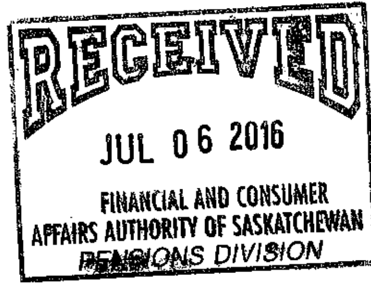
Municipal Employees' Pension Plan
1000 - 1801 Hamilton Street
REGINA SK S4P 4W3



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July 4, 2016

Leah Fichter
Director, Pensions
Financial and Consumer Affairs Authority
601 — 1919 Saskatchewan Drive
REGINA SK S4P 4H2

Dear Ms. Fichter:

The Municipal Employees' Pension Commission (the Commission) discussed the consultation paper regarding the "Proposed Regime for Negotiated Cost Pension Plans" at its meeting on June 17, 2016.

The Commission acknowledges that the consultation paper pertains to private sector negotiated cost pension plans. On this point, the Commission does not anticipate that the Municipal Employees' Pension Plan will change from a specified plan to a negotiated cost pension plan.

Pursuant to Part 8.2 of the consultation paper, the Commission wishes to comment regarding the application of certain aspects outlined in the proposed regime to specified pension plans registered under the *Pension Benefits Act, 1992*.

We understand that your office is considering giving guidance to specified plans on a requirement to include specific margins in a going concern valuation. If this is the case, the Commission would support guidance along the lines of the proposal in this paper regarding a provision for adverse deviation. The Commission agrees with the position that a margin or provision for adverse deviation (PfAD) on a plan's balance sheet is an important target, but should not have to be funded. The full funding of a margin (particularly if it is in the 15 per cent range) would be very difficult to achieve for specified plans without the authority to reduce accrued benefits. The requirement to include a margin in the current service cost is a good compromise and the restriction on benefit improvements is reasonable, in the Commission's opinion.

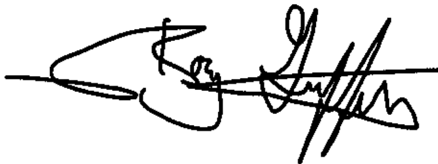
...2

The Commission is also generally supportive of the use of the going concern commuted value (GC CV) methodology proposed for the calculation of commuted value payments for terminating members. Specified plans are exempt from solvency funding and therefore it could be argued that it is appropriate for specified plans to use the GC CV calculation methodology that is outlined for negotiated cost pension plans.

The Commission also would support a permanent reduction in the GC CV amount to the going concern funded position of the plan. In other words, the GC CV amount would never be topped up.

The Commission wishes to thank the Financial and Consumer Affairs Authority for the opportunity to provide feedback on the consultation paper and is hopeful that our comments will prove useful in the decision-making process.

Sincerely,



Rory Griffith
Chair, Municipal Employees' Pension Commission

Leadership ▪ Integrity ▪ Stewardship

Ms. Leah Fichter
Director of Pensions
Financial & Consumer Affairs Authority
6th Floor, 1919 Saskatchewan Drive
Regina, SK S4P 3V7

July 22, 2016

Dear Ms. Fichter:

RE: Proposed Regime for Negotiated Cost Pension Plans

Thank you for providing us with the opportunity to provide input into the Proposed Regime for Negotiated Cost Pension Plans (NCPPs).

Recognizing that there is no direct application of the proposed regulations to the Regina Civic Employees' Superannuation & Benefit Plan, the Administrative Board of that plan has undertaken a thorough review of the proposed regulations for NCPP's. The Board commends you on your interest in establishing a single regulatory regime and find several elements of the proposed regulations appealing. However, the Board is unable to endorse wider application of the proposed regulations based on the draft presented.

The Board is encouraged by the inclusion of going concern commuted values (GC CV) in the proposed regulations. The incongruous relationship between pension funding and the Canadian Institute of Actuaries (CIA) commuted value (CV) basis has long troubled this board as well as several others. The Board is encouraged that the Financial and Consumer Affairs Authority (FCAA) is recognizing this incongruity and contemplating changes to better align the interests of members and former members. It is difficult for any fiduciary body to come to terms with practice that requires a disproportionately large payment to those who have chosen to leave the Plan while requiring those who remain to pay ever larger amounts of their pay to remain. GC CV recognizes the inequity between those who remain and those who elect to leave. Those who choose to leave their employer should only receive their pro rata share of the assets available when they leave. The GC CV basis better accomplishes this than the CIA's CV basis. The Board encourages you to include this aspect in future iterations of pension regulation.

As noted above, the Board is unable to endorse broader application of the proposed regulations based on the funding requirements. As you are aware, the Sponsors of this Plan and the Board have expended considerable effort to establish structures, policies and processes intended to address the funding challenges the plan has faced. Analysis completed for the Board suggests that adoption of the regulations would permit an immediate reduction in required contributions but at the expense of the long term health of the Plan. The Board recognizes that contribution levels can be established in excess of the

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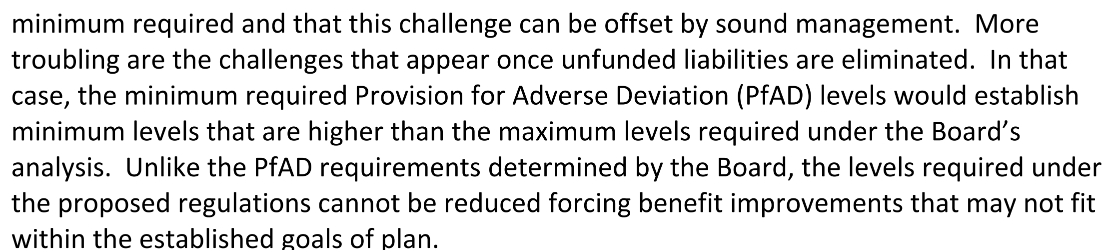

minimum required and that this challenge can be offset by sound management. More troubling are the challenges that appear once unfunded liabilities are eliminated. In that case, the minimum required Provision for Adverse Deviation (PfAD) levels would establish minimum levels that are higher than the maximum levels required under the Board's analysis. Unlike the PfAD requirements determined by the Board, the levels required under the proposed regulations cannot be reduced forcing benefit improvements that may not fit within the established goals of plan.

The Board is further challenged by the funding requirement restrictions on benefit improvements. The sponsors of this plan have established a funding policy that outlines the circumstances under which benefit improvements can be made. The Funding Policy describes both future benefit improvements and re-instatement of benefits that were changed as of 2016. The restrictions on benefit improvements contained in this consultation paper would prevent improvements from taking place as agreed. The FCAA was engaged in discussions prior to the Funding Policy being adopted and included adoption of the Funding Policy as a condition of the regulatory changes made to implement the 2016 amendments to this plan.

The Board is encouraged by your efforts to evolve pension regulation and although not supportive of these changes is supportive of a broader dialogue. To that end, the Board is interested in actively participating in broader discussion regarding the evolution of Saskatchewan pension regulation.

We look forward to further discussions in regard to this matter. Attached you will find specific answers to each of the questions posed in the consultation paper.

Sincerely,

Colyn R. Lowenberger
President & CEO
Möbius Benefit Administrators Inc.

Proposed Regime for Negotiated Cost Pension Plans

1. With respect to each Part, are there any additional concerns or considerations that you wish to identify?

Our views are covered in the cover letter accompanying this document and in the following statements.

Part 1: Introduction & Background

2. Do you agree with the principles?

- **Pension Sustainability**: We believe that all plans must seek to provide benefits at a reasonable cost to plan sponsors and members over the long term. In order to do so each plan must have appropriate tools to effectively manage the risks inherent to their unique circumstances supported by regulation that does not inhibit them from doing so.

- **Benefit security:** We believe that all plans need to provide a reasonable level of benefit security for plan members and retirees. Benefit security may not be the same for every plan and, as such, each group must define benefit security based upon their specific circumstances and plan design.

- **Equity and Transparency:**
    - We believe that members should be treated equitably across generations with contributions reflecting the benefits earned in the economic environment in which they were earned.
    - In all cases, plan participants should be provided with sufficient information to understand the plan.

- **Flexibility:**
    - Plan decision makers should be able to make decisions that are appropriate for the individual characteristics and needs of the plan.
    - We believe that plan decision makers are best suited to make decisions based on the individual characteristics and needs of their plan. The regulatory environment must support decision makers including allowing decision makers to determine the most appropriate methods for managing their plan.

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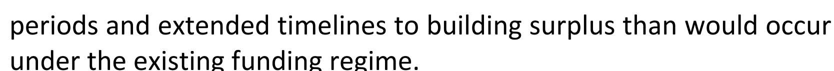
Part 2: Funding

3. Do you agree with the proposed funding requirements, including the method of calculating the PfAD?

We are deeply concerned with the proposed funding requirements. Our understanding of the proposed funding requirements indicates it will provide immediate needed relief to the targeted groups but we do not view the proposed requirements as a sustainable regime.

- The proposed method for calculating PfAD results in minimum contribution rates that are excessively high. PfAD is one tool that can and should be employed to assist in the management of the volatility inherent to investment in equities. It is not sufficiently robust to stand on its own and when applied as it has been here it has a number of undesirable effects.
  - Plans that are currently well funded and invested in equities are highly likely to see total contributions unnecessarily rise. The impact of such an increase has the potential of increasing contributions beyond agreed upon levels necessitating benefit reductions in plans that are currently well funded
    - There are scenarios where the proposed regime would not work for TRIP. Based on a discount rate of 6.3%, the minimum prescribed margin on the current service cost would be nearly 24%. (Examples 2 through 4). Applying this to a BE CSC of 13.9% would result in a current service cost of 17.3%. The current Affordability Ratio of TRIP is approximately 1.25 (i.e. 25% margin). The TRIP trust agreement says that if the Affordability Ratio is above 1.15, no triggers are pulled. However, with contributions set at 17% of pay and the CSC at 17.3% benefit reductions are required.
  - The minimum funding requirement as outlined in the consultation paper puts an artificially high floor on contributions in an effort to build a buffer into balance sheets. For plans that already have that buffer, the floor has the potential of creating an environment whereby benefit improvements are necessitated as there is no way, within the regulation, to reduce CSC below the minimum level. The ability to adjust CSC can slow the rate of balance sheet growth and permit active management of benefits.
  - Plans that are not currently well funded could see contributions fall as they remove PfAD from their balance sheet. Where an unfunded liability is permitted, this change has the potential of eliminating that portion of the contribution rate, resulting in longer amortization



periods and extended timelines to building surplus than would occur under the existing funding regime.

- Our understanding is that PfAD on the balance sheet is intended to be equal to PfAD on current service cost. Our analysis shows that current service cost and the balance sheet of defined benefits react differently to changes in assumptions and economic circumstance and as such are best managed by applying different levels of PfAD to CSC and the balance sheet based on the circumstances at the time that the valuation is completed. A single PfAD results in increased volatility of contribution levels and/or benefits.
- Given the proliferation of alternative investment in today's portfolios it is unclear as to where those investments might fit regard to the determination of PfAD. Although many of the structures may be forms of equity, not all are, and they often display performance characteristics that are uncorrelated to public equities offering opportunity to lower portfolio volatility relative to traditional equity investments. As such, we are of the opinion that not all such investments can, or should, be considered equity in the determination of PfAD. Further development in this area is clearly necessary.
- The benchmark discount rate is subject to manipulation. For example, the BDR does not directly take into account inflation. By lowering the inflation assumption, the discount rate can be lowered therefore requiring a lower level of margin. Although this may result in higher liabilities, those liabilities can be controlled by lowering or eliminating the margin on the balance sheet.

PfAD is a tool to manage contribution volatility and to protect accrued benefits. The proposed methodology will not accomplish that goal. We are of the opinion that a regime whereby a clearly stated minimum level PfAD is identified along with target levels of PfAD on both the balance sheet and CSC is preferable and will better accomplish the stated goals.

4. Should the rules be more prescriptive regarding the funding policy for an NCPP (e.g. require that such plans have a funding policy; set-out the minimum contents of a funding policy)?

Funding Policies are a vital component of a well governed pension plan. It is our belief that the members of all plans containing defined benefit provisions are best served if the plan has a funding policy. In order for such a policy to be effective there are key elements that must be present. It is therefore our belief that a funding policy should be a requirement and that minimum contents be developed in consultation with those affected.

5. Is stress testing an appropriate way to understand the risks of an NCPP?

Stress testing is an appropriate way to analyze the risks associated with a pension plan. The difficulty is not in the analysis but in identifying those risks which may have the greatest impact on a plan. Although the plan actuary may have the technical skill to complete such analysis, ultimately the administrator is accountable to the members for oversight of the plan. As such, stress testing should be guided by the administrator who may choose to delegate that duty to the Plan Actuary.

Part 3: Benefit Improvements & Benefit Reductions

6. Do you agree that an NCPP should have AGCE in order to improve benefits?

Any plan that wishes to make benefit improvements should be required to ensure that the existing benefits can be maintained into the future as well as to properly fund the proposed benefit improvement. Over the last decade we have seen the impact of benefit improvements made without sufficient forethought. The result has been high contribution rates for today's members combined with benefit reductions and sleepless nights for all stakeholder. As such, a reasonable PfAD should be held on the balance sheet and/or the in funding contributions before any significant benefit improvements are permitted.

Based on the consultation paper it is unclear to us what exactly is proposed for AGCE. As such it is difficult to comment fully on the merits of the proposed methodology. However, we have attempted to analyse the methodology based on the following interpretation (Appendix 1, Example 1):

1. Determine the PfAD Offset;
    a. Present Value of excess PfAD over the minimum PfAD, for the period ending at the next expected valuation.
2. AGCE = Asset Market Value – PfAD Offset

If this is the case, it would appear that the PfAD Offset used to calculate AGCE is sufficient to provide a meaningful level of benefit security on accrued benefits.

Regardless of the methodology used, the amount of PfAD that should be held by each plan before benefit improvements are permitted will differ based upon the characteristics and circumstances of each plan.

7. Do you feel that there should be rules in the Regulations regarding the order of benefits to be reduced to meet the solvency tests?

The order of benefits to be reduced should not be dictated by regulation. They should be determined by plan sponsors and outlined in advance via benefit policy. Rather than regulate the order of benefits to be reduced, it would be preferable to require plans to document their desired actions in advance.

Part 4: Benefit Types

8. Would the NCPPs that you are involved with be interested in GC CVs?

We are pleased that you have recognized the disparate relationship between pension funding and the Canadian Institute of Actuaries (CIA) commuted value (CV) basis. Going Concern Commuted Value (GC CV) recognizes the inequity between those who remain in a plan funded on a going concern basis and those who elect to leave. Members who choose to leave their employer should only receive their pro rata share of the assets available when they leave. The going concern CV (GC CV) basis better accomplishes this than the CIA's CV basis.

9. Are there any significant issues respecting preparation of an AVR, member communications, or inequity where an NCPP provides for both methodologies of calculating commuted values (i.e. CIA CV and GC CV)?

The consultation paper contemplates changing the CV basis only prospective basis. Such a change creates significant additional administrative and communication burden while continuing to disproportionately benefit those who elect to leave the affected plans. The use of two CV methodologies (CIA CV for pre-transition service and GC CV for post-transition service) implies that members have a "vested right" to the current methodology. Members are promised a defined benefit upon retirement, not a defined payment upon termination. The only vested rights that are recognized in law are to the promised defined benefits and as such a single methodology for determining CV's should apply to all service.

The CIA's current methodology assumes that those receiving a CV are using that CV to purchase an annuity to fund their retirement. The former member may very well do this, but they may also elect to invest the funds in some other fashion, much like the pension plan where the funds originated. Our observation of where former members transfer funds to suggests that very few members elect to purchase annuities. It is our belief that the CIA CV basis unfairly advantages those who elect to leave. This contradicts the duty of the administrator to act fairly and impartially.

10. What are your views on the proposed methodology used to calculate the GC CV?

    We are supportive of the methodology proposed, with a strong preference to apply the methodology to all service for those eligible to receive such a payment.

11. Given that members could be entitled to a GC CV (a CV that reflects the funded status), should plans that provide use the GC CV methodology be required to file periodic updates on their funded position to ensure that commuted value more accurately reflects the funded position of the plan at the time of transfer?

    Plans are already required to file periodic updates on their funded position via the requirement to perform actuarial valuations no less frequently than every three years. Plan funding, including any unfunded liability, is determined based on the most recent valuation. Given that those contributions reflect the terminating member's portion of the deficit, the funded ratio should only be updated when a valuation is filed with the FCAA.

12. Should the ability to convert past benefits to benefits calculated using the GC CV methodologies be provided at this time to NCPPs?

    Yes. The consultation paper contemplates changing the CV basis only on a prospective basis. Such a change creates significant additional administrative and communication burden while continuing to disproportionately benefit those who elect to leave the affected plans. The use of two CV methodologies (CIA CV for pre-transition service and GC CV for post-transition service) implies that members have a "vested right" to the current methodology. Members are promised a defined benefit upon retirement, not a defined payment upon termination. The only vested rights that are recognized in law are to the promised defined benefits and as such a single methodology for determining CV's should apply to all service.

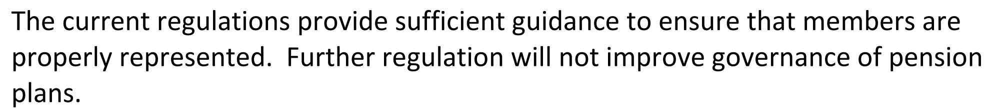
Part 5: Communications

13. Is the communications framework appropriate for NCPPs?

    We have no objections to the communication framework. In general, additional communication with members is desirable.

Part 6: Administration & Governance

14. Should there be more or less rules regarding NCPP governing bodies (Administrator and/or sponsor)? For example, should the regulations prescribe the proportion of plan members and retirees, presence of independent trustees, required knowledge and skills, etc.?


The current regulations provide sufficient guidance to ensure that members are properly represented. Further regulation will not improve governance of pension plans.

15. Should the legislation or regulations be more prescriptive regarding the governance policy for NCPPs? (e.g. require that such plans have a governance policy; set-out the minimum contents of a governance policy)?

We believe that strong governance is the foundation of successful pension plans and that foundation is only effective over the long-term by establishing sound governing documents. That being said, we believe that the contents of those documents are best determined by stakeholders and further regulation is not necessary.

Part 7: Transition Rules

16. Is the transition framework appropriate? Have all issues been addressed?

Due to the broad implications of changes such as those proposed here, a transition period is required for any plan impacted by the change. As outlined above, we believe that further development of the proposed regulation is necessary before it is acceptable for application as a single funding regime.

17. Do you agree with transitioning the PfAD on the CSC over a 3 year period?

We do not agree with the proposed PfAD requirement and do not believe that a 3 year transition period would be sufficient to adapt to this PfAD requirement.

Part 8: Additional Considerations – Section 8.1: Alternative – "Enhanced Going Concern"

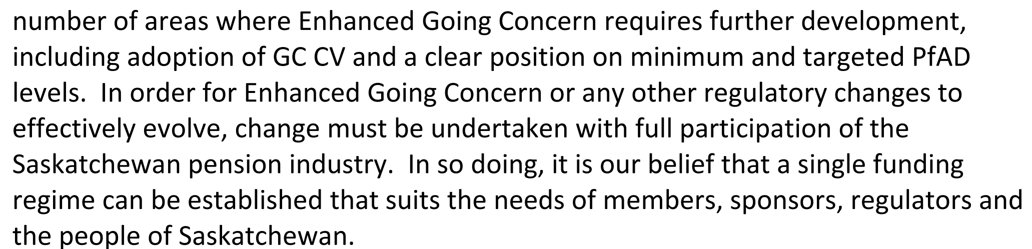
18. Do you feel the "Enhanced Going Concern" option would be an acceptable regime as opposed to the Proposed Regime?

See Question 19.

Part 8: Additional Considerations – Section 8.2: Expand the Proposed Regime to Other Pension Plans

19. Should a framework similar to the Proposed Regime be an option available to other types of pension plans registered under the Act?

The "Enhanced Going Concern" funding basis put in place for Specified Plans was a reasonable first step in establishing a sustainable funding regime. There are a



number of areas where Enhanced Going Concern requires further development, including adoption of GC CV and a clear position on minimum and targeted PfAD levels. In order for Enhanced Going Concern or any other regulatory changes to effectively evolve, change must be undertaken with full participation of the Saskatchewan pension industry. In so doing, it is our belief that a single funding regime can be established that suits the needs of members, sponsors, regulators and the people of Saskatchewan.

Part 8: Additional Considerations – Section 8.3: Multi-Jurisdictional Pension Plans

20. What issues do you foresee will need to be addressed with respect to GC CVs and multi-jurisdictional plans?

We have no comment on multi-jurisdictional plans.

Part 9: Closing Comments & Contact Information

21. Please provide any additional comments or information related to this paper.

Please see our covering letter.

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Appendix 1

Example 1

	Pre-Amendment	Post Amendment
Assets		
Market Value	$ 157,000,000	$ 157,000,000
Smoothing	900,000	900,000
Actuarial	$ 157,900,000	$ 157,900,000
Liabilities		
Going Concern	$ 120,800,000	$ 123,500,000
PfAD	32,500,000	33,200,000
Funding	$ 153,300,000	$ 156,700,000
Funded Ratio		
Going Concern	130%	127%
Funding	103%	100%
PfAD Offset	$ 1,900,000	n/a
AGCE	$ 2,700,000	n/a

Example 2

Equity Allocation = 55%
Inflation = 2.25%
Discount Rate = 6.3%
Best Estimate Current Service Cost = 14.0%
Best Estimate Unfunded Liability = $0

Base PfAD = 17%

BDR = (A x B) + (C x D) + 0.40% where

A = 55.00%
B = 4.00% + 2.16% = 6.16%

C = 0.45%
D = 4.43%

BDR = (55.00% x 6.16%) + (0.45% x 4.43%) + 0.40% = 5.78%

Additional PfAD = Discount Rate – BDR
= 6.30% - 5.78% = 0.52% = 52 bps

PfAD is increased by 0.15% for every basis point above the BDR.
Additional PfAD = 52bps x 0.15% = 7.77%

PfAD = Base PfAD + Additional PfAD = 17.00% + 7.77% = 24.77%

The Plan must use a minimum PfAD of 24.77%.

CSC for Funding Purposes: 14.0% + (14.0% x 24.77%) = 17.33%

Example 3

Equity Allocation = 55%
Inflation = 2.25%
Discount Rate = 6.3%
Best Estimate Current Service Cost = 14.0%
Best Estimate Unfunded Liability = $0

PfAD = 21.4%

CSC for Funding Purposes: 14.0% + (14.0% x 21.4%) = 17.00%

CSC for Funding = 14.0% + (14.0% x 24.77%) =	17.00%.
Special Payments =	0.00%
Total Contributions =	17.00%

Example 4

Equity Allocation = 55%
Inflation = 2.25%
Discount Rate = 6.3%
Best Estimate Current Service Cost = 14.0%
Best Estimate Unfunded Liability = $4,900,000

Base PfAD = 17%

BDR = (A x B) + (C x D) + 0.40% where

A = 55.00%
B = 4.00% + 2.16% = 6.16%
C = 0.45%
D = 4.43%

BDR = (55.00% x 6.16%) + (0.45% x 4.43%) + 0.40% = 5.78%

Additional PfAD = Discount Rate – BDR
= 6.30% - 5.78% = 0.52% = 52 bps

PfAD is increased by 0.15% for every basis point above the BDR.
Additional PfAD = 52bps x 0.15% = 7.77%

PfAD = Base PfAD + Additional PfAD = 17.00% + 7.77% = 24.77%

The Plan must use a minimum PfAD of 24.77%.

CSC for Funding Purposes: 14.0% + (14.0% x 24.77%) = 17.33%

CSC for Funding = 14.0% + (14.0% x 24.77%) =	17.33%.
Special Payments =	1.95%
Total Contributions =	19.28%

Example 5

Equity Allocation = 55%
Inflation = 2.25%
Discount Rate = 6.3%
Best Estimate Current Service Cost = 14.0%
Best Estimate Unfunded Liability = $4,900,000

PfAD = 10.0%

Unfunded Liability for Funding Purposes = $18,390,000

CSC for Funding = 14.0% + (14.0% x 10.0%) =	15.40%
Special Payments =	9.60%
Total Contributions =	25.00%

SHEPP
SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN

people. pensions. results.

Saskatchewan Healthcare Employees' Pension Plan (SHEPP)
Response to Consultation Paper
Proposed Regime for Negotiated Cost Pension Plans
June 22, 2016

The Saskatchewan Financial and Consumer Affairs Authority (FCAA) released a Consultation Paper entitled *Proposed Regime for Negotiated Cost Pension Plans*. Although the Consultation Paper is focused on Negotiated Cost Pension Plans, which the Saskatchewan Healthcare Employees' Pension Plan (SHEPP) is not, the FCAA is interested in soliciting input from other pension plans on proposed changes outlined within the paper. The Board of Trustees (Board) of SHEPP welcomes this opportunity to respond to the Consultation Paper.

RESPONSE TO QUESTIONS:

The following are SHEPP's responses to the 21 questions posed in the Consultation Paper.

Question 1: With respect to each Part, are there any additional concerns or considerations that you wish to identify?

All of the views of the Board have been expressed in the following statements.

Part 1: Introduction & Background

Question 2: Do you agree with the principles?

Pension Sustainability: The Board believes that all defined benefit pension plans (whether they be private sector, public sector, jointly trusteed, or negotiated cost plans) should be managed on a sustainable basis over the long term.

Benefit security: Benefit security is the primary goal of SHEPP's Funding Policy. As such, the Board believes that it should form an important role in the management of pension plans in general.

Equity and Transparency: It is well understood that a certain amount of inequity is inherent in any defined benefit pension plan and that the inherent inequity is very challenging to manage. It requires a careful balance between the need to keep a plan fully funded in the short term and the longer term goal to have plan members and participating employers pay their fair share of the cost of benefits being earned. Having said that, the Board believes equity is a reasonable long-term goal to have in any pension plan and consequently would agree that plan members should be provided sufficient information to understand their plan.

Flexibility: The Board believes it should have the flexibility to be able to make decisions that are appropriate given the individual characteristics and needs of SHEPP. The Board believes that this is a fundamental principle in any regulation that is put in place for any pension plan registered in Saskatchewan.

Part 2: Funding

Question 3: Do you agree with the proposed funding requirements, including the method of calculating the PfAD?

The Board has interpreted the proposed funding regime as follows. All comments are made in relation to this interpretation:

1. A single PfAD is determined for each plan based on the plan's asset mix and a benchmark discount rate.
2. That same PfAD is applied to both the funding contributions and the balance sheet.
3. A NCPP is allowed to hold a zero PfAD on the balance sheet.
4. The amount of PfAD that is to be held in the funding contributions must be at least equal to the calculated PfAD.
5. When the plan has a PfAD in the funding contributions that is at least equal to the calculated PfAD then the given contributions to the plan are adequate to fund the benefits – and no changes are needed.
6. When the plan has a PfAD in the funding contributions that is less than the calculated PfAD then either: higher contributions must be negotiated or benefits (past and/or future) must be reduced to the extent that the actual PfAD (after any such changes) is at least equal to the calculated PfAD.
7. When the plan has a PfAD in the balance sheet that is greater than the calculated PfAD then benefit improvements will be allowed.

In addition, in the following comments where the term PfAD is used, it is representing "Provision for Adverse Deviations" which is also known as a "margin" or buffer.

- The Board does not view any PfAD as an actuarial liability of the SHEPP. The actuarial liabilities are only in respect of benefits that are expected to be paid from the Plan. Any PfAD is an additional amount that is built up from excess funding contributions or from positive Plan experience. The purpose of holding a PfAD is for circumstances where Plan experience is less favorable than expected and the PfAD can be used to stabilise funding contributions or provide benefit security.

The Board does agree with the following statement made in the consultation paper *"The PfAD will act as a buffer that would increase or decrease based on plan experience and/or contributions."* This aligns very well with how the Board views PfAD specifically:

- In the proposed funding regime, the PfAD that is intended for the Current Service Cost (CSC) appears to be equal to the PfAD that is intended for the balance sheet. The Board sees this as being too restrictive. In managing the SHEPP, the Board has often made the decision to hold a margin in the balance sheet that is different (sometime quite different) from the margin that is held in the funding contributions. This is done in order to provide both benefit security as well as to stabilise contributions. The Board believes that it would be preferable to have the ability to set separate PfADs for the contributions and the balance sheet.
- The Board agrees that SHEPP's asset mix should be considered when setting a PfAD. The table in section 2.4 of the Consultation Paper provides a reasonable assessment of a PfAD for various asset mixes. One item the Board feels might be missing is a way to determine the amount of PfAD that is associated with various alternative asset classes such as real estate, mortgages, infrastructure, hedge funds, etc.
- The Board has prepared the following five scenarios with various combinations of funding contributions and balance sheet situations. Of course, there are many more scenarios that could be illustrated, but the Board believes that these five scenarios highlight the different circumstances that a pension plan could encounter. Under each scenario, we have provided what the Board believes would be the required actions and the impact of those actions as a result of applying the proposed funding regime. In all of the scenarios, it is assumed that the pension plan in question has a minimum PfAD of 15%, as a result of applying the asset mix and benchmark discount rate formulas in the proposed funding regime.

Scenario 1 – Meeting PfAD Requirements			
Contributions		Balance Sheet	
Best Estimate Current Service Cost	100	Assets	1,150
Contributions	115	Best Estimate Liabilities	1,000
Actual PfAD	15%	Actual PfAD	15%
Minimum PfAD	15%	Minimum PfAD	15%
Action:	No changes needed	Action:	No changes needed
Commentary	In this scenario: the plan has PfAD in the balance sheet and the funding contributions that are equal to the minimum PfAD of 15%. As such no changes are needed to the plan. Action: status quo until the next valuation. Result: no apparent conflicts		

Scenario 2 – Surplus in Excess of PfAD			
Contributions		Balance Sheet	
Best Estimate Current Service Cost	100	Assets	1,300

Contributions	120	Best Estimate Liabilities	1,000
Actual PfAD	20%	Actual PfAD	30%
Minimum PfAD	15%	Minimum PfAD	15%
Action:	No change needed: can consider increasing future service benefits	Action:	No change needed: can consider increasing past service benefits
Commentary	In this scenario: the PfAD in the funding contributions and the balance sheet is larger than the minimum PfAD. Actions: the sponsor could consider making no changes to the plan or the sponsor could consider increasing either both past and/or future service benefits. Result: no apparent conflicts		

Scenario 3 – Not Meeting PfAD Requirements			
Contributions		Balance Sheet	
Best Estimate Current Service Cost	100	Assets	1,100
Contributions	110	Best Estimate Liabilities	1,000
Actual PfAD	10%	Actual PfAD	10%
Minimum PfAD	15%	Minimum PfAD	15%
Action:	Increase contributions or reduce future service benefits	Action:	No changes needed
Commentary	In this scenario: the PfAD in the funding contributions and balance sheet is below the minimum PfAD requirement. Action: the sponsor would need to either reduce future service benefits or have higher contributions negotiated in order to support the minimum PfAD requirements. Result: no apparent conflicts.		

Scenario 4 – Going -Concern Unfunded Liability			
Contributions		Balance Sheet	
Best Estimate Current Service Cost	100	Assets	900
Contributions	120	Best Estimate Liabilities	1,000

Actual PfAD	20%	Actual PfAD	None: Deficit
Minimum PfAD	15%	Minimum PfAD	15%
Action:	Use the 5% excess in the contributions to amortise (all or part of) the balance sheet deficit	Action:	Past and/or future service benefits may need to be reduced if the 5% excess in the funding contributions is not sufficient to amortise the balance sheet deficit
Commentary	In this scenario: the PfAD in the funding contributions is greater than the minimum, whereas the balance sheet is in a deficit position. Action: the plan would need to evaluate the 5% excess margin in the funding contributions to see if it is sufficient to amortise the balance sheet deficit. If it is not sufficient then one of the following must happen: • Higher contributions are negotiated; • Future service benefits are reduced; and/or • Past service benefits are reduced. Result: no apparent conflicts		

<table>
<tr><th colspan="4">Scenario 5 – PfAD Requirement not met in Contributions with Balance Sheet Surplus</th></tr>
<tr><th colspan="2">Contributions</th><th colspan="2">Balance Sheet</th></tr>
<tr><td>Best Estimate Current Service Cost</td><td>100</td><td>Assets</td><td>1,200</td></tr>
<tr><td>Contributions</td><td>110</td><td>Best Estimate Liabilities</td><td>1,000</td></tr>
<tr><td>Actual PfAD</td><td>10%</td><td>Actual PfAD</td><td>20%</td></tr>
<tr><td>Minimum PfAD</td><td>15%</td><td>Minimum PfAD</td><td>15%</td></tr>
<tr><td>Action:</td><td>Increase contributions or reduce future service benefits</td><td>Action:</td><td>Past service benefit improvements are allowed</td></tr>
<tr><td>Commentary</td><td colspan="3">In this scenario: the PfAD in the funding contributions is below the minimum PfAD requirement, whereas the PfAD in the balance sheet is larger than the minimum PfAD requirement.

Action: the plan would need to consider one or both of the following:
• Reduce future service benefits – which would reduce the current service cost of the plan and restoring the actual PfAD to the minimum PfAD requirement and/or
• Have higher contributions negotiated in order to restore the minimum PfAD in the funding contributions

While at the same time the sponsor would be allowed to consider increasing past service benefits due to the surplus in the balance sheet.

Result: this scenario produces a conflict where the security of future service benefits is put in jeopardy while the plan has the ability to increase past service benefits. Hence the proposed funding regime has the potential to produce a conflict. It is the Board’s view that this conflict can be avoided by incorporating a range for the allowable PfAD in the funding regime – see additional comments below.</td></tr>
</table>

There is the potential that any particular plan may be faced with a conflict between the security of future service benefits and the ability to increase past service benefits (highlighted in Scenario 5 above). It is the Board’s view that this conflict can be avoided by:

- Incorporating a range for the allowable PfAD in the funding regime;
- Allowing the PfAD in the balance sheet to be different from the PfAD in the funding contributions, depending on the particular circumstances of each plan at each actuarial valuation; and
- Allowing the PfAD in the balance sheet that is in excess of the minimum PfAD be first applied to making good on any shortfall in the funding contribution PfAD.

In order to provide flexibility in the funding regime for various circumstances that plans may face (and to avoid any conflicts such as pointed out in Scenario 5 above), the Board offers the following alternative ways to determine PfADs:

1. Establish a calculated "Base PfAD" for each pension plan. The current proposal to calculate the Base PfAD based on the particular plan's asset mix would be a reasonable approach (and, removing the Benchmark Discount Rate adjustment – see comments below).
2. Determine a reasonable range around the Base PfAD, thereby determining a Minimum PfAD, a Base PfAD, and a Target PfAD for each particular plan. The table of PfADs based on asset mix shown in the consultation paper could be used to determine the "Base PfAD" and the table could then be expanded to include a Minimum and a Target PfAD. The following is an example that could be considered:

Equity Allocation (%)	Minimum Balance Sheet PfAD	Minimum CSC PfAD	Base PfAD (CSC and BS)	Target PfAD (CSC and BS)
0	0	0	5	7
10	0	5	5	10
20	0	5	8	12
30	0	5	11	15
40	0	7	12	17
50	0	7	15	20
60	0	7	17	22
70	0	10	19	24
80	0	10	20	25

   It is noted that the labels "Minimum", "Base", and "Target" and the specific values in the table above are for illustrative purposes and would be open for further comment and discussion.

3. At the time of any actuarial valuation, it would be acceptable to have different PfADs in the funding contributions and the balance sheet.
4. At any valuation date: if the PfAD in the funding contributions is less than the Minimum CSC PfAD shown above (for the asset mix of the plan in question) then either higher funding contributions would need to be negotiated and/or some form of benefit reduction (past and/or future) would need to be considered.
5. At any valuation date benefits are not allowed to be increased until the actual PfAD (contributions and/or balance sheet) exceeds the Target PfAD in the table. In particular: once the PfAD in the funding contributions exceeds the Target PfAD, then consideration could be given to increasing future service benefits. Similarly, once the PfAD in the balance sheet exceeds the Target PfAD, then consideration could be given to increasing past service benefits.

The Board believes that the formula being proposed to determine the “Benchmark Discount Rate” and the resulting adjustment to the PfAD may be best removed from the funding regime. There are two main reasons for this suggestion:

1. The input items to the formula to determine the Benchmark Discount Rate may be quite volatile in times of economic uncertainty. As such, the formula may produce Benchmark Discount Rates that are quite high or quite low at times and could be unpredictable. Similar to the prescribed discount rates required for solvency funding, the Board believes that this will potentially add (possibly significant) volatility to the funding regime. This could also require significant benefit reductions or allow for significant benefit improvements during periods of economic uncertainty. This would appear to go against the basic principles of sustainability, benefit security and flexibility.
2. The proposed PfAD, based on the asset mix, is a reasonable way to assess the investment risk in a plan’s asset mix. We see the use of the “Benchmark Discount Rate” formula as really being an alternative way to assess that same risk. If both methods are used, it is our view that there will be significant “double counting” of the PfAD.

Question 4: Should the rules be more prescriptive regarding the funding policy for an NCPP (e.g. require that such plans have a funding policy; set-out the minimum contents of a funding policy)?

Yes: the Board believes that best practice is to have a funding policy for each plan. That funding policy should have minimum requirements (not unlike an investment policy or the plan text of each plan).

Question 5: Is stress testing an appropriate way to understand the risks of an NCPP?

Yes: the Board believes that stress testing provides additional information for plan sponsors and fiduciaries to understand the risks inherent in any particular pension plan.

Part 3: Benefit Improvements & Benefit Reductions

Question 6: Do you agree that an NCPP should have AGCE in order to improve benefits?

The Board does agree that a reasonable PfAD should be held in the balance sheet and/or the funding contributions before any significant benefit improvements are put in place. However, the amount of PfAD that should be held by each plan before benefit improvements are allowed will differ depending on the particular characteristics and circumstances of each plan.

Question 7: Do you feel that there should be rules in the Regulations regarding the order of benefits to be reduced to meet the solvency tests?

No. The order of benefit reductions is a complex process that will depend on each plan’s individual circumstances and history. Having regard to any applicable fiduciary duties, the plan sponsor(s) should determine the precise reductions, which must then be approved by the FCAA under s. 40(6) of the PBA.

Part 4: Benefit Types

Question 8: Would the NCPPs that you are involved with be interested in GC CVs?

The Board does not feel it is appropriate to comment on the application of the GC CVs to negotiated cost pension plan.

Question 9: Are there any significant issues respecting preparation of an AVR, member communications, or inequity where an NCPP provides for both methodologies of calculating commuted values (i.e. CIA CV and GC CV)?

The Board does not feel it is appropriate to express an opinion on how this might impact negotiated cost pension plans. However where it may relate to specified plans the Board feels that if it is not allowable to apply the going-concern commuted value on a retrospective basis, this will create significant additional administrative and communication burden on the pension plans affected. This may severely restrict the ability to actually incorporate the going-concern commuted value into an existing pension plan. In addition, using two different commutation methodologies (CIA CV for pre-transition service and GC CV for post-transition service) seems to be based on the idea that there is some sort of “vested right” to a commutation methodology, whereas the only vested rights that are recognised in law are to the promised defined benefits. These are “pension plans”, not “lump sum plans”. How the defined benefits payable from a pension plan are converted into lump sum equivalents has and can change without interfering with the true vested rights. The Board therefore believes it is wrong in principle to use more than one commutation methodology to convert defined benefits into lump sums.

Question 10: What are your views on the proposed methodology used to calculate the GC CV?

The basic benefit of any defined benefit pension plan is a monthly lifetime pension paid to plan members upon retirement; not a lump sum savings program that provides lump sum payouts.

If the going-concern actuarial basis is used to determine commuted values, the amounts paid from the plan will not be inflated due to low interest rate environments.

For example: under the current rules used to determine commuted values, if a SHEPP Plan member dies in active service the basic survivor benefits are:

- 60% of the member’s pension or
- 100% of the commuted value of the member’s pension: paid as a lump sum to the spouse or in the form of a pension payable from the Plan.
- If a surviving spouse elects to receive the commuted value in the form of a monthly pension paid from the Plan the current low commuted value discount rate results in spousal pensions that are significantly larger than the pension that would have been paid to the member had they elected a deferred pension or retired on their date of death.

Using the going-concern actuarial basis to determine commuted values will correct this inequity between members who remain in the Plan and receive a monthly pension as compared to those members who elect a commuted value. In addition, the provision of a going-concern commuted value will not provide additional incentive for Plan members to take the lump sum commuted value as compared to receiving an immediate or deferred pension from the Plan.

Question 11: Given that members could be entitled to a GC CV (a CV that reflects the funded status), should plans that provide use the GC CV methodology be required to file periodic updates on their funded position to ensure that commuted value more accurately reflects the funded position of the plan at the time of transfer?

No. The funded status at the most recent valuation is reflected in any contributions that are earmarked for deficit recovery. Since those contributions only change when a valuation is filed with the FCAA and since applying the Plans' funded ratio to the commuted value is a mechanism to recover a terminating member's portion of the deficit, the funded ratio should only be updated when a valuation is filed with the FCAA.

Question 12: Should the ability to convert past benefits to benefits calculated using the GC CV methodologies be provided at this time to NCPPs?

Yes. If it is not allowable to apply the going-concern commuted value on a retrospective basis, this will create significant additional administrative and communication burden on the pension plans affected. This may severely restrict the ability to actually incorporate the going-concern commuted value into an existing pension plan.

Part 5: Communications

Question 13: Is the communications framework appropriate for NCPPs?

The Board has no comment on this.

Part 6: Administration & Governance

Question 14: Should there be more or less rules regarding NCPP governing bodies (Administrator and/or sponsor)? For example, should the regulations prescribe the proportion of plan members and retirees, presence of independent trustees, required knowledge and skills, etc.?

The Board has no comment on this.

Question 15: Should the legislation or regulations be more prescriptive regarding the governance policy for NCPPs (e.g. require that such plans have a governance policy; set-out the minimum contents of a governance policy)?

The Board has no comment on this.

Part 7: Transition Rules

Question 16: Is the transition framework appropriate? Have all issues been addressed?

The Board agrees that a transition period is required. Consideration should be given to allowing a plan to adopt the Going-Concern Commuted Value basis on a retrospective basis as well. The requirement to implement the restriction on benefit improvements immediately upon adoption of the new funding regime is a reasonable trade off to allowing a transition period in order to implement a minimum PfAD in the plan's funding contributions.

Question 17: Do you agree with transitioning the PfAD on the CSC over a 3 year period?

Consideration could be given to providing a longer time period over which to implement any additional funding deficit (difference between funding contributions and the Best Estimate current service cost plus the minimum PfAD that is required) which is revealed at the valuation date following the transition report. For example: a three valuation cycle could be considered. At the first valuation following the transition valuation 1/3 of the required PfAD is required. At the second valuation 2/3 is required and the full PfAD would be required as of the third valuation. This would effectively give as much as 12 years (similar in length to balance sheet deficit amortisation periods) over which to implement the full PfAD requirement.

Part 8: Additional Considerations - Section 8.1: Alternative –"Enhanced Going Concern"

Question 18: Do you feel the "Enhanced Going Concern" option would be an acceptable regime as opposed to the Proposed Regime?

See comments under Question 19.

Part 8: Additional Considerations - Section 8.2: Expand the Proposed Regime to Other Pension Plans

Question 19: Should a framework similar to the Proposed Regime be an option available to other types of pension plans registered under the Act?

The Board believes that the "Enhanced Going-Concern" funding basis that was put in place for Specified Plans was a reasonable first step in establishing the ultimate funding requirements for Specified Plans. At this point: it is the view of the Board that certain modifications to the Enhanced Going-Concern basis should be considered. Basically: it is the view of the Board that a single funding basis can be put in place for the Specified Plans and the Negotiated Cost plans registered in Saskatchewan. This single funding basis would be structured as highlighted in this response.

Part 8: Additional Considerations - Section 8.3: Multi-Jurisdictional Pension Plans

Question 20: What issues do you foresee will need to be addressed with respect to GC CVs and multi-jurisdictional plans?

The Board has no comment on this.

Part 9: Closing Comments & Contact Information

Question 21: Please provide any additional comments or information related to this paper.

The Board of Trustees has considered the proposed funding regime for negotiated cost pension plans and how those proposed rules might apply to the Specified Plans (including SHEPP). The following is the Board's view on the most important principles to be used for the funding of the "Specified Plans":

- The Board continues to hold the position that operating within a full going-concern environment (without any element of solvency funding including transfer deficiencies and a 90% solvency ratio requirement before benefit improvements are allowed) continues to be the most appropriate funding regime for the Specified Plans.
- Requiring a fixed minimum PfAD will not only reduce needed flexibility in the funding of defined benefit pension plans, but could also jeopardise benefit security in certain circumstances (contrary to the purpose of establishing a PfAD). As such there needs to be a provision to allow PfADs (margins) to fluctuate within acceptable ranges around a reasonable base margin. This will allow for the build-up of margins when plan experience is better than expected and the release of margins when plan experience is worse than expected. This will also address various characteristics (plan maturity, benefit provisions, investment policies, etc.) of each pension plan.
- In addition defined benefit pension plans should be required to have a working funding policy that meets certain minimum standards (for example standards set out by the FCAA as well as other bodies such as CAPSA). Each funding policy could be filed with the FCAA for approval or could be held on file and be provided to FCAA for audit. On an ongoing basis if any plan wants to modify their funding policy the FCCA would have to be notified and be provided with justification for such changes. FCAA would have the ability to review and comment on the plan's revised funding policy.
- The Board supports the position that benefit improvements are only allowed when there is a sufficient margin built up in the going-concern balance sheet and/or the funding contributions. This is a far superior method to determine the adequacy of funding to support benefit improvements as compared to the current test that the plan's solvency ratio must be in excess of 90% after any benefit improvements are made.
- For equity between plan members who terminate employment and receive a deferred pension and those who terminate employment and receive a lump sum termination benefit, the Board supports the initiative to allow a commuted value (CV) calculation method that is based on the going-concern actuarial assumptions of the pension plan in question.

- The Board would support allowing the going-concern commuted value to be applied on a retrospective basis when first implemented (i.e. for all past and future service).

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July 29, 2016

MS. TAMI DOVE
SENIOR POLICY ANALYST
PENSIONS DIVISION
FINANCIAL AND CONSUMER AFFAIRS AUTHORITY
SUITE 601, 1919 SASKATCHEWAN DRIVE
REGINA SK S4P 4H2

To Ms. Dove;

RE: Consultation Paper – Proposed Regime for Negotiated Cost Pension Plans (NCPP)

Please find enclosed the response from the Saskatchewan Teachers' Federation on behalf of both of our plans, Saskatchewan Teachers' Retirement Plan and the Employees' Pension Plan.

Please contact me if you have any questions.

Sincerely,

Gwen Dueck, Executive Director
Saskatchewan Teachers' Federation

/mg

Enclosed

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July 29, 2016

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To Ms. Dove;

RE: Consultation Paper – Proposed Regime for Negotiated Cost Pension Plans (NCPP)

The Saskatchewan Teachers' Federation welcomes the opportunity to respond to the Consultation Paper regarding the *Proposed Regime for Negotiated Cost Pension Plans*. The Federation administers two pension plans, the Saskatchewan Teachers' Retirement Plan on behalf of its' 13,000 teacher members and the Employees' Pension Plan which provides pension benefits to approximately 95 employees of the Federation.

We appreciate the invitation to provide input with respect to Section 8.2 of the Consultation Paper and we intend to do so, however, we have also identified this as a valuable opportunity to share our perspective on the issues posed within the paper more broadly as they may relate to the Employees' Pension Plan.

Part 1: Introduction & Background

2. Do you agree with the principles?

The Federation clearly supports the principles you have identified as foundational with respect to pension plan administration. All defined benefit pension plans (whether they be private sector, public sector, jointly trusteed or negotiated cost pension plans) should be managed on a sustainable basis over the long term. If we are to support the principle of sustainability then we must also consider benefit security and flexibility. We understood that negotiated cost pension plans do at times need to have the ability to reduce past and future service benefits. As such, while benefit security may not be guaranteed, we still believe that benefit security should form an important role in the management of those pension plans. Similarly, sustainability can only be achieved in an environment that allows plan decision-makers to be able to make decisions that are appropriate given the individual characteristics and needs of each pension plan. We hope that this is a fundamental principle in any regulations that are put in place for any pension plan registered in Saskatchewan. The Federation certainly supports the principles of equity and transparency despite the fact that equity between generations of plan members can be a challenging item to manage. It requires a careful balance between the need to keep a plan fully funded in the short-term and the long-term goal to have plan members and employers pay their fair share of the cost of benefits being earned.

Part 2: Funding

3. ***Do you agree with the proposed funding requirements, including the method of calculating the PfAD?***

With respect to Part 2, the proposed funding regime, we interpret the information provided in the Consultation Paper as follows:

1. A single PfAD is determined for each plan based on the plan's asset mix and a benchmark discount rate.
2. A NCPP is allowed to hold a zero PfAD in the balance sheet.
3. The amount of PfAD that is to be held in the funding contributions must be at least equal to the calculated PfAD.
4. When the plan has a PfAD in the funding contributions that is at least equal to the calculated PfAD, then the given contributions to the plan are adequate to fund the benefits and no changes are needed.
5. When the plan has a PfAD in the funding contributions that is less than the calculated PfAD, then either higher contributions must be negotiated or benefits (past and/or future) must be reduced to the extent that the actual PfAD (after any such changes) is at least equal to the calculated PfAD.
6. When the plan has a PfAD in the balance sheet that is greater than the calculated PfAD, then benefit improvements will be allowed.

Accordingly, our comments reflect the above interpretation:

- We do not view any kind of PfAD as an actuarial liability of the plan. The actuarial liabilities are only in respect of benefits that are expected to be paid from the plan. Any PfAD is an additional amount that is built up from excess funding contributions or from positive plan experience. The purpose of holding a PfAD is for circumstances where plan experience is less favourable than expected and the PfAD can be used to stabilize funding contributions or provide benefit security.

- We do agree with the following statement made in the Consultation Paper "The PfAD will act as a buffer that would increase or decrease based on plan experience and/or contributions." This aligns very well with our view.

- In the proposed funding regime, the PfAD that is intended for the current service cost (CSC) appears to be equal to the PfAD that is intended for the balance sheet. We believe that this is too restrictive. Rather, we would suggest that it would be preferable to have the ability to set separate PfADs for the contributions and the balance sheet in order to provide both benefit security as well as contribution stability.

- We would agree that the plan's asset mix should be considered when setting a PfAD. The table in Section 2.4 provides a reasonable assessment of a PfAD for various asset mixes. One item that may be missing is a way to determine the amount of PfAD that is

associated with various alternative asset classes available to pension plans such as real estate, mortgages, infrastructure, hedge funds, etc.

- It is possible that any particular plan may be faced with a conflict between the security of future service benefits and the ability to increase past service benefits. In our view this conflict can be avoided by:

    1. Incorporating a range for the allowable PfAD in the funding regime.
    2. Allowing the PfAD in the balance sheet to be different from the PfAD in the funding contributions, depending on the particular circumstances of each plan at each actuarial valuation.
    3. Allowing the PfAD in the balance sheet that is in excess of the minimum PfAD be first applied to making good on any shortfall in the funding contribution PfAD.

- In order to provide flexibility in the funding regime for various circumstances that plans may face we propose the following alternative way to determine PfADs for each plan:

    1. Establish a calculated "Base PfAD" for each pension plan. The current proposal to calculate the Base PfAD based on the plan's asset mix would be a reasonable approach (and, removing the Benchmark Discount Rate (BDR) adjustment – see comments below).

    2. Determine a reasonable range around the Base PfAD, thereby determining a Minimum PfAD, a Base PfAD, and a Target PfAD for each plan. The table of PfADs based on asset mix shown in the Consultation Paper could be used to determine the Base PfAD and the table could then be expanded to include a Minimum and a Target PfAD. The following is an example that could be considered:

Equity Allocation (%)	Minimum Balance Sheet PfAD	Minimum CSC PfAD	Base PfAD (CSC and BS)	Target PfAD (CSC and BS)
0	0	0	5	10
10	0	5	7.5	10
20	0	5	10	15
30	0	5	11.5	17
40	0	7.5	13	20
50	0	7.5	15	22.5
60	0	7.5	17	25
70	0	10	18.5	27
80	0	10	20	30

It is noted that the labels "Minimum," "Base" and "Target" and the specific values in the table above are for illustrative purposes and would be open for comment and discussion.

3. At the time of any actuarial valuation, it would be acceptable to have different PfADs in the funding contributions and the balance sheet.

4. At any valuation date, if the PfAD in the funding contributions is less than the Minimum CSC PfAD shown above (for the asset mix of the plan in question), then either higher funding contributions would need to be negotiated and/or some form of benefit reduction (past and/or future) would need to be considered.

5. At any valuation date, benefits are not allowed to be increased until the actual PfAD (contributions and/or balance sheet) exceeds the Target PfAD in the table. In particular, once the PfAD in the funding contributions exceeds the Target PfAD, then consideration could be given to increasing future service benefits. Similarly, once the PfAD in the balance sheet exceeds the Target PfAD, then consideration could be given to increasing past service benefits.

- We would suggest that the formula being proposed to determine the Benchmark Discount Rate and the resulting adjustment to the PfAD is best removed from the funding regime. There are two main reasons for this suggestion:

  1. The input items to the formula to determine the BDR may be quite volatile in times of economic uncertainty. As such, the formula may produce BDRs that are quite high or quite low at times and could be unpredictable. Similar to the prescribed discount rates required for solvency funding, we believe that this will potentially add (possibly significant) volatility to the funding regime. This could also require significant benefit reductions or allow for significant benefit improvements during periods of economic uncertainty. This would appear to go against the basic principles of sustainability, benefit security and flexibility.

  2. The proposed PfAD, based on the asset mix, is a reasonable way to assess the investment risk in a plan's asset mix. We see the use of the BDR formula as really being an alternative way to assess that same risk, albeit with much greater potential for volatility. If both methods are used, it is our view that there will be significant "double counting" of the PfAD.

4. Should the rules be more prescriptive regarding the funding policy for an NCPP (e.g. require that such plans have a funding policy; set-out the minimum contents of a funding policy)?

Yes, we believe that it is best practice is to have a funding policy for each plan. That funding policy should have minimum requirements as specified by the Financial and Consumer Affairs Authority (FCAA) (not unlike an investment policy or the plan text of each plan). The funding policy should also be filed with the FCAA at least at the point that each actuarial valuation is filed with the FCAA.

5. ***Is stress testing an appropriate way to understand the risks of an NCPP?***

Yes, we believe that stress testing provides additional information for plan sponsors and fiduciaries to understand the risks inherent in any particular pension plan.

Part 3: Benefit Improvements & Benefit Reductions

6. ***Do you agree that an NCPP should have AGCE in order to improve benefits?***

We would agree that a reasonable PfAD should be held in the balance sheet and/or the funding contributions before any significant benefit improvements are put in place. However, the amount of PfAD that should be held by the plan before benefit improvements are allowed should differ depending on the particular characteristics and circumstances of each plan.

7. ***Do you feel that there should be rules in the Regulations regarding the order of benefits to be reduced to meet the solvency tests?***

No, the order of benefit reductions is a complex process that will depend on each plan's individual circumstances and history. Having regard to any applicable fiduciary duties, the plan sponsor(s) should determine the precise reductions, which must then be approved by the FCAA under Section 40(6) of *The Pension Benefits Act, 1992*.

Part 4: Benefit Types

8. ***Would the NCPPs that you are involved with be interested in GC CVs?***

Were we to be involved in an NCPP, we would offer that the GC CV basis would be appropriate for most NCPPs, with a strong recommendation that it be applied on a retrospective basis. Such a basis is consistent with the elimination of NCPP solvency funding requirements and the ability of NCPPs to reduce past service benefits. This will enable plans to pay only the funded portion of the benefit, with no additional payments to be made after five years, which is based on and consistent with the current valuation's funded position.

9. ***Are there any significant issues respecting preparation of an AVR, member communications, or inequity where an NCPP provides for both methodologies of calculating commuted values (i.e. CIA CV and GC CV)?***

If it is not allowable to apply the going concern commuted value on a retrospective basis, this will create a significant additional administrative and communication burden on the pension plans affected. This may severely restrict the ability to actually incorporate the going concern commuted value into an existing pension plan. In addition, using two different commutation methodologies (CIA CV for pre-transition service and GC CV for post-transition service) seems to be based on the idea that there is some sort of "vested right" to a commutation methodology, whereas the only vested rights that are recognized in law are to the promised defined benefits. These are "pension plans," not "lump sum plans." How the defined benefits

payable from a pension plan are converted into lump sum equivalents has and can change without interfering with the true vested rights. For this reason we believe it is wrong in law and in principle to use more than one commutation methodology to convert defined benefits into lump sums.

10. What are your views on the proposed methodology used to calculate the GC CV?

We believe that the basic benefit of any defined benefit pension plan is a monthly lifetime pension paid to plan members upon retirement, not a lump sum savings program that provides lump sum payouts. If the going concern actuarial basis is used to determine commuted values, the amounts paid from the plan will not be inflated due to low interest rate environments.
Using the Going Concern Commuted Value basis (including applying the plan's funded ratio on a going concern basis) will correct any inequities between members who remain in the plan and receive a monthly pension as compared to those members who elect a commuted value. In addition, the provision of a going concern commuted value will not provide additional incentive for plan members to take the lump sum commuted value as compared to receiving an immediate or deferred pension from the plan.

11. Given that members could be entitled to a GC CV (a CV that reflects the funded status), should plans that provide use the GC CV methodology be required to file periodic updates on their funded position to ensure that commuted value more accurately reflects the funded position of the plan at the time of transfer?

No, the funded status at the most recent valuation is reflected in any contributions that are earmarked for deficit recovery. Since those contributions only change when a valuation is filed with the FCAA, and since applying the plan's funded ratio to the commuted value is a mechanism to recover a terminating member's portion of the deficit, the funded ratio should only be updated when a valuation is filed with the FCAA.

12. Should the ability to convert past benefits to benefits calculated using the GC CV methodologies be provided at this time to NCPPs?

Yes, if it is not allowable to apply the going concern commuted value on a retrospective basis, this will create a significant additional administrative and communication burden on the NCPPs. This may severely restrict the ability to actually incorporate the going concern commuted value into an existing pension plan.

Part 5: Communications

13. Is the communications framework appropriate for NCPPs?

Yes, the communication under the proposed regime is appropriate. We would agree that the best practice would be to reflect the proposed disclosure and additional member communications.

Part 6: Administration & Governance

14. Should there be more or less rules regarding NCPP governing bodies (Administrator and/or sponsor)? For example, should the regulations prescribe the proportion of plan members and retirees, presence of independent trustees, required knowledge and skills, etc.?

We see no need for change with respect to the rules regarding the NCPP governing bodies.

15. Should the legislation or regulations be more prescriptive regarding the governance policy for NCPPs (e.g. require that such plans have a governance policy; set-out the minimum contents of a governance policy)?

No, it is the plan's best practice to be administered in accordance with the Act and Regulations. Having a governance policy should be recommended but not required.

Part 7: Transition Rules

16. Is the transition framework appropriate? Have all issues been addressed?

We agree that a transition period is required and would suggest that consideration should be given to allow a plan to adopt the Going Concern Commuted Value basis on a retrospective basis as well.

The requirement to implement the restriction on benefit improvements immediately upon adoption of the new funding regime is a reasonable trade-off to allowing a transition period in order to implement a minimum PfAD in the plan's funding contributions.

17. Do you agree with transitioning the PfAD on the CSC over a 3 year period?

Consideration could be given to providing a longer time period over which to implement any additional funding deficit (difference between funding contributions and the Best Estimate current service cost plus the minimum PfAD that is required) which is revealed at the valuation date following the transition report. For example, a three-year valuation cycle could be considered: at the first valuation following the transition valuation 1/3 of the required PfAD is required, at the second valuation 2/3 is required and the full PfAD would be required as of the third valuation. This would effectively give as much as 12 years (similar in length to balance sheet deficit amortization periods) over which to implement the full PfAD requirement.

Part 8: Additional Considerations - Section 8.1: Alternative –"Enhanced Going Concern"

18. Do you feel the "Enhanced Going Concern" option would be an acceptable regime as opposed to the Proposed Regime?

See comments under Question 19.

Part 8: Additional Considerations - Section 8.2: Expand the Proposed Regime to Other Pension Plans

19. Should a framework similar to the Proposed Regime be an option available to other types of pension plans registered under the Act?

We believe that the Enhanced Going Concern funding basis that was put in place for Specified Plans was a reasonable first step in establishing the ultimate funding requirements for Specified Plans. At this point it is our view that certain modifications to the Enhanced Going Concern basis should be considered. We believe that a single funding basis can be put in place for the Specified Plans and the NCPPs registered in Saskatchewan. This single funding basis would be structured as highlighted in this response.

Part 8: Additional Considerations - Section 8.3: Multi-Jurisdictional Pension Plans

20. What issues do you foresee will need to be addressed with respect to GC CVs and multi-jurisdictional plans?

The issues that need to be addressed with respect to the GC CV are whether it can be reflected on a retrospective basis, the costs associated with this new regime and the volatility in the funded position of the plan. This topic becomes increasingly more complicated for multi-jurisdictional plans with members in Saskatchewan.

Part 9: Closing Comments & Contact Information

21. Please provide any additional comments or information related to this paper.

The following represents our view on the most important principles to be used for the funding of NCPPs:

- Operating NCPPs within a full going concern environment (without solvency funding) is the most appropriate funding regime.

- Requiring a fixed minimum PfAD will not only reduce needed flexibility in the funding of these plans, but could also jeopardize benefit security in certain circumstances (contrary to the purpose of establishing a PfAD). As such there needs to be provision to allow PfADs (margins) to fluctuate within acceptable ranges around a reasonable base margin. This will allow for the buildup of margins when plan experience is better than expected and the release of margins when plan experience is worse than expected. This will also address the various individual characteristics (plan maturity, benefit provisions, investment policies, etc.) of each pension plan.

- NCPPs should be required to have a working funding policy that meets certain minimum standards as specified by the FCAA (for example, standards set out by the FCAA as well as other bodies such as CAPSA). Each funding policy should be filed

with the FCAA. On an ongoing basis, if any plan wants to modify their funding policy, the FCAA would have to be notified.

- Benefit improvements should only be allowed when there is a sufficient margin built up in the going concern balance sheet and/or the funding contributions. This is a far superior method to determine the adequacy of funding to support benefit improvements when compared to the current test that the plan's solvency ratio must be in excess of 90 percent after any benefit improvements are made.

- For equity reasons, we would support:

    - The going concern commuted value calculation method in determining benefits to be provided on portability.

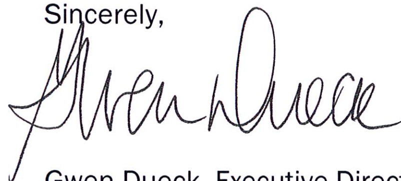
    - Applying the going concern funded ratio to the calculation of commuted values paid on portability.

    - Allowing the going concern commuted value to be applied on a retrospective basis when first implemented (i.e. for all past and future service).

    - Removing the requirement for transfer deficiency holdbacks to be paid after a five-year period.

In closing, we thank you for the opportunity to provide input into this consultation process. We recognize that many of the issues raised in the Consultation Paper do not apply to the Federation specifically; however, we offer our comments in the spirit of sharing our perspective with regard to what we would consider to be best practice. We trust that you will receive them in the same way. Should you require further information or wish to discuss our response further please do not hesitate to contact the Federation.

Sincerely,



Gwen Dueck, Executive Director
Saskatchewan Teachers' Federation

cc: Tracy Young-McLean
Manager, EPP

2317 Arlington Avenue
Saskatoon SK S7J 2H8
T: 306-373-1660 1-800-667-7762
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stf@stf.sk.ca

July 29, 2016

MS. TAMI DOVE
SENIOR POLICY ANALYST
PENSIONS DIVISION
FINANCIAL AND CONSUMER AFFAIRS AUTHORITY
SUITE 601, 1919 SASKATCHEWAN DRIVE
REGINA SK S4P 4H2

Dear Ms. Dove:

RE: **Consultation Paper - Proposed Regime for Negotiated Cost Pension Plans (NCPP)**

We are pleased to provide the Saskatchewan Teachers' Federation's response to the aforementioned consultation paper (Paper).

While the STF sponsors the Saskatchewan Teachers' Federation Employees' Pension Plan (Staff Plan), the STF is also the Trustee and administrator of the Saskatchewan Teachers' Retirement Plan pursuant to authority granted via *The Teachers' Federation Act, 2006*. As you are aware, the STRP is a "Specified Plan"; it is also our understanding that the STRP would be categorized as a NCPP Public Plan. Our comments provided herein relate to the STRP.

While the Paper is almost exclusively about NCPPs that are not Specified Plans, the Paper sets out recommendations related to three of questions that the STF is hereby providing commentary on:

- **Section 8.1: Alternative – *"Enhanced Going Concern"***
  Do you feel the "Enhanced Going Concern" option would be an acceptable regime as opposed to the Proposed Regime?

- **Section 8.2: Expand the Proposed Regime to Other Pension Plans**
  Should a framework similar to the Proposed Regime be an option available to other types of pension plans registered under the Act?

- **Part 9: Closing Comments**
  Please provide any additional comments or information related to this paper.

Section 8.1: Alternative – "Enhanced Going Concern"
While the Enhanced Going Concern method could be an option for NCPPs, we have some questions and concerns with regard to the current Enhanced Going Concern method that we believe the Pensions Division should take into consideration.

Amortization of Going Concern Unfunded Liabilities
What is the rationale for requiring a 15 year amortization of a going concern unfunded liability under the Proposed Regime, but that a shorter, 10 year amortization period is required under the Enhanced Going Concern method given that:

- Both the Enhanced Going Concern method and the Proposed Regime for NCPPs do not require solvency deficiency funding.
- Both the Enhanced Going Concern method and the Proposed Regime for NCPPs require provisions for adverse deviation (PfAD).
- The Enhanced Going Concern method requires funding of the PfAD, whereas the Proposed Regime does not require funding of the PfAD for the actuarial liabilities?

Our preference would be for consistency in the amortization periods, such as the 15 year period.

Benefit Improvements
Appendix A of the Paper indicates that "*a benefit improvement would not be allowed if the solvency ratio is less than 0.90, or if the benefit improvement would cause the solvency ratio to fall below 0.90. However, a benefit improvement would be allowed if it is immediately funded by an amount which will result in the plan's solvency ratio being no less than 0.90.*"

Pursuant to previous guidance from the Pensions Division, it is our understanding that, where the plan's solvency ratio is below 90 percent, a benefit improvement would be allowed if the aggregate contribution requirements do not increase after the amendment for the benefit improvement. In addition, for purposes of this test, we were advised that the applicable contribution requirements include current service cost, going-concern special payments and notional solvency special payments that would be required if the plan were not exempt from making solvency special payments.

Please confirm that the rules we were previously advised of would continue to be applicable to the STRP.

In addition, we would suggest that the inclusion of the notional solvency special payments not form part of the benefit improvement test, given that there is no requirement to fund a solvency deficiency.

We would also suggest that an alternative to the 90 percent solvency test be considered when it relates to benefit improvements, particularly given that there is no requirement to fund a solvency deficiency. For example, a regime more similar to the Accessible Going Concern Excess provisions in the Proposed Regime could be considered.

Section 8.2: Expand the Proposed Regime to Other Pension Plans
The STF believes that it is clear that the current solvency funding regime is not working and does not work for an organization that strongly supports the continuation of a defined benefit plan. This comment is applicable to both the STRP and the Employees' Pension Plan. The Proposed Regime moves away from solvency funding while balancing cost and benefit security, and allowing plans to manage intergenerational equity in a manner that is suitable to the unique needs of the plan.
We recommend that Specified Plans be given the opportunity to operate under the Proposed Regime instead of the Enhanced Going Concern method, if so desired.

Part 9 – Additional Comments
We request that the Pensions Division give consideration to the following:

- Transfer deficiency holdbacks rules for Specified Plans.
- Suspended plans and alternatives related to the determination of solvency liabilities.
- Clarify what constitutes a benefit improvement.

Transfer Deficiency Holdbacks
Pursuant to the *Act*, transfers out of the STRP may be made in full provided an amount equal to the transfer deficiency has been remitted to the pension fund. If the transfer deficiency is not remitted to the fund, then it must be held back from any lump sum that becomes payable. Any transfer deficiency that is held back from a lump sum, plus interest, is expected to be transferred within five years.

Given that there is no requirement to fund a solvency deficiency under a Specified Plan, (or under the Proposed Regime), we recommend that the transfer deficiency holdback requirement be removed for Specified Plans, or at least for Specified Plans of a certain size. We note that the rationale for the transfer deficiency holdback relates to equity amongst all plan members but, given that the holdback is not technically ever funded, it's really only a timing issue and, in fact, creates an administrative burden on the plan.

Suspended Plans & Alternatives to Solvency Valuation Determination
We note that, for a plan the size of the STRP, it is not reasonable to hypothesize a complete settlement of the plan for several reasons; the most important of which are that the teaching profession will continue into perpetuity and the sponsorship of a defined benefit plan is a core belief of the STF. Furthermore, it could take many years to settle the benefits given the size of the Canadian annuity market relative to the size of the STRP.

As you are likely aware, not all jurisdictions require a terminated plan to wind-up and settle all plan assets, but instead, can amend the plan to become a "suspended plan". It is also our understanding that, for the determination of the solvency valuation results, it is permissible under the Canadian Institute of Actuaries' Standards of Practice to hypothesize the ongoing nature of a suspended plan in the solvency valuation results.

We recommend that the Saskatchewan Pensions Division revise its regulation related to solvency valuations.

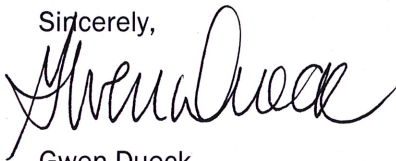
Clarify What Constitutes a Benefit Improvement

As you are aware, the *Income Tax Act* permits funding of cost of living adjustments in registered pension plans, even if the plan does not provide for automatic increases. If a pension plan sponsor desires to pre-fund potential future ad hoc pension increases, and if the actuary were to demonstrate that the present value of contributions are in excess of the current service costs, including any required PfAD, based on the current plan provisions, we suggest that such ad hoc increases be exempt from the benefit improvement rules described under the Enhanced Going Concern method and the Proposed Regime.

Closure

We look forward to receiving Saskatchewan's position related to the recommendations set out herein. In the meantime, please do not hesitate to contact us if you have any questions regarding our submission.

Sincerely,



Gwen Dueck
Executive Director

cc. Ryan Glass, Manager STRP

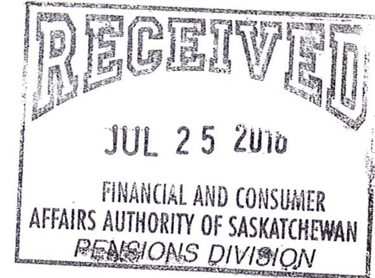
Pulling Together

SASKATOON PROFESSIONAL FIRE FIGHTERS UNION

LOCAL 80 — INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS

Affiliated with CANADIAN LABOUR CONGRESS
SASKATCHEWAN PROFESSIONAL FIRE FIGHTERS ASSOCIATION
SASKATCHEWAN FEDERATION OF LABOUR
SASKATOON & DISTRICT LABOUR COUNCIL

All communications to be addressed to the secretary



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JUL 25 2016
FINANCIAL AND CONSUMER AFFAIRS AUTHORITY OF SASKATCHEWAN
PENSIONS DIVISION

July 8, 2016

PRIVATE & CONFIDENTIAL

Ms. Leah Fichter
Director of Pensions
Financial & Consumer Affairs Authority
6th Fl, 1919 Saskatchewan Drive
Regina, SK S4P 4H2

RE: PROPOSED FUNDING REGIME FOR NEGOTIATED COST PENSION PLANS (NCPP) – CONSULTATION PAPER RESPOSE – SASKATOON FIRE FIREFIGHTERS' PENSION PLAN

Dear Leah:

On behalf of the Board of Trustees (board) for the Saskatoon Fire Fighters' Pension Plan (Plan), we would like to thank you for the opportunity to comment as requested in Section 8.2 of the Consultation Paper for the Proposed Funding Regime for Negotiated Cost Plans. In short, it is the board's view that this proposed funding regime would not be feasible for our Plan. The Plan was developed to work within a strict funding, monitoring and plan design framework. The regulations passed in 2015 for the Plan were specifically developed to regulate the plan within this framework. Much time and effort was spent ensuring this framework would be sustainable over the life of the Plan. Adopting the proposed funding regime for NCPPs would have adverse effects on our Plan members and change the "deal" completely. More specifically, the proposed funding regime would result in an immediate contribution rate increase and benefit reduction for our members should these prescribed margin levels be adopted, yet we have in excess of 20% margin on our going-concern balance sheet.

Although we know the proposed funding regime would not work for our Plan, we are encouraged by the FCAA's consideration of going-concern commuted values. It is the board's view that going-concern commuted values is a better measurement of the true value of a member's entitlement at any given date and results in less volatility in the funded position for those leaving the organization. We would welcome the opportunity to adopt going-concern commuted values in our Plan, both prospectively and retroactively.

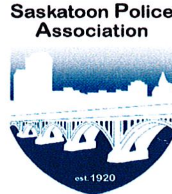
Should you have any questions or concerns, please do not hesitate to contact me.

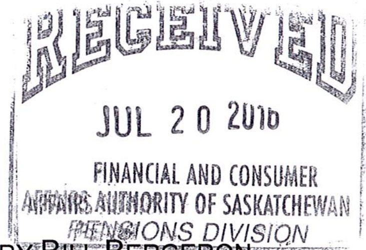
Sincerely Rob Hogan
Board Chair, Saskatoon Fire Fighters' Pension Plan

cc: R. Heusdens, City of Saskatoon
S. Bryant, City of Saskatoon

SASKATOON POLICE ASSOCIATION

AFFILIATED WITH CANADIAN POLICE ASSOCIATION AND SASKATCHEWAN FEDERATION OF POLICE OFFICERS





PRESIDENT DEAN PRINGLE SECRETARY BILL BERGERON

July 8, 2016

BY COURIER

PRIVATE & CONFIDENTIAL

Ms. Leah Fichter
Director of Pensions
Financial & Consumer Affairs Authority
6th Fl, 1919 Saskatchewan Drive
Regina, SK S4P 4H2

RE: PROPOSED FUNDING REGIME FOR NEGOTIATED COST PENSION PLANS (NCPP) – CONSULTATION PAPER RESPOSE – SASKATOON POLICE PENSION PLAN

Dear Leah:

On behalf of the Board of Trustees (board) for the Saskatoon Police Pension Plan (Plan), we would like to thank you for the opportunity to comment as requested in Section 8.2 of the Consultation Paper for the Proposed Funding Regime for Negotiated Cost Plans. In short, it is the board's view that this proposed funding regime would not be feasible for our Plan. The Plan was developed to work within a strict funding, monitoring and plan design framework. The regulations passed in 2015 for the Plan were specifically developed to regulate the plan within this framework. Much time and effort was spent ensuring this framework would be sustainable over the life of the Plan. Adopting the proposed funding regime for NCPPs would have adverse effects on our Plan members and change the "deal" completely. More specifically, the proposed funding regime would result in an immediate contribution rate increase and benefit reduction for our members should these prescribed margin levels be adopted, yet we have in excess of 20% margin on our going-concern balance sheet.

Although we know the proposed funding regime would not work for our Plan, we are encouraged by the FCAA's consideration of going-concern commuted values. It is the board's view that going-concern commuted values is a better measurement of the true value of a member's entitlement at any given date and results in less volatility in the funded position for those leaving the organization. We would welcome the opportunity to adopt going-concern commuted values in our Plan, both prospectively and retroactively.

Should you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

Darren Ford
Board Chair, Saskatoon Police Pension Plan

cc: R. Heusdens, City of Saskatoon
S. Bryant, City of Saskatoon

106 – 33RD STREET EAST SASKATOON, SASKATCHEWAN S7K 0S2
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Ms. Leah Fichter
Director of Pensions
Financial & Consumer Affairs Authority
6th Floor, 1919 Saskatchewan Drive
Regina, SK S4P 3V7

July 25, 2016

Dear Ms. Fichter:

RE: Proposed Regime for Negotiated Cost Pension Plans

Thank you for providing us with the opportunity to provide input into the Proposed Regime for Negotiated Cost Pension Plans (NCPPs).

While we appreciate the efforts of the Financial and Consumer Affairs Authority (FCAA) to develop a regulatory regime that addresses the issues faced by NCPPs, we find the proposed regulations fall short in addressing the needs of the broader cohort and in particular the needs of TRIP. TRIP was designed and built based upon extensive consultation with stakeholders, including the Financial and Consumer Affairs Authority (FCAA), and comprehensive testing and analysis to develop a structure that is sustainable into the future. The regulations, as proposed, would negate much of that work.

The funding requirements are of particular concern to us. Our analysis indicates that the funding requirements you have outlined would cause contributions in TRIP to rise beyond the negotiated rate that anchors the Plan, triggering benefit reductions. Benefit reductions triggered despite utilizing a 25% provision of for adverse deviation (PfAD) during design and initial funding of the Plan; despite current funding that is firmly in the middle of the designed range; and despite the efforts of all involved to establish a design that is sustainable into the future. The funding requirement in the regime lacks the flexibility that TRIP is based on and imposes a level of minimum PfAD that is prohibitively high on current service cost while ignoring security of accrued benefits.

The impact of the PfAD requirements on TRIP illustrates the potential impact of these regulations on plans in the future.   TRIP is a progressive, well-funded, contemporary pension plan with a variety of mechanisms designed to ensure that the Plan is financially stable for the long term.   The impact of the PfAD requirement on TRIP is reason to pause and reconsider whether the requirement will truly satisfy the principles outlined in the consultation paper, particularly when considered from a long term perspective.

We wish to commend you on other aspects of the proposed regime which we believe to be positive steps in the evolution of pension regulation. We are pleased that you have recognized the disparate relationship between pension funding and the Canadian Institute of Actuaries (CIA) commuted value (CV) basis. As you may recall, we advocated for a going concern Commuted Value basis (GC CV) when developing TRIP and remain supportive of the concept. GC CV recognizes the inequity between those who remain in a plan funded on a going concern basis and those who elect to leave. We firmly believe that those who choose to leave their employer should only receive their pro rata share of the assets available when they leave. The going concern CV (GC CV) basis better accomplishes this than the CIA's CV basis.   In addition, we believe that the enhanced communication requirements are positive and reflect today's environment.

It is our belief, that in developing and implementing TRIP, we have provided all plan sponsors with a template for sustainable pensions. We believe that TRIP satisfies each of principles outlined in the consultation paper and does so in a superior manner to that offered through the regime proposed in this paper. A funding regime that has the potential to unravel that work is flawed and requires further development before any attempt is made to apply it as a single funding regime. To that end, we are supportive of the FCAA's efforts to work with pension plans and willing to participate in the development of a single regulatory regime.

We look forward to further discussions in regard to this matter. Attached you will find specific answers to each of the questions posed in the consultation paper.

Sincerely,

Bernie Eiswirth
Chair, Trustee Board
TRIP

A/Chief Dean Rae
Chair, Plan Partners' Committee
TRIP

Leadership ▪ Integrity ▪ Stewardship

Proposed Regime for Negotiated Cost Pension Plans

1. With respect to each Part, are there any additional concerns or considerations that you wish to identify?

Our views are covered in the cover letter accompanying this document and in the following statements.

Part 1: Introduction & Background

2. Do you agree with the principles?

- **Pension Sustainability**: We believe that all plans must seek to provide benefits at a reasonable cost to plan sponsors and members over the long term. In order to do so each plan must have appropriate tools to effectively manage the risks inherent to their unique circumstances supported by regulation that does not inhibit them from doing so.

- **Benefit security:** We believe that all plans need to provide a reasonable level of benefit security for plan members and retirees. Benefit security may not be the same for every plan and, as such, each group must define benefit security based upon their specific circumstances and plan design.

- **Equity and Transparency:**
  - We believe that members should be treated equitably across generations with contributions reflecting the benefits earned in the economic environment in which they were earned.
  - In all cases, plan participants should be provided with sufficient information to understand the plan.

- **Flexibility:**
  - Plan decision makers should be able to make decisions that are appropriate for the individual characteristics and needs of the plan.
  - We believe that plan decision makers are best suited to make decisions based on the individual characteristics and needs of their plan. The regulatory environment must support decision makers including allowing decision makers to determine the most appropriate methods for managing their plan.

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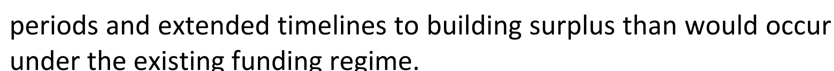
T (306)777-7402 F (306)777-6912 pensions@regina.ca

Part 2: Funding

3. Do you agree with the proposed funding requirements, including the method of calculating the PfAD?

We are deeply concerned with the proposed funding requirements. Our understanding of the proposed funding requirements indicates it will provide immediate needed relief to the targeted groups but we do not view the proposed requirements as a sustainable regime.

- The proposed method for calculating PfAD results in minimum contribution rates that are excessively high. PfAD is one tool that can and should be employed to assist in the management of the volatility inherent to investment in equities. It is not sufficiently robust to stand on its own and when applied as it has been here it has a number of undesirable effects.
  - Plans that are currently well funded and invested in equities are highly likely to see total contributions unnecessarily rise. The impact of such an increase has the potential of increasing contributions beyond agreed upon levels necessitating benefit reductions in plans that are currently well funded
    - There are scenarios where the proposed regime would not work for TRIP. Based on a discount rate of 6.3%, the minimum prescribed margin on the current service cost would be nearly 24%. (Examples 2 through 4). Applying this to a BE CSC of 13.9% would result in a current service cost of 17.3%. The current Affordability Ratio of TRIP is approximately 1.25 (i.e. 25% margin). The TRIP trust agreement says that if the Affordability Ratio is above 1.15, no triggers are pulled. However, with contributions set at 17% of pay and the CSC at 17.3% benefit reductions are required.
  - The minimum funding requirement as outlined in the consultation paper puts an artificially high floor on contributions in an effort to build a buffer into balance sheets. For plans that already have that buffer, the floor has the potential of creating an environment whereby benefit improvements are necessitated as there is no way, within the regulation, to reduce CSC below the minimum level. The ability to adjust CSC can slow the rate of balance sheet growth and permit active management of benefits.
  - Plans that are not currently well funded could see contributions fall as they remove PfAD from their balance sheet. Where an unfunded liability is permitted, this change has the potential of eliminating that portion of the contribution rate, resulting in longer amortization



periods and extended timelines to building surplus than would occur under the existing funding regime.

- Our understanding is that PfAD on the balance sheet is intended to be equal to PfAD on current service cost. Our analysis shows that current service cost and the balance sheet of defined benefits react differently to changes in assumptions and economic circumstance and as such are best managed by applying different levels of PfAD to CSC and the balance sheet based on the circumstances at the time that the valuation is completed. A single PfAD results in increased volatility of contribution levels and/or benefits.
- Given the proliferation of alternative investment in today's portfolios it is unclear as to where those investments might fit regard to the determination of PfAD. Although many of the structures may be forms of equity, not all are, and they often display performance characteristics that are uncorrelated to public equities offering opportunity to lower portfolio volatility relative to traditional equity investments. As such, we are of the opinion that not all such investments can, or should, be considered equity in the determination of PfAD. Further development in this area is clearly necessary.
- The benchmark discount rate is subject to manipulation. For example, the BDR does not directly take into account inflation. By lowering the inflation assumption, the discount rate can be lowered therefore requiring a lower level of margin. Although this may result in higher liabilities, those liabilities can be controlled by lowering or eliminating the margin on the balance sheet.

PfAD is a tool to manage contribution volatility and to protect accrued benefits. The proposed methodology will not accomplish that goal. We are of the opinion that a regime whereby a clearly stated minimum level PfAD is identified along with target levels of PfAD on both the balance sheet and CSC is preferable and will better accomplish the stated goals.

4. Should the rules be more prescriptive regarding the funding policy for an NCPP (e.g. require that such plans have a funding policy; set-out the minimum contents of a funding policy)?

Funding Policies are a vital component of a well governed pension plan. It is our belief that the members of all plans containing defined benefit provisions are best served if the plan has a funding policy. In order for such a policy to be effective there are key elements that must be present. It is therefore our belief that a funding policy should be a requirement and that minimum contents be developed in consultation with those affected.

5. Is stress testing an appropriate way to understand the risks of an NCPP?

Stress testing is an appropriate way to analyze the risks associated with a pension plan. The difficulty is not in the analysis but in identifying those risks which may have the greatest impact on a plan. Although the plan actuary may have the technical skill to complete such analysis, ultimately the administrator is accountable to the members for oversight of the plan. As such, stress testing should be guided by the administrator who may choose to delegate that duty to the Plan Actuary.

Part 3: Benefit Improvements & Benefit Reductions

6. Do you agree that an NCPP should have AGCE in order to improve benefits?

Any plan that wishes to make benefit improvements should be required to ensure that the existing benefits can be maintained into the future as well as to properly fund the proposed benefit improvement. Over the last decade we have seen the impact of benefit improvements made without sufficient forethought. The result has been high contribution rates for today's members combined with benefit reductions and sleepless nights for all stakeholder. As such, a reasonable PfAD should be held on the balance sheet and/or the in funding contributions before any significant benefit improvements are permitted.

Based on the consultation paper it is unclear to us what exactly is proposed for AGCE. As such it is difficult to comment fully on the merits of the proposed methodology. However, we have attempted to analyse the methodology based on the following interpretation (Appendix 1, Example 1):

1. Determine the PfAD Offset;
    a. Present Value of excess PfAD over the minimum PfAD, for the period ending at the next expected valuation.
2. AGCE = Asset Market Value – PfAD Offset

If this is the case, it would appear that the PfAD Offset used to calculate AGCE is sufficient to provide a meaningful level of benefit security on accrued benefits.

Regardless of the methodology used, the amount of PfAD that should be held by each plan before benefit improvements are permitted will differ based upon the characteristics and circumstances of each plan.

7. Do you feel that there should be rules in the Regulations regarding the order of benefits to be reduced to meet the solvency tests?

The order of benefits to be reduced should not be dictated by regulation. They should be determined by plan sponsors and outlined in advance via benefit policy. Rather than regulate the order of benefits to be reduced, it would be preferable to require plans to document their desired actions in advance.

Part 4: Benefit Types

8. Would the NCPPs that you are involved with be interested in GC CVs?

We are pleased that you have recognized the disparate relationship between pension funding and the Canadian Institute of Actuaries (CIA) commuted value (CV) basis. Going Concern Commuted Value (GC CV) recognizes the inequity between those who remain in a plan funded on a going concern basis and those who elect to leave. Members who choose to leave their employer should only receive their pro rata share of the assets available when they leave. The going concern CV (GC CV) basis better accomplishes this than the CIA's CV basis.

9. Are there any significant issues respecting preparation of an AVR, member communications, or inequity where an NCPP provides for both methodologies of calculating commuted values (i.e. CIA CV and GC CV)?

The consultation paper contemplates changing the CV basis only prospective basis. Such a change creates significant additional administrative and communication burden while continuing to disproportionately benefit those who elect to leave the affected plans. The use of two CV methodologies (CIA CV for pre-transition service and GC CV for post-transition service) implies that members have a "vested right" to the current methodology. Members are promised a defined benefit upon retirement, not a defined payment upon termination. The only vested rights that are recognized in law are to the promised defined benefits and as such a single methodology for determining CV's should apply to all service.

The CIA's current methodology assumes that those receiving a CV are using that CV to purchase an annuity to fund their retirement. The former member may very well do this, but they may also elect to invest the funds in some other fashion, much like the pension plan where the funds originated. Our observation of where former members transfer funds to suggests that very few members elect to purchase annuities. It is our belief that the CIA CV basis unfairly advantages those who elect to leave. This contradicts the duty of the administrator to act fairly and impartially.

10. What are your views on the proposed methodology used to calculate the GC CV?

    We are supportive of the methodology proposed, with a strong preference to apply the methodology to all service for those eligible to receive such a payment.

11. Given that members could be entitled to a GC CV (a CV that reflects the funded status), should plans that provide use the GC CV methodology be required to file periodic updates on their funded position to ensure that commuted value more accurately reflects the funded position of the plan at the time of transfer?

    Plans are already required to file periodic updates on their funded position via the requirement to perform actuarial valuations no less frequently than every three years. Plan funding, including any unfunded liability, is determined based on the most recent valuation. Given that those contributions reflect the terminating member's portion of the deficit, the funded ratio should only be updated when a valuation is filed with the FCAA.

12. Should the ability to convert past benefits to benefits calculated using the GC CV methodologies be provided at this time to NCPPs?

    Yes. The consultation paper contemplates changing the CV basis only on a prospective basis. Such a change creates significant additional administrative and communication burden while continuing to disproportionately benefit those who elect to leave the affected plans. The use of two CV methodologies (CIA CV for pre-transition service and GC CV for post-transition service) implies that members have a "vested right" to the current methodology. Members are promised a defined benefit upon retirement, not a defined payment upon termination. The only vested rights that are recognized in law are to the promised defined benefits and as such a single methodology for determining CV's should apply to all service.

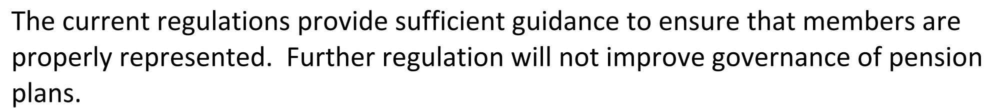
Part 5: Communications

13. Is the communications framework appropriate for NCPPs?

    We have no objections to the communication framework. In general, additional communication with members is desirable.

Part 6: Administration & Governance

14. Should there be more or less rules regarding NCPP governing bodies (Administrator and/or sponsor)? For example, should the regulations prescribe the proportion of plan members and retirees, presence of independent trustees, required knowledge and skills, etc.?



The current regulations provide sufficient guidance to ensure that members are properly represented. Further regulation will not improve governance of pension plans.

15. Should the legislation or regulations be more prescriptive regarding the governance policy for NCPPs? (e.g. require that such plans have a governance policy; set-out the minimum contents of a governance policy)?

   We believe that strong governance is the foundation of successful pension plans and that foundation is only effective over the long-term by establishing sound governing documents. That being said, we believe that the contents of those documents are best determined by stakeholders and further regulation is not necessary.

Part 7: Transition Rules

16. Is the transition framework appropriate? Have all issues been addressed?

   Due to the broad implications of changes such as those proposed here, a transition period is required for any plan impacted by the change. As outlined above, we believe that further development of the proposed regulation is necessary before it is acceptable for application as a single funding regime.

17. Do you agree with transitioning the PfAD on the CSC over a 3 year period?

   We do not agree with the proposed PfAD requirement and do not believe that a 3 year transition period would be sufficient to adapt to this PfAD requirement.

Part 8: Additional Considerations – Section 8.1: Alternative – “Enhanced Going Concern”

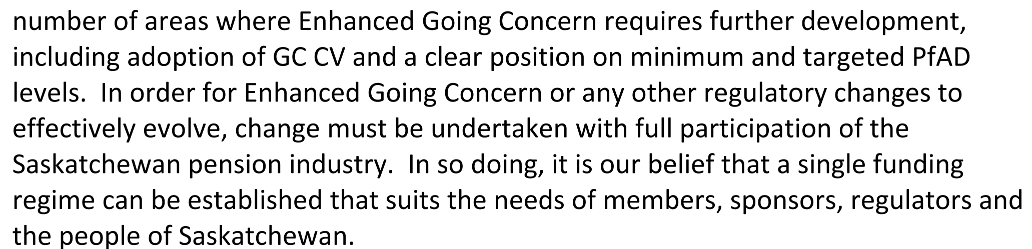
18. Do you feel the “Enhanced Going Concern” option would be an acceptable regime as opposed to the Proposed Regime?

   See Question 19.

Part 8: Additional Considerations – Section 8.2: Expand the Proposed Regime to Other Pension Plans

19. Should a framework similar to the Proposed Regime be an option available to other types of pension plans registered under the Act?

   The “Enhanced Going Concern” funding basis put in place for Specified Plans was a reasonable first step in establishing a sustainable funding regime. There are a


number of areas where Enhanced Going Concern requires further development, including adoption of GC CV and a clear position on minimum and targeted PfAD levels. In order for Enhanced Going Concern or any other regulatory changes to effectively evolve, change must be undertaken with full participation of the Saskatchewan pension industry. In so doing, it is our belief that a single funding regime can be established that suits the needs of members, sponsors, regulators and the people of Saskatchewan.

Part 8: Additional Considerations – Section 8.3: Multi-Jurisdictional Pension Plans

20. What issues do you foresee will need to be addressed with respect to GC CVs and multi-jurisdictional plans?

We have no comment on multi-jurisdictional plans.

Part 9: Closing Comments & Contact Information

21. Please provide any additional comments or information related to this paper.

Please see our covering letter.

Leadership • Integrity • Stewardship

Mobius Benefit Administrators Inc. B101-2055 Albert Street, P.O. Box 3030, Regina, SK S4P 3G8
T (306)777-7402 F (306)777-6912 pensions@regina.ca

Appendix 1

Example 1

	Pre-Amendment	Post Amendment
Assets		
Market Value	$ 157,000,000	$ 157,000,000
Smoothing	900,000	900,000
Actuarial	$ 157,900,000	$ 157,900,000
Liabilities		
Going Concern	$ 120,800,000	$ 123,500,000
PfAD	32,500,000	33,200,000
Funding	$ 153,300,000	$ 156,700,000
Funded Ratio		
Going Concern	130%	127%
Funding	103%	100%
PfAD Offset	$ 1,900,000	n/a
AGCE	$ 2,700,000	n/a

Example 2

Equity Allocation = 55%
Inflation = 2.25%
Discount Rate = 6.3%
Best Estimate Current Service Cost = 14.0%
Best Estimate Unfunded Liability = $0

Base PfAD = 17%

BDR = (A x B) + (C x D) + 0.40% where

A = 55.00%
B = 4.00% + 2.16% = 6.16%

C = 0.45%
D = 4.43%

BDR = (55.00% x 6.16%) + (0.45% x 4.43%) + 0.40% = 5.78%

Additional PfAD = Discount Rate – BDR
= 6.30% - 5.78% = 0.52% = 52 bps

PfAD is increased by 0.15% for every basis point above the BDR.
Additional PfAD = 52bps x 0.15% = 7.77%

PfAD = Base PfAD + Additional PfAD = 17.00% + 7.77% = 24.77%

The Plan must use a minimum PfAD of 24.77%.

CSC for Funding Purposes: 14.0% + (14.0% x 24.77%) = 17.33%

Example 3

Equity Allocation = 55%
Inflation = 2.25%
Discount Rate = 6.3%
Best Estimate Current Service Cost = 14.0%
Best Estimate Unfunded Liability = $0

PfAD = 21.4%

CSC for Funding Purposes: 14.0% + (14.0% x 21.4%) = 17.00%

CSC for Funding = 14.0% + (14.0% x 24.77%) =	17.00%.
Special Payments =	0.00%
Total Contributions =	17.00%

Example 4

Equity Allocation = 55%
Inflation = 2.25%
Discount Rate = 6.3%
Best Estimate Current Service Cost = 14.0%
Best Estimate Unfunded Liability = $4,900,000

Base PfAD = 17%

BDR = (A x B) + (C x D) + 0.40% where

A = 55.00%
B = 4.00% + 2.16% = 6.16%
C = 0.45%
D = 4.43%

BDR = (55.00% x 6.16%) + (0.45% x 4.43%) + 0.40% = 5.78%

Additional PfAD = Discount Rate – BDR
= 6.30% - 5.78% = 0.52% = 52 bps

PfAD is increased by 0.15% for every basis point above the BDR.
Additional PfAD = 52bps x 0.15% = 7.77%

PfAD = Base PfAD + Additional PfAD = 17.00% + 7.77% = 24.77%

The Plan must use a minimum PfAD of 24.77%.

CSC for Funding Purposes: 14.0% + (14.0% x 24.77%) = 17.33%

CSC for Funding = 14.0% + (14.0% x 24.77%) =	17.33%.
Special Payments =	1.95%
Total Contributions =	19.28%

Example 5

Equity Allocation = 55%
Inflation = 2.25%
Discount Rate = 6.3%
Best Estimate Current Service Cost = 14.0%
Best Estimate Unfunded Liability = $4,900,000

PfAD = 10.0%

Unfunded Liability for Funding Purposes = $18,390,000

CSC for Funding = 14.0% + (14.0% x 10.0%) =	15.40%
Special Payments =	9.60%
Total Contributions =	25.00%

University of Regina

PRESIDENT AND VICE-CHANCELLOR

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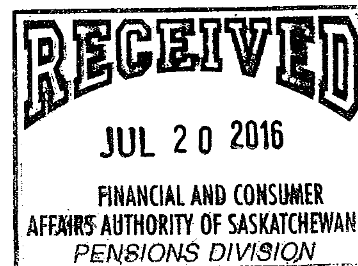
July 20, 2016



BY COURIER
PRIVATE & CONFIDENTIAL

Ms. Leah Fichter
Director of Pensions
Financial & Consumer Affairs Authority
6th Floor, 1919 Saskatchewan Drive
Regina, SK S4P 4H2

RE: PROPOSED FUNDING REGIME FOR NEGOTIATED COST PENSION PLANS (NCPP) – CONSULTATION PAPER RESPONSE – UNIVERSITY PENSION PLANS

Dear Ms. Fichter,

On behalf of the University of Regina, we would like to thank you for the opportunity to comment as requested in Section 8.2 of the Consultation Paper for the Proposed Funding Regime for Negotiated Cost Plans (the "CP"). Our response is based on discussions with the University of Saskatchewan who have taken the same position. I understand they will be sending you a similar letter.

Background

In 2008, the Universities identified pensions as being one of their key financial risks in their multi-year budget. Since that time, the Universities have spent a great deal of time and energy in developing, monitoring and reviewing their long-term strategy for each of their defined benefit pension plans. To date, this strategy has resulted in the following key initiatives and/or changes that have been achieved for some or all of the defined benefit plans sponsored by the Universities:

- Contribution levels – Employees and the Universities have increased their funding to the defined benefit pension plans to offset the increasing financial costs;

- Benefit levels – Future service benefit levels have been reduced to offset the increasing financial costs and to minimize the compounding of future risks. These changes have come in the form of:

    - Reduced lifetime accrual rates;
    - Removal of lump sum transfer option on retirement;
    - Delays in or removal of indexation;
    - Changes in early retirement eligibility; and
    - Change in how interest is credited to employee contribution rates.

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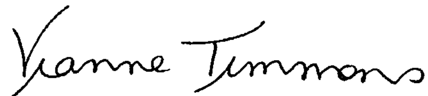
a going-concern commuted value is a better measurement of the true value of a member's entitlement at any given date and results in less volatility in the funded position for those leaving the organization. We would welcome the opportunity to adopt going-concern commuted values in our plans, both prospectively and retroactively.

As the FCAA develops the long-term funding rules for Specified Plans, we would welcome the opportunity to be involved in those discussions and helping shape the funding of defined benefit pension plans in Saskatchewan. Having said that, we do believe that the FCAA should consider consistency between all types of pension plans (Specified, NCPP, private, target benefit, etc.) in how funding is handled as much as possible.

Should you have any questions or concerns, please do not hesitate to contact me at (306) 585-4696.

Sincerely yours,



Dr. Vianne Timmons
President and Vice-Chancellor

UNIVERSITY OF SASKATCHEWAN

Pensions and Treasury
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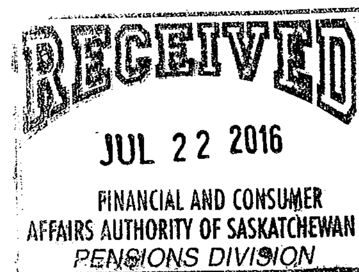
July 21, 2016



BY COURIER

PRIVATE & CONFIDENTIAL

Ms. Leah Fichter
Director of Pensions
Financial & Consumer Affairs Authority
6th Fl, 1919 Saskatchewan Drive
Regina, SK S4P 4H2

RE: PROPOSED FUNDING REGIME FOR NEGOTIATED COST PENSION PLANS (NCPP) – CONSULTATION PAPER RESPONSE – UNIVERSITY OF SASKATCHEWAN

Dear Leah

On behalf of the University of Saskatchewan (the "University"), we would like to thank you for the opportunity to comment as requested in Section 8.2 of the Consultation Paper for the Proposed Funding Regime for Negotiated Cost Plans (the "CP").

Background

In 2008, the University identified pensions as being one of their key financial risks in their multi-year budget. Since that time, the University has spent a great deal of time and energy in developing, monitoring and reviewing their long-term strategy for each of their defined benefit pension plans. To date, this strategy has resulted in the following key initiatives and/or changes that have been achieved for some or all of the defined benefit plans sponsored by the University:

- Contribution levels – Employees and the University have increased their funding to the defined benefit pension plans to offset the increasing financial costs;

- Benefit levels – Future service benefit levels have been reduced to offset the increasing financial costs and to minimize the compounding of future risks. These changes have come in the form of

  - Removal of lump sum transfer option on retirement; and
  - Postponement of or removal of indexation.

- Governance – A thorough review of the current alignment of financial risk and governance authority and possible alternatives going forward. This review has resulted in the adoption of funding policies for the University's defined benefit pension plans.

- Investments – A change in the investment strategy for certain plans to reduce the investment risk as the plans mature in order to minimize future investment losses.

The University continues to look for opportunities to enhance the long-term sustainability of their defined benefit pension plans in the future.

Response to Proposed Funding Regime for Negotiated Cost Pension Plans

Further to your request in Section 8.2 of the CP, the University has reviewed the CP and have provided comments below. Although there are certainly some positive aspects of the CP, in short, we do not believe it would be feasible for our organizations for the following reasons:

- At transition, this would result in an overall increase in the funding for the defined benefit plans sponsored by the University at a time when government funding has been frozen or even rolled back in certain cases. This could result in the termination and wind-up of certain pension plans which would be in contradiction to the underlying principles of the proposed funding regime of supporting benefit security and sustainability.

- Adopting the proposed funding regime could result in a complete revamp of the University's strategy for pension sustainability. Given the amount of time and energy that has been spent on developing these strategies in organizations where change is not easily achieved would not be well received.

- Although the University believes defined benefit plans should contain a certain level of margin in the going-concern balance sheet and current service cost, fixing margin as a percentage of equity exposure does not allow enough flexibility for plans to adapt to changing economic times. There are even situations where plans could have a significant amount of margin on their going-concern balance sheets, yet could be forced to increased contributions to meet the fixed current service cost margins which could result in having to improve benefits in the future when not deemed prudent. Allowing flexibility in the margin levels in the current service cost and balance sheet is critical in the long-term management of the defined benefit pension plans. In addition, the concept of margin is quite complicated and the proposed funding regime should consider simplifying the margin setting process so all stakeholders, including members, can understand how margins are developed.

Although we know the proposed funding regime would not work for our plans, we are encouraged by the FCAA's consideration of going-concern commuted values. It is our view that going-concern commuted values is a better measurement of the true value of a member's entitlement at any given date and results in less volatility in the funded position for those leaving the organization. We would welcome the opportunity to adopt going-concern commuted values in our plans, both prospectively and retroactively.

As the FCAA develops the long-term funding rules for Specified Plans, we would welcome the opportunity to be involved in those discussions and helping shape the funding of defined benefit pension plans in Saskatchewan. Having said that, we do believe that the FCAA should consider consistency between all types of pension plans (Specified, NCPP, private, target benefit, etc) in how funding is handled as much as possible.

Please note that we have consulted with the University of Regina in respect to our response above and can confirm that they are in agreement and will provide a response under separate cover.

Should you have any questions or concerns, please do not hesitate to contact us.

Sincerely,

Heather Fortosky
Director of Pensions
University of Saskatchewan