

Intelligence MEMOS



From: Barry Gros

To: Ontario's Pension Policy Branch

Date: September 20, 2023

Re: **A REVISED SCORECARD FOR ONTARIO'S PROPOSED FRAMEWORK FOR TARGET BENEFITS**

On September 1, the Ontario Ministry of Finance posted a Follow-Up Consultation [Document](#) on the regulation of target benefit pension plans, with a request for feedback by October 17.

Among the three C. D. Howe Institute *Intelligence Memos* in response to the initial March consultation document was [one](#) grading its proposals against five specific recommendations made in my paper last year. The Follow-Up gets better grades. It is a significant improvement over its predecessor and here's where:

1	Change the Conversation	C
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Under defined benefit plans, benefits are fixed and contributions vary. Conversely, under target benefit (TB) plans, contributions are generally fixed and benefits can vary. But regulation often views TB through the lens of contribution adequacy rather than focusing on the variable component, benefits.

Grade: C (up from F). Ontario's Follow-Up takes a major step forward requiring plans to have a Funding and Benefits Policy (rather than just a Funding Policy), recognizing the importance of benefit adjustments in a TB. Where the Update falls short is that it still requires a contribution sufficiency test even as it expects the Funding and Benefits Policy to outline the process and methods for achieving benefit and funding objectives. This is redundant, as we pointed out [earlier](#), and we will touch on it again.

2	Shift the major responsibility for policy setting from the regulations to the boards overseeing these plans, while at the same time setting higher standards for board performance.	B+
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Pension standards have typically focused on funding to prevent future problems. With TB, where contributions are fixed, problems will not occur due to underfunding, but due to over-benefiting, poor assumption setting and inappropriate investment policies, all of which are indicators of poor plan management and/or poor governance.

Grade: B+ (up from a D). We welcome the Follow-Up's expectations for plan governance, requiring a written Governance Policy and providing guidance on what that policy should address. This is a good balance to the recommendation that plans determine PfADs in accordance with their Funding and Benefits Policy, rather than having methodology for setting PfADs prescribed. What stops this rating from being higher is the disconnect between being willing to rely on plans to set their PfADS while keeping a prescribed contribution sufficiency test.

3	Elevate the importance of governance and communication	A+
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Research has [shown](#) that governance and communication play a crucial role in benefit sustainability in plans like TBs.

Grade: A+ (up from a mixed A & C). The Follow-Up is spot on in requiring a written Governance Policy. The list of matters the Governance Policy must address sets appropriate expectations for boards regarding their management and oversight of TBs.

We welcome the Follow-Up's progressive stance on requiring plans to establish and file a Communication Policy, agreeing with me in acknowledging the importance of distinguishing between minimum disclosure and active member engagement.

4	Develop policy in conjunction with industry best practice	A
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Changes to laws codified in Pension Benefits Acts happen infrequently and only after decades of lobbying. So when change is being contemplated, it is really important to involve industry leaders in the conversation right from the start so that critical discussion can happen well before minds are set towards certain solutions.

Grade: A (up from D-). The Follow-Up is a significant improvement. It's apparent that the Ministry listened to key stakeholders and TB experts in its consultation. However, as earlier indicated, there is a clear disconnect between what the Funding and Benefit Policy in Pillar One is meant to achieve and the contribution sufficiency test suggested in Pillar Three.

5	Target benefit plans need scale	A+
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TBs are complex. Scale is needed so these plans can afford the sophisticated tools needed to manage them properly. One of the primary ways to achieve scale is to allow multi-employer pension plans (MEPPs) to include past service benefits when converting to TB.

Grade: A+ (no change). The Follow-Up scores well by allowing conversions to target benefit to include past service. BC has several years of experience with MEPPs converting to target benefit with no adverse results discerned. This is a significant improvement over other jurisdictions that have not done so. The one quirk in the Follow-Up is the prohibition of converting any defined contribution (DC) components under MEPPs. We suggest this be reconsidered.

Overall, well done!

Meanwhile, the Follow-Up seems to miss a critical point in that it is impossible for these plans to separate out their funding and benefits policy (which will likely detail their approach to benefits sustainability), its approach to the PfAD, and contribution sufficiency testing, all of which should be completely integrated. The Follow-Up muddies the water by separating the contribution sufficiency test from the other key elements of determining benefits sustainability. If the Ministry truly wants a framework that will support long-term plan sustainability for TB beneficiaries, this should be reconsidered.

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