Pension Investment
Association of Canada
Association canadienne des
gestionnaires de caisses de retraite

November 4, 2020

Mr. Clyde MacLellan
Interim Chair
Public Sector Accounting Board
277 Wellington Street West
Toronto, Ontario
M5V 3H2
Via email: info@psabcanada.ca

Dear Mr. MacLellan,

PSAB Review of Section PS 3250 Retirement Benefits

The purpose of this letter is to provide comments from the Pension Investment Association of Canada (PIAC) on the Public Sector Accounting Board's (PSAB's) review of Section PS 3250, Retirement Benefits.

We acknowledge this submission comes outside of a formal Invitation to Comment. We felt it important to comment at this time because PSAB endorsed a revised project plan in the summer of 2020 and will be releasing an exposure draft in the coming months related to discount rate guidance and deferral provisions. We also understand there may be other draft standards released in the future related to non-traditional pension plans.

Background on Pension Investment Association of Canada

PIAC has been the voice for Canadian pension funds since 1977 in matters related to pension investment and governance. PIAC's members manage over $2 trillion of assets on behalf of millions of Canadians. Our mission is to promote sound investment practices and good governance for the benefit of plan sponsors and beneficiaries.

Comments on PS 3250, Retirement Benefits

It is important to highlight potential concerns that we would ask PSAB to consider as they undertake their review and consider proposed changes.

1. Canada's Public Sector Pension Plan Model is Unique

PIAC notes that earlier this year, the Public Sector Accounting Board signalled its intention to base future standards on the International Public Sector Accounting Standards (IPSAS). We also note that PSAB has decided to maintain its ability to deviate from IPSAS standards when appropriate.

PIAC believes that PSAB must consider the unique nature of Canada's public sector pension model, which is recognized as a global leader in terms of governance, plan design, and investment expertise. Canada also has unique governance and funding rules set out in provincial pension legislation. As such, PSAB should deviate from IPSAS standards when considering how public sector entities should account for pension obligations.

For example, the governance and funding rules regarding jointly sponsored pension plans (JSPPs) are unique. The IPSAS standards do not account for -- and are not appropriate to apply to -- the unique rules for JSPPs. The JSPP model is built on the foundation of shared-risk pooling whereby assets and liabilities are not attributed to individual employer groups. Plan deficits are funded through a combination of plan design changes and/or contribution increases that, as noted above, are shared by all participants and cannot be attributed to any individual employer. Moreover, in the unlikely event at that a plan is would up, Ontario's pension legislation does not require employers (or members) to fund any outstanding deficit in the normal course.

2. Increased volatility in public sector financial statements may result from a new requirement to measure pension obligations using discount rates related to the yield on high quality corporate bonds.

PIAC believes PSAB should consider the practical application of its decisions. We believe that increased volatility in public sector financial statements is one potential and likely yet undesirable impact of requiring pension obligations to be measured using discount rates related to the yield on high-quality corporate bonds. Additionally, using the market yield of high-quality corporate bonds will also result in higher valuation of pension obligations than the ultimate cost under the funding model. Both concerns exacerbate the short-term focus which has undermined defined benefit pension plans in recent years to the detriment of society at large.

PIAC believes that PSAB standards should encourage transparency and accountability by government decision-makers. Ironically, we believe transparency and accountability will be eroded should pension obligations be measured using a corporate bond rate. This erosion of accountability will likely stem from greater volatility in the expense of pension obligations which has the potential to obfuscate and distract from other government decisions.

3. Increased cost and complexity

PIAC is concerned that PSAB may be embarking on standards that are administratively complex and could result in additional costs to public pension plan administrators, sponsors, and members as well as governments themselves. We feel that PSAB needs to strongly consider the fact that public sector employers do not have the information, and in many cases the resources, available to produce or disclose their proportionate share of liabilities and assets.

In discussing the administrative costs and complexities of the potential changes with PIAC's members, we would like to emphasize to PSAB that requiring public sector entities in multi-employer pension plans to record their share of assets and liabilities will be fraught with complexity and cost, which outweigh PSAB's objectives to move in this direction.

Conclusion

PIAC is monitoring closely for developments related to PSAB's review of Section PS 3250, Retirement Benefits. We look forward to reviewing the next Exposure Draft, but in the meantime, we wanted to highlight the principles which we believe PSAB should consider in its deliberations.

We appreciate this opportunity to share our observations and should you or your colleagues have any questions, please do not hesitate to contact the PIAC office.

Yours sincerely,

Simon Fréchet
Chair

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