



Finance and Treasury Board
Pension Regulation Division
PO Box 2531
Halifax, NS B3J 3N5

Subject: Pension Funding Framework Review – And other issues affecting pension plans

We understand that you are seeking feedback on potential changes to the funding and regulatory framework for defined benefit (“DB”) pension plans in Nova Scotia. We believe that DB plans are an important part of the retirement landscape in the province and we would welcome and support changes to legislation that would encourage affordability, benefit security and continued plan sponsorship while recognizing the differences between types of plan sponsors. We appreciate the opportunity to take part in this consultation.

Part 1: Funding Framework for Defined Benefit Pension Plans

Our submission seeks to minimize the impact on the Halifax Regional Municipality Pension Plan (“HRMPP”) of any regulatory changes while recognizing that it is financially responsible and prudent to ensure that plans have included an appropriate amount of margin in their obligations. While we would welcome the types of changes that address the issues mentioned above, we want to ensure that the differences between pension plans that are currently exempt from solvency funding and those that are not are appropriately recognized.

Solvency Funding

Plans that are currently exempt from funding solvency, like the HRMPP, are typically large government/municipal plans that are highly unlikely to become insolvent. This is due to their long-term nature, potential direct and indirect taxing powers and the financial resources of the sponsoring bodies of these plans. We believe that any changes to legislation that would require these types of plans to recommence funding on any type of solvency basis (full solvency funding or “trigger” based solvency funding) would put unnecessary financial pressure on both government entities and taxpayers without providing any substantial added benefit security to members. The additional funding that would be required would cost these groups millions of dollars, and this money would be better spent elsewhere in the public sector.

The governance structure in place for the HRMPP encourages risk sharing and transparency amongst plan members and employers. We believe that this type of structure strengthens the argument for why we should not be required to recommence funding on a solvency basis. Specifically:

1. A Pension Committee that has equal representation from employers and employees (including retirees) manages the HRMPP. This committee is responsible for making decisions related to plan design, contribution rates and funding levels.
2. HRMPP combines several employer groups allowing for the pooling of risks.
3. Employees and employers pay contributions in equal parts to fund current service cost and funding deficiencies (50/50 cost sharing) similar to a jointly sponsored plan structure. This ensures that each group is sharing in the risks associated with the HRMPP.

To reiterate, the HRMPP position is that it should continue to maintain permanent solvency exemption.

Going Concern Funding

For many of the same reasons outlined above we feel that the HRMPP should be exempt from the majority of the changes proposed in the consultation paper if some type of enhanced going concern framework is legislated. We are strongly opposed to having the amortization period reduced from 15 years, any type of solvency funding requirement trigger or linking the discount rate to corporate bonds. However, we can appreciate the requirement to have some type of provision for adverse deviation included in plan liabilities. Having a required minimum margin ensures that plans are protected in case of unfavorable experience and that plan sponsors are prudently managing their pension obligations.

As an example, the HRMPP's Pension Committee has approved its own internal margin policy. The objective is to have a 5% margin in the plan's going concern liabilities (relative to the "best estimate" discount rate measurement) by 2018 and a 10% margin by 2028. This margin policy will ensure that deficits are appropriately managed and that a buffer exists in case of unfavorable plan or investment experience. We feel that this policy aims to provide an acceptable level of margin while allowing an appropriate amount of time to achieve the desired outcome.



We believe that additional consultation with plan sponsors should take place to ensure that both the timeline for implementing and the amount of margin are not overly onerous on sponsors. If implemented, continually monitoring the impact the required margin is having on plans would help the regulator ensure that the policy is achieving the desired outcome and would facilitate making any future adjustments that might be required.

Where the HRMPP is exempt from funding on a solvency basis, should enhanced going concern protections be made a requirement we feel that it doesn't make sense for the timing requirement of our actuarial valuations to be based on the results of a solvency valuation. In other jurisdictions, there are plans with governance structures similar to the HRMPP's that have been exempt from the requirement to file annual valuations based on their solvency position. We would ask that you consider implementing a similar type of filing exemption here in Nova Scotia in the circumstances.

Part 2: Regulatory Issues

Annuity Discharge

We support the concept of plan sponsors being discharged of liability obligations in cases where annuities have been purchased in respect of member benefits. We would expect that the issuer of these annuities would have to meet certain criteria in order for the annuity to discharge sponsors of their obligations for registered pension plans. In addition, we feel that the funded position of the plan should not be deteriorated due to the purchase of annuity contracts.

Permitted Investment Rules

We believe that the Nova Scotia Pension Benefit Regulations "Schedule 1: Permitted Investments" should be replaced by the Federal Pension Regulations "Schedule 3: Permitted Investments".



We look forward to hearing about the results of this consultation over the coming months and providing additional information as regulations are developed and drafted.

Best Regards,

A handwritten signature in blue ink, appearing to read "John Traves".

John Traves,
Co-Chair HRMPP

A handwritten signature in blue ink, appearing to read "Dan White".

Dan White,
Co-Chair HRMPP