Intelligence MEMOS

From: Barry Gros

To: Ontario Pension Observers

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Re: **Ontario Finally Joins the Target Benefit Pension Party**

Ontario's journey towards target benefit pension regulation is coming to a close. The Ministry of Finance recently released draft regulations for technical review with an effective date of January 1, 2025, winding up a process begun last year. This is the fourth in a series of Intelligence Memos about target benefit plans, which combine targeted levels of benefits with defined levels of contribution, since Ontario's first consultation document in March 2023. I will keep my comments brief.

The big winners are plan members, as the draft regulations require plans to prepare and file a communication policy, joining funding policy, investment policy and governance policy as mandatory components. This must include more than simple disclosure. Plans will have to develop a custom communication plan to meet members' unique needs and, most importantly, to evaluate the effectiveness of the execution of that plan. This is significant progress in pension regulation that no other jurisdiction has undertaken and is consistent with research indicating that communication with plan stakeholders is one of several key contributors to achieving sustainability.

A big positive for the pension industry is that, in contrast to other pension jurisdictions, there is no prescribed minimum provision for adverse deviation. Plan administrators are tasked with determining an appropriate provision in accordance with the plan's funding and benefits policy, which, I have argued, is exactly how it should be established.

The other big positive for the pension industry is the ability for existing multi-employer defined benefit plans that meet specified requirements to convert to target benefit. This ability to convert past service benefits to target benefit greatly simplifies administration and provides converted plans with a sufficient asset base to fund the expenses necessary to properly manage a target benefit plan. This option is unduly restricted in some other jurisdictions.

Unfortunately, the draft regulations are overly complicated when it comes to the financial management of these plans. A target benefit pension plan's funding and benefits policy will lay out all that is required for the financial management of the plan, including the setting of benefit levels initially, and their adjustment over time, either up or down as the policy requires. But the draft regulations show little appreciation for the fact that the management of these plans is all about long term benefit sustainability, not adequacy of contributions. For instance, regulating surplus usage and deficit amortization adds another and unnecessary layer of complication.

This is more than semantics. Based on my discussions with peers advising the majority of target benefit plans in BC, the draft regulations lack a recognition and acceptance of the best actuarial funding method for evaluating the long-term sustainability of these plans, which is an aggregate method, which is permitted for Ontario's jointly sponsored pension plans (JSPPs (e.g. CAAT). The regulations fall into the common trap of imposing actuarial methodologies better suited to traditional defined benefit plans on these target benefit plans rather than allowing these plans the greater flexibility that JSPPs have.

While the draft regulations are a mixed bag, it's good to see that, Ontario, the only major holdout, is finally joining the target benefit party.

*Barry Gros is a retired actuary and was chair of the pension board of the UBC Staff Pension Plan from 2016-2023, the longest running target benefit plan in BC.*

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