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July 28, 2016

Ms. Tami Dove
Pensions Division
Financial and Consumer Affairs Authority
Suite 601, 1919 Saskatchewan Drive
Regina, SK S4P 4H2

Dear Ms. Dove:

RE: NCPP Consultation Paper

I am pleased to provide this submission in respect of your NCPP consultation paper. Please note that the views expressed in this submission are my own and are not necessarily the views of The Segal Company. The comments included below reflect the knowledge and experience I have amassed while working with NCPPs for over 20 years. I trust you will find them helpful in developing appropriate pension policies for NCPPs. My objective is to support the long-term sustainability and growth of retirement savings in the province.

I note that I am the actuary for one NCPP registered in Saskatchewan, two Alberta registered NCPPs having significant Saskatchewan participation, and a few other national and multi-jurisdictional NCPPs having Saskatchewan members which are registered in either British Columbia or Ontario.

I have restricted my comments to high-level issues and considerations, as I believe it is critical to nail down the major components of policy before addressing the details. My comments are also broken down into major themes.

Solvency Funding for NCPPs

I fully support the permanent elimination of solvency funding for NCPPs as in this current economic environment this funding standard in fact both reduces benefit security for plan participants while keeping benefits artificially low, since the level of benefits that are affordable on a solvency basis are well below the benefit levels which should be supportable on a long-term going concern basis. The preferred funding standard is one that provides for the rational and systematic funding of entitlements, which in turn creates an efficient retirement savings vehicle that will be supported by all stakeholders in the future.

In the current economic environment, the concept of risk-free entitlements is a luxury that no one can afford and no stakeholders are willing to support. A well-managed and governed NCPP remains the most efficient retirement savings vehicle available in Canada, while exposing participants to lower levels of risk than any DC arrangements. Mandating solvency funding for defined benefit NCPPs is akin to restricting defined contribution plan investment options to government bonds. I firmly believe that NCPP stakeholders should be permitted to define and manage the appropriate risk constraints for their NCPPs, just as DC stakeholders do for their plans.

PfAD Funding Requirements

While the PfAD approach espoused in the consultation paper is not necessarily my preferred approach, I believe it is a workable alternative, which can be rendered more effective with a few modifications. Given that the approach is very similar to the framework already developed by Alberta and British Columbia, I encourage the three jurisdictions to pursue a unified approach in developing the best funding model for NCPPs.

My most significant concern with the proposed model is the requirement of have Accessible Going Concern Excess (“AGCE”) before any benefit enhancements are permissible. By implication, that means the PfAD target must be fully funded as well. In the long-term, this lofty objective will be counterproductive as it will choke off contributions to NCPPs, pushing them into accelerated maturity and eventual wind-up, for which sufficient funding will not exist.

As an analogy, the AGCE requirement is the equivalent of eliminating mortgage financing in the purchase of homes. If the standard becomes one whereby individuals are only permitted to pay for the full purchase price of a new house in cash, individuals will cease buying new homes. Very few individuals will be motivated to set aside the required funding for 10 to 20 years to build up the necessary assets. Instead, the resources will be allocated to more current needs, of which there is never a shortage.

From my perspective, the key is not prefunding, but ensuring that whatever funding model is adopted be affordable and sustainable over the long-term. The key should be the contribution margin, which Segal defines as the excess of projected contributions over the minimum funding requirement. NCPPs with sufficient levels of contribution margin are able to withstand most adverse experience since those excess contributions can be applied to cover any funding deficiencies or cost increases arising from the adverse experience. Segal has developed and applied funding strategies for NCPPs based on this principle for over 65 years.

In the context of NCPPs, the parties at the bargaining table negotiating contribution rates to an NCPP must have some incentive to increase contributions over time, even if it is just to keep up with inflation. The notion that the parties will agree to reduce wages by $0.50 per hour in order to redirect those monies to the pension plan is fanciful thinking when there is no tangible payback in the short term. I submit that it is far better for all plan participants if the plan is able to secure a $0.50 increase in hourly contribution rates, allocating $0.25 to benefit enhancements and the remaining $0.25 to enhanced funding. I further submit that a preferred funding standard is to set a PfAD target that is 10 or 15 years into the future and then demonstrate that the plan has

sufficient funding and contribution margins to attain that target. In the absence of this type of approach, I anticipate most NCPPs will not see any material increases in funding in the future and that annual contributions as a percentage of plan assets will progressively diminish over time. Ultimately, the ability of these plans to bear investment risk will completely erode and the plans will be pushed into wind-up scenarios, none of which will be affordable.

Because the elimination of solvency funding provides an immediate release of the built-up funding pressure, I anticipate the proposed funding regime will garner the support of most of the NCPPs. In the absence of a growing or stable contribution base, however, the funding pressure will start rebuilding over the next few decades, having dire consequences down the road, at which point a second pressure relief mechanism will not be available.

The only scenario in which I believe the proposed regime is sustainable over the long-term is one where interest rates are rising, thereby reducing minimum funding costs and creating contribution margins without increasing contributions. Given Japan's experience with low interest rates and other world economic developments, I believe it is a mistake to rely on rising interest rates to secure the long-term health of the NCPPs.

I do recognize that the Alberta and British Columbia Going Concern Plus models both contain some of the same problematic elements, but to a lesser extent, as those described above. I also recognize there was not a huge outcry when their legislation was introduced. I submit that the lack of outcry is essentially attributable to their need to escape from the intolerable burden of solvency funding and that the long-term implications of the policy changes have yet to be considered.

Commuted Value ("CV") Standards

The current CIA CV standards are premised on three fundamental concepts:

- That benefits are risk free,
- That plan sponsors will supplement funding as necessary to pay 100% of all benefits, and
- That benefits paid to one participant have no impact on the security of benefits of the remaining participants.

None of these premises hold true for NCPPs. Consequently, the current CIA CV standards grossly overestimate the true value of defined benefit entitlements in NCPPs. The proposed regime does not address this shortcoming in respect of accrued benefits and is tantamount to endorsing the ongoing appropriation of assets from Peter in order to pay Paul. I do not understand how a distinction between new accruals and old accruals can be made in this respect. The nature of the benefits and the risks associated with those benefits are identical, whether new or old. I believe this is a serious shortcoming of the proposed regime. Not only is the proposal unfair from any measurable or quantifiable perspective, it is one that may result in a number of unintended consequences, including:

- Lower benefit rates for Saskatchewan members participating in multi-jurisdictional plans,

- Expulsions (forced spin-offs) of Saskatchewan members participating in multi-jurisdictional plans,
- Legal challenges by members seeking equity between new and old, and
- Unnecessary increases in administrative complexity and costs.

I believe the approach adopted by British Columbia is by far the best way to implement a new funding regime, whereby all benefits are fully "converted" as of a given date. This is the same approach originally envisioned by Alberta, which was unfortunately derailed due to issues relating to its application to the public sector. Alberta representatives very recently advised of their intent to rectify the shortcoming in their legislation for NCPPs as part of the 2016 fall legislative docket.

Until Alberta rectifies the unintended position it currently finds itself in, the proposed Saskatchewan regime will mirror Alberta's current situation. I specifically note that, out of 23 NCPPs registered in Alberta, to my knowledge not a single one has applied to be "converted" on a future service basis only. Every single one of those NCPPs has concluded that the cons associated with a two-tier plan outweigh the merits of that approach.

Lastly, I note that it is my understanding that the CIA will be introducing new commuted value rules for NCPPs and target benefit plans later this year, or sometime next year. If this does transpire, then unless Saskatchewan changes its legislation to force the ongoing use of CV standards appropriate for benefits subject to solvency-funding, plans will need to contend with two different sets of CV standards producing similar results. The CIA CV standards drafted for NCPPs would apply to the old accruals and Saskatchewan's going concern CV rules would apply to new benefits. While I anticipate the two sets of rules will produce substantially similar results, they will be sufficiently different to double the administrative efforts and costs. I view this as a waste of resources and assets, where the incremental costs are again borne by the remaining NCPP participants. Because the timing and nature of potential CIA changes remain unknown at this time, I recommend Saskatchewan continue with its proposal to adopt its own CV rules for NCPPs, but simply extend them to apply to all accrued benefits.

Conclusion

I trust you will find my comments of assistance as you finalize the details of the new regime for NCPPs. I would be pleased to make myself available should you wish to discuss any of the comments or suggestions included in my submission.

Sincerely yours,

Phil M. Rivard, FCIA, FSA
Vice President

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