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July 4, 2008

Mr. Bill Black
Pension Review Panel
c/o Nova Scotia Labour & Workforce Development
Policy Division
PO Box 697
Halifax, NS B3J 2T8

Dear Mr. Black:

Re: Submission to Nova Scotia Pension Review Panel

We are pleased to take this opportunity to participate in the process of reviewing the pension benefits legislation in Nova Scotia. As the largest Canadian-owned actuarial consulting firm, we are keenly interested in promoting a thriving pension system that meets the needs of plan members while safeguarding the interests of the sponsoring employers.

Morneau Sobeco has over 1,250 employees, including approximately 100 actuaries and Associates of the Society of Actuaries and 10 pension lawyers. Morneau Sobeco has offices across Canada, including an office in Halifax.

Our clients that most acutely feel the need for pension standards reform are the private sector Canadian companies that sponsor defined benefit ("DB") pension plans. The companies that sponsor these plans operate in a very competitive global environment and have a limited appetite for coping with risk that does not contribute in some way to the bottom line. They also have limited resources for managing their pension plans. We expect that DB plans are likely to continue to be provided by public sector employers and through the larger union-negotiated industry-wide plans, regardless of the regulatory environment. The same cannot be said for private sector plans, especially the small to mid-sized plans.

It is not news that the decline in DB pension coverage over the past two decades has been dramatic. A number of our clients have wound up their DB plans and many others have converted them to defined contribution ("DC") arrangements. Very few new DB plans have been created. Some of our clients that converted to DC were historically staunch supporters of DB plans. Many of them did not want to abandon their DB plans but at least some felt they had no choice. While pension reform was not the sole reason for this trend away from DB, the current reality is indisputable: *Employer-sponsored plans are voluntary arrangements and employers are prepared to walk away from them.*

We need a more user-friendly environment for DB plan sponsors. Bringing in better pension legislation is a good start. Whether doing so will entice employers who have already jumped ship to return to DB is debatable, but it will at least improve the health of the private pension system that remains. Expanding the opportunities for employers to sponsor pension plans (DB, DC or hybrid plans) would be a worthwhile objective.

Our premise in this submission is that the system of employer-sponsored retirement plans should continue to play an important role in providing retirement security to Canadians. Such plans may eventually be supplemented by government-sponsored or industry-sponsored multi-employer arrangements but they will not be easily replaced.

For ease of reference, we have reproduced the questions posed in the Pension Review Panel's Discussion Paper and have provided our submission below each of the questions. Where appropriate, we have grouped some of the questions together.

Question: Should pension legislation and regulation have goals other than those listed?

We submit that the basic objective of the Nova Scotia *Pension Benefits Act* should be:

"To promote increased retirement income security for Nova Scotians"

This encompasses:

- Expanding coverage of employees;
- Ensuring a reasonable level of income is provided;
- Ensuring an acceptable level of income volatility;
- Ensuring appropriate security of benefits are provided; and
- Providing greater flexibility for pension provision to encourage innovation in plan design.

To date, the prime focus of the legislation has only been on security of benefits and protecting employees *currently* covered by programs – not on expanding coverage. If that remains the exclusive focus, it should not be surprising if coverage continues to shrink.

Offering a pension program to employees is a voluntary decision. Employers will discontinue their plans if it is not attractive for them to continue to offer such programs. Retroactive legislation such as the recent amendment mandating full funding on windup is not the type of change that encourages employers to offer programs to employees because there is no way for employers to know how much such programs may end up costing them.

Question: ***Are there plan designs not in use that would provide the benefits of DB plans while minimizing risk?***

Risk is an integral part of any financial system. One can only minimize risk by adopting a more conservative investment strategy, which will increase expected cost. Historically, this equation has seldom been accepted by plan sponsors or employees when offered. However, there may be more effective ways of allocating risk between the two extremes that presently represent essentially the entire market. DB plan risk is generally borne by the sponsor (usually the employer), while DC plan risk is generally borne by the employee. Hybrid structures would allow more effective allocation of risks between the two groups, but hybrid plans are difficult (some would even say impossible) to effectively operate in today's regulatory environment. Effectively, today we can have either chocolate or vanilla but "swirl" is not allowed (let alone Neapolitan).

Apart from making the legislation more appropriate for hybrid plans, another option is to permit plan designs that, for example, offer pre-set termination values (such as benefits related to asset return) for plan members who terminate membership prior to eligibility for early retirement but allow the benefit to be determined by the DB formula for members who terminate membership after eligibility for early retirement. An approach such as this would provide known values to terminating employees while assisting employers in attracting and retaining staff by providing stable, predictable retirement incomes to "career" employees.

A related issue is determining if there are ways of increasing the "utility value" of dollars spent on pension benefits (maybe at the member's discretion) by taking steps such as allowing differing levels of indexing for retirees under a specified age (i.e. age 80) or allowing partial acceleration of income early in retirement by partial commutation. The key point here is recognizing that many retirees income needs are "front ended" – enabling pension programs to adapt to this could provide greater value to members without increasing costs.

Because members have the option to leave their benefits inside the pension plan and receive the promised benefits, mandating that the value paid on an employee's election of a lump sum settlement be based on a 100% fixed income investment strategy provides a substantial incentive to take lump sums. If sponsors wish to do so as a means of simplifying administration, it should be allowed explicitly (as opposed to the current implicit approach). Under this method more programs might be positioned to consider allowing greater flexibility to retiring members through partial commutation.

Question: ***Should the current trend towards less DB plans be accepted, or should regulators permit DB plans that may be more attractive to employers by reducing funding risks?***

DB plans arguably offer greater income security from an employee's perspective so it would be inappropriate to sit idly by and simply accept the trend away from DB arrangements. As we mentioned earlier in our submission, risks exist in all pension arrangements but we should not be content to accept

the transition of risk from employers to employees, as this does nothing to promote the basic objectives to which we alluded earlier. What we want to encourage is a reasonable sharing of risk and regulation has its part to play in this by offering more flexibility in the design phase.

While it is not the regulator's role to promote one type of program over another, existing impediments to DB programs have contributed to the trends away from DB plans. Conversions to DC plans have been motivated by employers who see poor risk / return equations for themselves. We recognize that funding risk is only part of the issue – accounting risk is a critical aspect in many cases. Thus, part of the issue is beyond scope of this exercise. We question to what extent might changes to funding / windup rules affect accounting expense (such as impacting assets on the plan sponsor's balance sheet)?

Moreover, the current rules result in DB plans being much more costly to administer than DC plans. If the playing fields were somewhat levelled, the trend away from DB plans might be lessened.

Question: ***In the case of DC plans, to what extent should an employee's right to make investment choices be limited, and by whom?***

There are two components to a DC plan – the employee contributions and the employer contributions. We submit that employees should always have the right to direct their *own* contributions and, with the possible exception of the pre-vested period, employees should also be entitled to direct the employer contributions. However, we do see benefit in limiting the number of choices available to employees, as recommended in the Capital Accumulation Plan (CAP) Guidelines. Thus, we believe employees should be free to select from the available investment options chosen by the plan sponsor (with the assumption that the plan sponsor will select a reasonably compact yet diverse set of options, in accordance with the CAP Guidelines). Where the employer makes investment choices on behalf of the employee there is a significant risk to the employer in the event that the value of the chosen funds falls (especially close to retirement). Unless the employer is prepared to offer minimum benefit guarantees in such an arrangement, the opportunities for legal action against the employer could be considerable.

We are beginning to see more active involvement by plan sponsors in promoting the availability of default choices and requiring members to proactively opt out of these choices (this is not mandated but aggressively pushed). This recognizes the increasing evidence that many employees make poor investment choices.

Question: ***Should new forms of DB pension plans be permitted to enhance their availability? Should new forms of Hybrid pension plans be permitted to enhance their availability?***

Given the shortcoming of both DB and DC plans, which are at opposite ends of the employer/employee risk-sharing-spectrum, we believe that there would be support for sharing risk between employers and employees in the future. A problem is that existing pension legislation does not readily accommodate

hybrid plans. The legislation was originally written with DB plans in mind. To this day, the interpretation of that legislation does not allow for certain hybrid plans with both DB and DC features, even when such plans enhance individual security.

DB plans can often provide the most security for members and should be promoted. Providing plans that are more attractive to the employer, where the employee accepts more funding risk, but has the advantage of an enhanced benefit might provide greater coverage.

We acknowledge it is difficult to write legislation that inherently accommodates a wide variety of hybrid plans, including plan designs that have not yet even been invented. Another approach is to provide discretion to the Superintendent to approve a hybrid plan design as long as it meets one important criterion: If the hybrid plan is at least as valuable as, or better than, a comparable DB or DC plan, then the plan should be permitted.

For instance, consider a simple DC pension plan. The DC plan is acceptable under the current legislation even though it imposes all of the investment risk and longevity risk onto the employee. In the event of the prolonged poor investment performance, a concerned plan sponsor might want to add a guarantee to that plan in the form of a minimum DB pension that a member would receive if he or she remains in active employment until eligibility for retirement. Doing so, however, puts the plan offside the existing rules, as the DB guarantee does not vest before eligibility for retirement and the requirement for "gradual and uniform accrual" is not satisfied. Nevertheless, if permitted under legislation, such a hybrid plan would be better for members than the current DC plans and hence should be permitted. We note that this is merely one example of current legislation inflexibility.

Another criticism of current DB plans is that they are too complicated. An alternative to the hybrid DB/DC plan would be to permit plan designs that offer pre-set termination values (such as benefits related to asset return) for plan members who terminate membership prior to age 55 but allow the benefit to be determined by the DB formula for members who terminate membership after age 55.

Question: ***Should DC members have the ability to use different disbursement options, such as LIF type payments, rather than be required to convert funds on their retirement date?***

If you are asking whether the DC plan sponsor should have the ability to pay retirement benefits over time in a way similar to that provided through a LIF, then the answer is yes. This will obviously increase the administrative complexity of the plan but does mean that the member is not forced to liquidate holdings at a particular time and may generate cost savings for the employee assuming that investment fees payable through the plan will be lower than retail. However, plans sponsors should have the discretion as to whether to offer this option - it should not be required.

The LIF option would also be relevant for some DB plans – please see our comments following the partial commutation discussion for further information.

Question: ***Are current rules for measuring and remediation of going concern and solvency deficits appropriate? Should there be exceptions to the funding rules for universities, multi-employer pension plans and municipalities, or anybody else?***

The current rules for measuring solvency deficits are not appropriate, as evidenced by the need to exempt most of the major DB programs in the Province from the funding requirements.

Before 1980, actuarial valuations were usually performed only on a going-concern basis. Solvency valuations became a requirement in the early 1980s. In the years that followed the introduction of solvency valuations, solvency liabilities were generally much lower than going-concern liabilities because the discount rate used for solvency purposes was much higher (being based on long-term interest rates). As interest rates declined, pension funding became "solvency-driven" rather than "going-concern driven". We feel the time has come to re-examine the rationale for mandatory going-concern funding valuations.

Ostensibly, the main reason for going-concern valuations is to recognize the long-term nature of the pension promises and thus to establish a regular pattern of funding. If that is the case, it is clear that going-concern valuations have failed. The pattern of employers' pension contributions has been a roller coaster ride for the past 30 years in spite of actuaries' best attempts to provide funding recommendations based on regular going-concern valuations. Employer contributions to pension plans were very high in the 1970s and then dropped to zero in many cases in the 1980s and 1990s when large surpluses emerged. Contributions then soared again with the recent pension funding crisis.

We submit that the true goal of funding valuations should be to secure the payment of promised benefits that have already accrued. This goal is best fulfilled by regular solvency valuations, with an appropriate (as opposed to onerous) provision for adverse deviation. A secondary goal is to fund plans in a methodical and regular manner, but this is only a goal for plan sponsors, not for plan members or regulators. If a plan sponsor feels that the pace of funding can be better regulated by running going-concern valuations in parallel with solvency valuations, this should be an internal management decision, not a regulatory requirement.

The argument for exceptions to the funding requirements is often based on the argument that the plan sponsor is unlikely to ever wind-up its plan and, therefore, solvency or wind-up valuations are unnecessary. This is typically quite true but we have to be cognisant of the fact that downsizing, whether in the private sector, public sector or quasi-public sector is still often a distinct possibility and members' benefits in those instances still need to be protected to some extent. What would perhaps be more appropriate than an exemption from solvency funding is the adoption of a more reasonable solvency basis (the CIA are currently amending the commuted value basis which is expected to significantly reduce solvency liabilities) coupled with an easing of what it is reasonable to fund for solvency purposes (is 100% funded an appropriate target?).

If this change were made for commuted values, solvency and windups, then the burden for all sponsors would be reduced. While nominal protection is similar, the reality is that the true level of protection has

sharply increased for plans which do not promise inflation protection as any inflation "cushion" in valuations has largely disappeared.

Question: Should going concern funding still be a requirement?

Please refer to our earlier comments on the current going concern and solvency funding rules. Despite the fact that historic fund rates of return would indicate that it is reasonable to assume 7% per annum or more as a long term rate of return, we would argue that anticipating that level of return in advance of them actually occurring is imprudent. Funding should be relatively conservative and if this means that we should promote funding at lower rates of interest then so be it. If we can establish a reasonable (but not penal) solvency basis then this may be sufficient. To ensure that funding is always reasonable, a cap could be placed on the valuation rate of interest (say 8% per annum perhaps) although this may be seen by DB plan sponsors as further interference.

Question: Should promises as to future benefit accrual be restricted to the level that can be funded by contributions?

Yes, as long as plan sponsors can still use surplus to supplement current contribution costs. Otherwise, you are mandating a DC arrangement or an arrangement valued so conservatively that employers will never make use of it. We do recognize, however, that contribution holidays have been misused in the past and contributed to plan sponsors (and members) approving benefit changes that were unsustainable.

Question: Should there be a requirement for full funding at wind-up?

The primary reason for the global trend away from DB pension plans is the volatility in pension cost. We note that plan sponsors can largely avoid this problem by immunizing their portfolio with fixed income investments but this creates an even greater problem: that of consistently higher pension costs than sponsors have been used to. The cost volatility stems from the inherent volatility in the market rates that must be used to determine liabilities in solvency and accounting valuations. While there is nothing that legislation can do about market rates, the legislation can redefine pension obligations on plan wind-up in a way that would dampen the volatility. If we are going to require full funding on wind-up then is there potential to reduce the solvency funding requirements as a result (i.e., require reasonable funding of deficits (say over 15 years) but not the aggressive solvency funding strategy (5 years) that is currently in place).

Alternatively, we could allow the creation of plans that do not require full funding at wind-up. In such instances, perhaps the employer funding requirement could be a fixed amount or amortization of the unfunded liability could be over 15 years. The trade-off would be that any surplus must be used to benefit employee past service or reduce employee and employer contributions equally (the minimum would be

the employer matching employee contributions and requiring the crediting of interest on employee contributions at the fund rate of return, etc.).

Question: ***Is the idea of a province wide pension plan for some public or private employers a good idea? Should such a plan operate as a multi-employer pension plan?***

Province-wide programs may make sense in some limited situations but this raises the issue of can / should they be required by legislation. It may make sense to facilitate these programs where feasible, but does the Province want to make them mandatory? If the only way to create such programs is to mandate them, then they will become even more the purview of the privileged few in public sector employment (unless also mandated in the private sector). If DB plans become only available to the public sector, we risk becoming a 2-tier population in retirement – the public sector retirees who have fully guaranteed programs and everyone else (who are exposed to market variations). This is not a prescription for a healthy system in the long run – we need to maintain the attractiveness of programs for private sector too. We foresee numerous practical problems based on anti-selection for voluntary programs that would need to be dealt with.

Notwithstanding the above, if the Provincial Government is serious about improving pension plan coverage in Nova Scotia then the provision of a province-wide arrangement will go some way to achieving this goal. Perhaps participation in such an arrangement (or provision of a pension plan of "equivalent value") could have financial benefits to the employer. In the UK in the 1970s, employers were allowed to "contract out" of the UK's equivalent of the CPP (the employer had to set up a plan of equivalent value) and both the employer and the employees paid lower National insurance contributions as a result.

Question: ***Should regulators speak to the question of the ownership of plan surpluses? If so, what should it say?***

Virtually every DB plan sponsor believes that if it is responsible for funding pension deficits, it should also be able to use pension surpluses for its own purposes. On the other hand, we recognize that labour groups feel differently. The current situation of asymmetry has developed over the last two decades as a result of a number of factors, including,

- the growth of surpluses in DB plans in the 1980s and 1990s;
- legislation originally not addressing surplus, and subsequently addressing surplus issues in only a piecemeal fashion;
- original plan documents not even contemplating surplus, much less addressing it;

> litigation over surplus use and the tendency of the courts to interpret the pension trust as a classic trust rather than a contract or a purpose trust; and

> required "exclusive benefit" wording imposed by the tax authority in the past, the repercussions of which were not anticipated or intended.

The current situation was not anticipated by plan sponsors. It encourages minimal funding and the closure of DB plans. It is frustrating to all parties and results in expensive and time-consuming litigation. A solution needs to be offered through legislation rather than the courts.

To ensure that the intention of the parties setting up pension plans is honoured, we propose that pension issues should be interpreted using contractual legal principles rather than trust legal principles. This would permit the plan sponsor and its employee groups to renegotiate the pension deal from time to time as circumstances warrant.

Question: ***Is the concept of "deferred wages" valid? And if so, is there any current validity to it with respect to the determination of the responsibility for funding and for entitlement of surplus?***

The concept of "deferred wages" makes complete sense in the context of plans where the employer's contribution requirement is fixed. For DB plans when you are dealing with issues such as unfunded liabilities and surpluses that are employer funded, such a concept does not make practical sense. We refer you to the C.D. Howe Institute Commentary, "Risky Assumptions: A Closer Look at the Bearing of Investment Risk in Defined-Benefit Pension Plans" (No. 266, June 2008), which indicates that, over the long term, employees often share the investment risk due to the impacts pension have on wages, other benefits, etc.

Question: ***How should funding concerns for MEPPs be addressed? Would permitting the implementation of a different type of Hybrid pension plan be useful for MEPPs? Which of the funding tests should apply to MEPPs?***

We do not advocate creating a different structure for MEPPs. With regard to funding, we believe MEPPs should have fixed employer funding requirements. Specifically, we recommend long term unfunded liability funding with a minimum 100% match of employee contributions, but no solvency requirements for 5 year funding. Instead, deficit funding should be over 15 years (we recommend these funding changes for single employer programs as well). This model assumes that all surplus stays in the plan.

By creating a simplified "template" plan, it might encourage some new MEPPs to start up.

Question: ***Should regulators facilitate the further development of hybrid plans? Would the Quebec model be an attractive option for Nova Scotia employers?***

The development of hybrid plans could be useful in any plan situation and it is quite likely that the Quebec model would be attractive to Nova Scotia employers.

Question: ***Should government attempt to define, audit, and regulate "good governance"? Why or why not? Is so, what types of governance issues should be regulated? Given that there are associated costs with governance, what is an appropriate cost for "good governance"?***

The definition of "good governance" varies depending upon the circumstances of the program and, to an extent, the *Pension Benefits Act* already regulates governance. For example, the Act lays out minimum standards regarding what needs to be communicated to plan members. However, we do not believe the best way of promoting good governance in through regulation. Given that the concept of "good governance" is a relatively fluid and ongoing process, the notion of full compliance at any point is time is somewhat abstract. Accordingly, we believe it would be difficult to try to regulate the principles of good governance. Moreover, it is clear that employers want less, not more, regulation, but they do want guidance. We believe the current CAP/CAPSA Guidelines already provide that guidance.

One option for promoting good governance is to define the minimum standards (or incorporate the CAP/CAPSA Guidelines by reference) and then require regular certification by the plan sponsor and its advisor(s) that the standards have been met. It might also be reasonable to audit major plans periodically, particularly ones that are known to fall into material noncompliance. However, both these steps would likely increase plan operating costs, which might discourage the registration of new plans. As a result, we would not recommend that these be mandated for all programs as a starting position.

Question: ***Does the current regulatory system work effectively? Are there currently unnecessary rules and regulations in place? If so, what are they? Should the appeal process be changed? If so, how?***

For multi-jurisdictional plans, the current regulatory system is fairly inflexible. Many of our plans have members in multiple provinces, which makes administering the plan time-consuming and costly.

Harmonization of pension legislation conjures up the notion of convergence of all pension benefits acts and regulations in Canada to just one set of rules that applies across all jurisdictions. We hold out little hope that harmonization of this type can be achieved under our constitutional and political system. Even though this has been the holy grail of pension regulators for over a quarter century, we are no closer to achieving it now than we were in the 1980s.

A somewhat more workable solution is to get the provinces to agree to administer pension legislation in accordance with the province of registration, regardless of where the employee works. For example, if a plan is registered in Nova Scotia, then plan members in New Brunswick (or any other province) would be governed by Nova Scotia's *Pension Benefits Act*. This simple protocol for dealing with extra-provincial employees exists already in the case of federally regulated companies whose pension plans fall under the *Pension Benefits Standards Act*.

Other than the recommendation made elsewhere in this submission, we make the following comments:

- We believe the 5 year solvency funding schedule is not necessary given the recently introduced requirement to fully fund on windup.
- Under the current regulations, employers can essentially "cherry pick" a valuation date to the detriment of the plan's funded status (a consequence of the volatility of the CIA basis from month to month).

We have also commented on Grow-in benefits later in this letter

Question: ***Should a plan have a minimum number of members before the government will regulate it? If so, what minimum number of members would be appropriate?***

It may be reasonable to have a simplified process for smaller plans (especially those that cover primarily senior company staff such a CRA "designated plans"). However, there may be an issue for plans that fluctuate above/below the cut-off point for members (regulate plans once they go above a certain number of members and stop when membership falls between say 80% of that number). There may also be an opportunity to anti select by converting one regulated plan into two "non-regulated" if the numbers work.

There is a difficult balance in trying to keep costs down for small plans (which would promote non-regulation) versus ensuring protection for workers who, arguably may need it most, given that they may not have the "strength in numbers" that members in larger plans may have. Overall, we would prefer regulation of all plans but, as we have mentioned earlier, with greater flexibility in the areas of funding and plan design.

Question: ***To what extent should regulators attempt to regulate an employee's right to access funds?***

Regulators should allow some flexibility to improve the "utility" of retirement income. This utility could be improved by allowing up to a certain percentage of benefit to be commuted at retirement based on less conservative assumptions.

Question: ***Should the legislation require grow-in benefits to be provided on plan wind-up? Should legislators maintain the requirement to fund grow-in benefits upon wind-up?***

Nova Scotia and Ontario are the only jurisdictions in Canada that require grow-in benefits. To our knowledge, no other jurisdiction in the world legislates grow-in benefits. We recommend that grow-in benefits be repealed especially as the Pension Benefits Regulations no longer require pre-funding of this benefit.

Grow-in benefits were introduced in Ontario and Nova Scotia in the 1980s. Their purpose was to preserve the early retirement rights that a member would otherwise lose in the event of a plan termination.

In the early 1980s, interest rates were very high, which meant that wind-up liabilities were low and the incremental cost of grow-in rights did not immediately affect plan funding in most cases. Over time, circumstances have changed dramatically. Interest rates have fallen and grow-in benefits have become very costly. DB pension plans are no longer the norm, which means that grow-in benefits help just the privileged minority that have DB benefits, not the majority of Nova Scotians. Finally, we are now in an era where worker shortages are more likely to be the problem, not finding ways to ease working-age employees in failed companies out of the work force. As circumstances change, the legislation should be modified accordingly.

Eliminating grow-in benefits would help reduce the trend away from DB plans. We note that almost two-thirds of the employees in DB plans in Nova Scotia are in public sector plans where plan terminations are virtually non-existent. Another large portion of DB members are in collectively bargained plans where the union leadership could be free to negotiate grow-in benefits if they so wish. The remaining group of DB members is relatively small, consisting of non-union private sector employees. These are the DB plans that are most likely to be closed down to new members, ironically because of onerous provisions such as grow-in.

Question: ***Should "safe harbour" rules be established that would give DC plan sponsors and administrators protection from litigation?***

There is a fundamental difference between systems that are rules based and those that are principles based. Rules based systems foster rules compliance which often fails to achieve the outcomes desires when the rules were developed. Also, rules can easily become dated as circumstances change over time. Accordingly, we are not supportive of specific "safe harbour" rules. However, recognizing sponsors' desires for certainty, guidelines (such as exist) are very helpful and should be encouraged.

Question: ***What other issues are raised by phased retirement and what should be the regulatory position of Nova Scotia?***

We believe that Nova Scotia should enable, but not require, phased retirement in accordance with the CRA rules. We note that phased retirement will predominantly be a public sector program issue because private sector plans seldom have sufficiently generous early retirement rules to make this an issue.

Question: ***What should be the regulatory position of Nova Scotia be with respect to TFSAs for pension purposes?***

Given that TFSAs are not "pension" plans, we submit that the Province should essentially not attempt to become involved in TFSA regulation. We do note, however, this TFSAs will be a very efficient way for lower earnings plan members to save for retirement (assuming that they will avoid GIS clawback at very low levels and OAS at moderately higher income levels) and they may make pension plans and RRSPs for lower earners less attractive. Accordingly, ensuring that pension plan designs that incorporate TFSA's (for example, by allowing members to direct up to the first $5000 of contributions to a TFSA with the excess going to provide pension benefits) are acceptable for registration would be beneficial.

In the interests of brevity, we have presented our ideas in conceptual form. Many of the concepts raised herein would be better covered in an open discussion format and we look forward to engage in such a session with the Panel on July 14. Also, in this submission we have not dealt with the details of implementation and in particular with the difficult process of transition from the existing set of rules to new ones. The big question in this transition is the extent to which existing rights and entitlements will be grandfathered. We believe the best strategy is to decide first which proposals should be pursued and only then to deal with transition issues.

In closing, we would like to emphasize that if this pension reform initiative is to be effective, it will require bold measures. A mere tweaking of the existing legislation will accomplish little for the average DB plan sponsor.

Yours truly,

Mel Bartlett, F.S.A., F.C.I.A.

Partner

Mike O'Connell, F.I.A., F.C.I.A.

Partner