Municipal Pension Board of Trustees
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January 29, 2019

Conrad Ferguson, Chair
Actuarial Standards Board
CFerguson@morneaushepell.com

via email

Gavin Benjamin, Chair
Designated Group
gavin.benjamin@willistowerswatson.com

Dear Conrad Ferguson and Gavin Benjamin:

Subject: Revised Exposure Draft - Amendments to Section 3500 of the Practice-Specific Standards for Pension Plans – Pension Commuted Values

We are writing further to our November 30, 2017 letter. Thank you for the opportunity to provide feedback on the November 2018 revised exposure draft of proposed amendments to commuted value standards.

We wish to comment on a few aspects of the revised exposure draft, namely with respect to three key issues raised by stakeholders during the earlier round of consultation:

1. Aligning commuted value calculation methodology with shared risk models

   We continue to believe that jointly sponsored defined benefit public sector pension plans, like ours, that are exempt from solvency requirements should not be required to pay commuted values on a risk-free or solvency basis. Paying out risk-free commuted values is unfair to the members who continue to participate in the plan and take greater risks, including investment risk. Given the risk sharing underlying these plans, this can directly lead to an increase in contributions for active members to fund the losses on CV payments to terminating members. This means that active members not only share in ongoing risks, but also share in the cost of providing a risk-free value to terminating members who take a CV.

   We noted and welcomed the following comment in section 5 of the revised exposure draft:

   > *The [designated group] acknowledges that the rationale for permitting [jointly sponsored pension plans] and other plans with similar characteristics to use subsection 3570 when calculating [commuted values] has some merit and encourages policy makers to consider whether pension legislation in their jurisdiction should permit the use of subsection 3570 for these types of plans.*

We are generally agnostic as to whether the Canadian Institute for Actuaries should set the standard for commuted value methodology or whether this is a responsibility better suited for provincial regulators. Our main concern is that the commuted value methodology should appropriately reflect the plan's funded and investment risks and assumptions. However we acknowledge the rationale that it is the role of governments to set public policy, while professional regulatory bodies are primarily established to promote high standards of competence and conduct among a profession and to be the voice of the profession. We are planning to raise this point with our provincial policy makers.

In the meantime, we would ask that you consider exempting jointly sponsored pension plans from the application of section 3500, enabling our dialogue with policy makers as to whether pension legislation in British Columbia should permit plans like ours to calculate commuted values on the basis of the assumptions used in the most recently filed going-concern actuarial valuation. While we appreciate the rationale for developing section 3500 was to address target pension arrangements (TPA) where the accrued benefit can be reduced while the plan is ongoing, we believe that CVs should reflect the underlying risks inherent in the plan. If there are only two options for CVs (i.e. the TPA approach and the risk-free approach), then jointly sponsored plans with risk sharing provisions are more closely aligned with (and should follow) the TPA approach for the reasons outlined above.

We note that some jurisdictions have already moved to make this change. See for example recent legislation in Alberta in the form of the Employment Pension Plans Act Exemption (Public Sector Pension) Regulation.

2. Assumed pension commencement age

We continue to believe that alternatives to the status quo are required to eliminate the bias inherent in the current commuted value calculation methodology which favours former plan members. We have observed that our members are retiring later and later, and this appears to be a trend with other plans too. We believe that it is unreasonable to assume terminating members will take their pension benefit at their optimal retirement age (the earliest retirement age, in our case). With further reflection, we also agree that establishing an appropriate alternative is challenging, and using the normal retirement age in the calculation may swing too far in the opposite direction.

We agree with the revised proposal from the designated group, namely that:

> *[commuted values] be calculated assuming there is a 50% probability that a former member will commence their pension at the age which produces the highest CV and a 50% probability that a former member will commence their pension at their earliest unreduced retirement age.*

Given the complexity of such a calculation, we also support the following additional clarification:

> *…a plan may continue to pay a CV based on the current standard that is higher than the minimum amount set out in the proposed standard, [therefore] there would be no requirement for plan administrators to implement this change as of the effective date of the new standard, provided the current standard produces a higher amount*.

3. Capping the funded ratio at 100% to avoid premature distribution of "surplus"

Finally, on the basis that we support jointly sponsored plans such as ours being able to apply section 3570, we are supportive of your proposal that the Standards of Practice allow for the possibility that adjusting the commuted value based on the funded status of the pension plan may be appropriate in circumstances where it is required by applicable legislation or by the terms of the pension plan and that in situations where it may not be specified by legislation or the terms of the plan, that the commuted value is not adjusted for the funded status.

We appreciate the opportunity to comment. Thank you for your consideration of our submission.

Sincerely,

Gary Yee
Board Chair

cc: Hilary Brown, Board Vice Chair
Judy Payne, Executive Director
Irene Schamhart, Board Secretary
Chris Fievoli, Actuary, Canadian Institute of Actuaries