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

February 9th, 2024

Department of Finance Canada
James Michael Flaherty Building
90 Elgin Street
Ottawa, ON
K1A 0G5

Via email: Budget2024@fin.gc.ca

To whom it may concern:

Re: Federal Government 2024 Pre-Budget Consultations

The purpose of this letter is to provide input and insight from the Pension Investment Association of Canada (PIAC) on matters pertaining to the pension plan policy and regulatory environment in Canada.

The Pension Investment Association of Canada has been the voice of Canadian pension funds since 1977 in matters related to pension investment and governance. PIAC's members manage over $2.8 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.

PIAC would like to address five policy and program areas:

- Regulatory Harmonization: Funding Rules & Reform,
- Variable Payment Life Annuities Across Jurisdictions,
- Real Return Bond Issuance,
- The Regulatory Evolution of Bill C-228: The Pension Protection Act, and
- A Canadian Taxonomy for a Sustainable Financial Future.

Regulatory Harmonization: Funding Rules and Reform

In 2024, PIAC continues to advocate for funding reform: an overhaul and harmonization of long-term, minimum funding regulations for federally regulated defined benefit (DB) plans.

Akin to many provincial jurisdictions that have made the switch, we advocate for one funding rule, as opposed to both a going-concern funding rule and a plan termination (solvency) funding rule. The existence of two different funding regimes is costly to pension plans. A unified funding rule can be designed to meet the needs of beneficiaries and plan sponsors, balancing the need for benefit security and plan sustainability. A ‘going-concern plus’ regime can meet this desired balance. This, in turn, may motivate some plan sponsors to maintain their plans and continue providing secure DB pensions to more Canadians.

Pension plans are inherently long-term obligations. Only long-term going concern funding policies can support the fulfillment of these important obligations.

PIAC has noted a positive impact on the ongoing maintenance of DB plans in numerous Canadian jurisdictions that have transitioned from solvency funding to a going-concern plus model. In 2024, government can take the essential steps forward in reforming and harmonizing Canada’s pension funding model. The members of PIAC bring significant expertise in navigating the complexities and challenges related to funding harmonization and would be pleased to collaborate with government on this important initiative.

Variable Payment Life Annuities Across Jurisdictions

Supporting regulatory framework harmonization for Variable Payment Lifetime Annuities (VPLAs) options and other decumulation alternatives across jurisdictions is a crucial step in advancing innovation within the Canadian retirement savings landscape.

VPLAs offer essential decumulation options for defined contribution arrangements, addressing a vital element of retirement planning that is often overlooked. PIAC recommends broadening access to VPLAs beyond members of registered pension plans and PRPPs by expanding their availability to Registered Retirement Savings Plans (RRSPs) and diversifying the types of entities that can offer VPLAs. Historically, sponsors have excelled in providing accumulation solutions to help their members save for retirement. The next challenge lies in developing effective strategies for managing assets during retirement, ensuring a steady income stream for retirees. Availability of better decumulation options is key. VPLAs play a pivotal role in this strategy, along with additional approaches that allow for the ongoing management of assets within a plan, providing cost-effective and well-managed solutions.

Real Return Bond Issuance

Aligning with the government's commitment to the Canada Mortgage Bond (CMB) program, PIAC would like to work with government and industry stakeholders in 2024 to reinstate the Real Return Bond (RRB) program in Canada.

PIAC was encouraged by the government's decision to maintain the CMB program. The program's potential discontinuation was a serious concern. The role of CMBs in pension fund portfolios is significant and having removed any ambiguities about the program's future will improve the reputation of the Canadian fixed income market on the global stage.

PIAC would like to see the same outcome for Canada's RRB program.

As long-term investors responsible for managing long-term liabilities, many pension plans were natural buyers of Canadian RRBs because they were a useful tool to hedge against inflation indexed benefits.

The abrupt cessation of new RRB issuance will, over time, remove an essential investment vehicle from Canadian pension investment. Moreover, with the pressure to maintain inflation sensitive portfolios, the end of RRB issuance will force pension plans to expand their exposure to alternative markets outside of Canada, and to more complex, administratively expensive and less liquid real assets, to manage inflation risk.

The restoration of RRB issuance has the potential to enhance domestic investment in Canada. PIAC urges government to reopen consultations on the termination of RRBs and to reinstate the program.

The Regulatory Evolution of Bill C-228: the Pension Protection Act

Pension security is paramount for PIAC members. In sharing the government's goal to provide secure workplace pensions, especially for middle-class Canadians, we urge the federal government to monitor and review the significant and unintended consequences of Bill C-228, or the *Pension Protection Act*, on single employer sponsors of DB pension plans across the country. By granting super-priority status to pension plan deficits, the *Pension Protection Act* creates an increasingly challenging pension regulatory and funding environment for DB plan sponsors. The resulting risk is reduced workplace pension coverage.

Preferred creditor status for pension liabilities will negatively impact single-employer DB plan sponsors' ability to secure capital because increased lender liability will result in higher loan interest rates. The super-priority for pension plan deficits will alter the risk profile assessed by creditors. These changes would affect credit availability, particularly for employers offering DB pension plans. Creditors could require additional credit or collateral sources from these employers, increasing their risk of insolvency. Moreover, solvency funding rules have resulted in actuarial valuations calculating solvency liabilities far exceeding going concern liabilities. As a result, the impact of the Bill will be pro-cyclical, and during more critical periods of market downturns, plan funding obligations would rise when lenders are most concerned about pension deficits. This would add to a challenging operating environment where pension plan costs would increase, and the ability to receive much-needed financing to remain afloat would become difficult to achieve.

Alternatively, PIAC remains steadfast in advocating for funding reforms and regulatory opportunities that can better protect beneficiaries and pensions in the event of bankruptcy, such as:

- Working with stakeholders to restructure operations to sustain business activity.
- Adopting funding rules under the PBSA consistent with most pension jurisdictions who now follow a going concern plus regime.
- Removing barriers to SEPP to MEPP asset transfers across pension jurisdictions.
- Using Solvency Reserve Accounts to allow sponsoring employers to top up funding when feasible and allow them to draw on the reserve accounts during periods of underfunding. This reform would incentivize employers to maintain their pension plan operation.
- Encouraging pension consolidation into shared risk/multi-employer DB plans to expand pension coverage.

Concurrently, we encourage the federal government to closely monitor the implementation and regulatory development of Bill C-228 within the mandated four-year transition window for provision acclimation and monitor employer and creditor response to the legislation We ask government to provide clarity that multi-employer/shared risk/jointly sponsored pension plans do not fall under the provisions of the *Pension Protection Act*, as confirmed during debate by both the Senate Committee that reviewed the legislation and by the Member of Parliament who sponsored the Bill. Additionally, the implementation of Bill C-228 should refrain from introducing any duplicative measures to those in the *Pension Benefits Standards Act, 1985* (PBSA). Robust and protective reporting mechanisms and processes already exist within the PBSA. Plans bear the additional administrative costs of these additional and/or duplicative measures. And ultimately, these costs are passed onto the beneficiaries, which then poses additional challenges to pension plan provision and participation.

In an environment where the number of DB plans is dwindling and just over one-third of employees in the private sector have access to any workplace savings program, Canada cannot afford a decline in pension coverage across its workforce. PIAC is ready to work with government to protect and nurture Canadian DB workplace pensions.

A Canadian Taxonomy for a Sustainable Financial Future

PIAC encourages the federal government to act quickly in building upon the work of the Sustainable Finance Action Council (SFAC) by implementing the recommendations for defining green and transition investment in SFAC's Taxonomy Roadmap Report and the Taxonomy Governance Proposal. The fundamental role of taxonomies is to create the market clarity and integrity necessary to spur and accelerate capital investment into sustainable assets and projects. Establishing a Canadian Green and Transition Taxonomy will help provide the confidence and transparency that investors need to make decisions that are consistent with Canada's climate objectives and transition pathways. As taxonomies become an increasingly common financial tool around the world, implementing a Canadian Green and Transition Taxonomy could aid in attracting both domestic and international investments to Canadian companies and activities, ensuring competitiveness during the wider economic transition towards a sustainable future.

PIAC appreciates the opportunity to provide our policy and regulatory insight amidst the federal government's 2024 budget planning process. Our ongoing advocacy focuses on establishing funding reforms to enhance beneficiary and pension protection and the support of regulatory harmonization. We also urge government to reopen consultations on RRB issuance and implement the taxonomy recommendations of the Sustainable Finance Action Council.

Thank you for your consideration. We would be happy to meet with Finance Canada to discuss the contents of this submission and answer any questions.

Sincerely,

Peter Waite

Peter Waite
PIAC Executive Director