

COMMENTS  
BY  
,FCIA, FSA, MAAA  
ON  
THE NOVA SCOTIA  
PENSION REVIEW PANEL  
POSITION PAPER

For a variety of reasons I did not respond to the original *Discussion Paper* issued by the *Pension Review Panel* last May. This has probably turned out well as I did not spend time arguing for changes of which the *Panel* is in favour, and I can now limit my comments to what is in the *Position Paper*.

I shall begin by complimenting the *Panel* for producing an excellent *Position Paper* with which I am largely in agreement. Consequently I shall only comment on those aspects where I disagree or have some reservations.

**Section 3.1.1.** While I agree with the idea of more flexibility in choices at retirement under DC plans, I believe strongly that the option of a lump sum settlement should continue to be prohibited. Later in Section 3.6 reference is made to transfers to RRSP, LIF, and RRIF, but not to lump sum settlements, so I do not believe that the *Panel* contemplated lump sum settlements. I believe that their position on this should be clarified.

**Section 3.2** The idea of a province-wide plan was recommended in a report which I prepared for the *Senior Citizens' Secretariat* a number of years ago. If memory is correct I had recommended that such plan be mandatory at a specified minimum level, unless a pension plan were already in existence. No action was taken at that time. My own feeling is that such a plan would not attract many participants if it were not mandatory.

A mandatory plan would be opposed by some employers on the grounds of additional cost. It would also be opposed by some employees on the grounds that additional pension income might disqualify them in whole or in part from the Guaranteed Income Supplement, and increase the clawback on the Old Age Security Pension; I have little sympathy with these arguments. I think it essential that we have a self-financing retirement system paid for by employers and/or employees, and not make employees dependent on quasi-welfare schemes such as the GIS.

**Section 3.3.1** I would be interested in knowing how the *Panel* came up with an eight year amortization period rather than the current five. I have no objection to eight, but why was eight chosen rather than, say, seven or ten? With current market conditions, that came along after the *Position Paper* was written, perhaps the *Panel* might now recommend a longer period than eight years. On the other hand I believe that Canadian pension plans are in better

financial shape than most US plans because of the more stringent requirements for funding deficits in Canada.

While I do like the concept of the 5% "collar," I do not particularly like the name. I have, however, been unable to think of a better one.

I agree with the *Panel's* comments on **Surplus, Grow-in Benefits, and Partial Wind-up**. In my opinion the second and third of these have created much useless complications for pension plans. When I began consulting for pension plans in the mid 1960's most plans were very conservatively funded, and the employer expected to have control of the surplus, which was mostly used to increase benefits. As court rulings restricted or prohibited the employers' control of surplus, many pension plans adopted much less conservative funding assumptions. This is one of the reasons pension plans now have deficits.

**Section 3.6** I think it essential that monies in pension plans be used to provide retirement benefits, which could include transfers to RRSP, LIF, and RRIF, but not lump-sum settlements. I agree that the provisions that allow for commuting benefits in the event of "hardship" should be removed.

**Section 3.7.1** Advisory Committees have not been established in many plans, probably because of their limited powers. The recommendations here may encourage greater use.

**Section 3.8** While I understand the rationale for not regulating pension plans for "connected persons," there are circumstances where such persons may need protection. A highly paid person may fall out of favour with the owners of a company. Change of ownership may create problems. I urge the *Panel* to find some way of protecting such persons while at the same time easing the regulatory burden on such plans.

**Section 3.12** I believe that immediate vesting will result in employers using the maximum waiting period allowed, currently two years I believe, before employees can join the pension plan. Turnover among short service employees results in many costs to the employer, and adding an additional cost for the pension plan is not desirable. I would prefer to see employees become members of the pension plan as soon as possible, upon employment or after three months, say. Joining upon employment has the advantage that the employee is used to the contribution to the pension plan; there is often resistance to joining at a later date as it involves a reduction in take-home pay. Vesting should occur after two years of employment.

Again I should like to compliment the *Panel* on an excellent *Position Paper*. I should be pleased to meet with them to discuss these *Comments* and any other matter they would care to raise.

Yours faithfully,