

November 21, 2008

Pension Review Panel
c/o Nova Scotia Labour and Workforce Development
Policy Division
PO Box 697
Halifax, NS
B3J 2T8

Dear Sirs:

RE: Comments on the October 17th Nova Scotia Pension Review Panel Position Paper

We have reviewed the Pension Review Panel's Position Paper with great interest and are pleased to provide comments on behalf of the Canadian Institute of Actuaries (CIA). The paper has a number of interesting ideas worthy of further discussion beyond the scope of this letter and the CIA would welcome the opportunity to participate in those discussions. The comments made in this submission supplement our previous submission to the Panel dated July 2008.

We understand the Panel's interest in keeping the submissions brief. Accordingly, we have limited our comments only to those areas where we have substantive comments to make.

Specific Comments

Section 3.1 Types of Pension Plans and 3.1.1 Adjustable Contribution/Benefit Plans

While the CIA believes that defined benefit plans are an indispensable vehicle to enhance retirement income security for Canadians, we recognize that such arrangements may not be appropriate in all situations. We encourage and support legislation that permits increased flexibility in plan design.

Section 3.3 Funding

The Review Panel recommends a new minimum funding valuation basis in lieu of the current going concern and solvency valuations. The profession's current Standards require funding recommendations to be determined on a going concern basis, subject to any solvency test prescribed by legislation (The proposed minimum funding Standards could be considered a "new solvency valuation method"). Proposed changes to the profession's Standards by the Actuarial Standards Board would require the calculation of a minimum required contribution based on a hypothetical wind-up basis but leave it up to legislation to set minimum funding requirements. Under both the current and proposed Standards of Practice, the use of smoothed asset values for the purpose of moderating contribution volatility is permitted; however, the proposed minimum funding valuation does not allow this.

We note that the proposed minimum funding valuation is quite prescriptive, which is a significant departure from current practice. A clear articulation of the underlying of the philosophy of the proposed minimum

funding valuation would be helpful so the CIA and the public can understand the degree of benefit security being targeted by the regulators.

The proposed changes also indicate that the minimum commuted value payable upon a member's termination would be calculated in accordance with the proposed minimum funding standards. This appears to provide all members with grow-in benefits, or at least partial grow-in benefits to the extent of 50% of the value of the most expensive early retirement subsidy, even if the plan does not provide any early retirement subsidies to terminated members. In that case, the proposed commuted value basis appears to be inconsistent with the Review Panel's articulated position on grow-in benefits in Section 3.4. We note that this special retirement assumption combined with the use of a special pre-retirement discount rate is a significant departure from the profession's Standards of Practice for Commuted Values and would produce commuted values for Nova Scotia members that could be materially lower or higher than for other plan members. This would create equity issues for multi-jurisdiction employers and their plan members.

We also note that the proposed minimum funding valuation is substantially different from the existing rules (which are generally based on both going concern and solvency) applied in other jurisdictions. The CIA encourages greater harmonization on all aspects of pension legislation across jurisdictions.

Section 3.3.2 Surplus

The CIA encourages regulators to be clear about surplus ownership and supports the articulation of a clear policy. It is in the interest of all parties to understand surplus ownership without having to resort to the courts. Having said that, we disagree with the proposed restrictions on surplus utilization by employers based on 50 percent of net contributions over 10 years or 50 percent of surplus on plan wind-up. They would be overly prescriptive and inflexible, and they would discourage prudent funding practices (e.g., accelerated payment of deficits) and alternative plan design concepts allowing for different risk sharing formulas that are mutually agreeable to both plan sponsors and plan members.

As an alternative to changes to the pension regulations dealing with surplus ownership, the CIA believes that Pension Security Trusts can be a way of effectively dealing with surplus ownership issues. Please refer to the CIA's Prescription for Canada's Ailing Pension System, released in June 2007, for a discussion of Pension Security Trusts.

Section 3.4 Grow-in Benefits

The CIA believes that grow-in can lead to inequality between plan members. This occurs when there are members in different jurisdictions within the same plan, or members who just qualify or miss the "55-point" requirement for grow-in, or members whose termination benefits result from a plan wind-up instead of from a normal change in employment.

While the Review Panel has recommended that plan sponsors and unions have a choice with regard to providing grow-in benefits, this proposal appears to contradict the proposed changes to the termination commuted value basis as we have noted above.

Section 3.5 Partial Wind-ups

We agree that the notion of partial wind-ups should be eliminated from the legislation. This would not only eliminate the surplus distribution issue on partial wind-up but would also remove the administrative and cost burdens associated with partial wind-ups.

Section 3.7 Governance Plan and Advisory Committees

The Review Panel proposes that Advisory Committees should be given any information that the sponsor files with the Superintendent and be provided with access to the plan's professionals (e.g., the plan actuary) independent of the plan sponsor. We observe that filing requirements under the *Pension Benefits Act* are a responsibility of the plan administrator. Therefore, it seems more appropriate that the proposals refer to the plan administrator. Granting access to plan documents and reports (e.g., plan text, fund reports, investment policy, documents filed with the supervisory authorities) would likely be sufficient to allow Advisory Committees to fulfill their advisory role. Providing them an access to the plan's professionals would raise several questions:

- a) who is the client?
- b) who controls and pays the extra expenses?
- c) would the professional have to enter into a separate contractual arrangement with the advisory committee?

It would be more practical and prudent that all information requests be funneled through the plan administrator who is subject to the prudence standards of section 29 of the Act.

Section 3.9 Harmonization

The CIA encourages greater harmonization between jurisdictions in all forms. The suggested approach, if accepted by all other jurisdictions and applied consistently in all jurisdictions, would be welcomed. An approach where some jurisdictions agreed with the approach but others did not would still result in a haphazard approach.

The CIA has been promoting the concept of a National Pension Reform Summit, where the provincial and federal ministers responsible for pension regulation and legislation would come together to discuss harmonization and other common issues. In the current economic environment, Canadians would be encouraged by such a meeting.

Section 3.10 Safe Harbour

The CIA encourages greater disclosure of meaningful information to all pension plan participants. Please see item 5(j) of our submission to the Alberta/British Columbia Joint Expert Panel on Pension Standards.

Conclusion

We believe that the proposals do not go far enough to allow for some of the objectives to be met, especially to enhance the affordability and availability of defined benefit pension plans for employers and employees; and to protect the sustainability and security of pension benefits. We believe that our suggestions on Pension Security Trusts, the use of letters of credit and Target Solvency Margins would prove very useful.

We would be happy to provide clarification on any of the above comments and to participate in additional discussions.

Yours truly,

A handwritten signature in blue ink that reads "Michael Hale". The signature is written in a cursive style with a long horizontal stroke at the end.

Michael Hale,
President