP plans) and provided "temporary funding relief" for all the other single-employer pension plans in the public sector/broader public sector. This temporary relief was first introduced in 2009 and has been extended at least twice.

The PSPP is not one of the 6 plans exempted from the solvency funding requirements under the PBA. The PSPP has accessed the temporary solvency funding relief (Stage 1) in connection with the actuarial valuation filed as of December 31, 2013 and an application for Stage 2 solvency funding relief has been submitted for Stage 2 solvency funding relief in connection with the December 31, 2016 actuarial valuation which will be filed before the end of this year. In short, the current solvency funding relief only requires the plan sponsor to make interest payments on the solvency deficiency rather than amortize the deficiency.

The Government is now considering new funding rules that would apply to all plans except for the 6 broader public sector pension plans exempted from the current rules. Any changes to the solvency funding requirements are important because they will impact how we manage the sustainability of the PSPP.

Why exempt the PSPP from Solvency Funding or the Proposed Enhanced Going-Concern Funding Rules

- This is not a new issue. OPB has submitted letters to the Minister of Finance on this issue in March of 2010 and December 2012 and more recently in October 2018 – all these submission/letters are attached for easy reference.

- The reason we ask for this exemption for the PSPP is that given that solvency funding is to ensure that sufficient funding exist to cover accrued benefits and the fact that the guarantor of the PSPP is the government of the province of Ontario there is no reason for the PSPP to be covered under these rules.

- The nature of the pension promise under the PSPP is such that the Government provides a 100% guarantee of the benefit under the PSPP. Therefore. The PSPP is exempted from coverage under the PBGF (the only continuing single-employer pension plan to be exempted).

- If solvency funding is designed to protect benefits for members and pensioners, the Government's guarantee negates the need for solvency funding protection.

- This is an important issue because the current low interest rate environment is expected to continue into the foreseeable future and as such December 2016 solvency valuation shows a substantial solvency deficiency which will trigger significant additional funding requirements, despite the temporary solvency funding relief available.

- If the purpose of enhancing the going concern funding rules is to make up for lower solvency funding requirements, it does not make sense to impose the new going concern funding rules on the PSPP because solvency funding, as noted above, should not be an issue for the PSPP.

The Government has already exempted Public Sector JSPP's from solvency funding and as such will exempt them from the new funding rules

- PSPP operates very much like the JSPPs which are not required to fund on a solvency basis and would be exempt from the proposed funding rules:
    - the PSPP and the JSPPs are the only pension plans that are exempt from PBGF coverage
    - the PSPP has a governance model that is as robust as the JSPP model

  - the PSPP is structured as a 50/50 cost shared plan

- The PSPP is the fourth largest pension plan by asset size in Ontario (behind OTPP, OMERS and HOOPP but larger than the other JSPPs).

- Given the broad range of groups covered under the PSPP and the manner in which the PSPP is operated, neither the member bargaining groups nor, we believe, the Government are interested in converting the PSPP to a JSPP model.

- The PSPP is viewed externally not only as a peer of the JSPPs but also as a JSPP.

Funding the PSPP

- Large solvency funding payments are not good use of taxpayers' money when the Government already provides a 100% guarantee on pension benefits.

- PSPP has a robust funding policy, approved by both the Government and member bargaining groups that provides for prudent funding of the PSPP on a going concern basis.

- Funding structure should not force the PSPP to the JSPP model simply to be exempt from solvency funding or to be exempt from enhanced going concern funding.

- Enhanced going concern funding in lieu of solvency funding creates issues with pension plans that are structured with 50/50 cost sharing.