

# Intelligence MEMOS



From: Barry Gros

To: Ontario's Pension Policy Branch

Date: April 20, 2023

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

The Ontario Ministry of Finance released a [Consultation Document](#) on the regulation of target benefit pension plans last month, with a request for feedback by June 30.

The C.D. Howe Institute has published extensively on this topic, including my [paper](#) last year, highlighting what's required for target benefit plans to thrive. Earlier, in 2021, the Financial Services Regulatory Authority of Ontario (FSRA) released its own [study](#) on leading practices for defined benefit multi-employer pension plans.

In this Memo, I grade the proposals found in the Consultation Document against recommendations I made last year.

1	Change the Conversation	F
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Under defined benefit (DB) plans, benefits are fixed and contributions vary. Conversely, in target benefit (TB) plans, contributions are generally fixed and benefits can vary. But regulation still views TB through the lens of contribution adequacy. Legislation needs to focus more on the benefits that are in play and its language should be adjusted accordingly.

**Grade: F.** Ontario's Consultation Document makes the classic mistake of using contribution-focused language as opposed to focusing on what is required, the development and monitoring of a target benefit that can be sustained for an extended period of time.

2	Shift the major policy setting responsibility from the regulations to the boards overseeing these plans, while at the same time setting higher standards for board performance	D
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Pension standards have typically focused on funding to prevent problems from developing in the future.

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. What's needed are higher governance standards not complex funding standards.

**Grade: D.** The Consultation Document seems to equate strengthening governance with protecting against benefit reductions. The degree of benefit stability should be a decision of the relevant board, not dictated by regulation. By taking its position, the document works to restrict the range of target benefit plans that can be implemented.

3	Elevate the importance of governance and communication	A/C
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[Research](#) has shown that governance and communication play a crucial role in benefit sustainability in plans like TBs and recommended plans be required to have a communication policy, similar to a governance policy or a funding policy, and laid out what it should include.

Grade: A & C. I attribute separate grades to governance (A) and communication (C). The Consultation Document is spot on in indicating that governance policy would reflect guidelines published by the Canadian Association of Pension Supervisory Authorities (CAPSA). One of the most welcome aspects of those governance guidelines is Principle 4: "The plan administrator should establish and document performance measures to monitor the performance of participants in the governance and administration of the plan."

On communication, the document makes the classic mistake of confusing disclosure with communication. With disclosure, which is really what the Consultation Document is promoting, no effort is made to determine the effectiveness of what has been done. True communication involves a feedback loop, requiring testing of whether the communication objectives were achieved. Consistent with this, the FSRA study recommends that plans "consider conducting member feedback sessions or surveys to gauge the effectiveness of member communication."

4	Develop policy in conjunction with industry best practice	D-
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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 important to involve industry leaders in the conversation from the start to ensure critical discussion can happen well before minds are set towards certain solutions.

Grade D-. There is no mention of any attempt to bring in industry best practices for managing target benefit plans or even best practices from similar types of plans regulated by Ontario, such as Jointly Sponsored Pension Plans. There is also a clear disconnect between the focus on risk management through the funding policy in Pillar One of the Consultation Document and the contribution sufficiency test suggested in its Pillar Three.

5	Target benefit plans need scale	A+
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TBs are complex financial instruments. 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 to include past service benefits when converting to TB.

Grade: A+. Here's where the Consultation Document scores best, by allowing conversions to target benefit to include past service. British Columbia has seven years of experience with such plans converting to target benefit with no adverse results of which I am aware.

Overall, Ontario could have done better. Solutions for target benefit plans need to be broader rather than be focused on fixing long-standing issues with specified Ontario multi-employer pension plans. While there are some good suggestions in the Consultation Document, it lacks an understanding of the breadth of TBs that are possible.

Tomorrow, we examine other issues I raised last year.

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