Pension Funding Reform to promote Benefit Security and which would reduce Financial Obligations on Employers

We are told that employers are hard pressed to meet the solvency funding requirements for their defined benefit (DB) pension plans. Ontario is exploring ways to address this apparent concern, including questioning the role for solvency funding in Ontario's pension regime.

The solvency calculation is the only means to quantify the amount needed in a DB plan so that it can honour its commitments should it be wound up. For this reason, solvency funding requirements have been, and will continue to be, critical to the security of the pensions that have been earned by pensioners.

Before solvency funding regulations were in place, plans that appeared to be fully funded were unable to pay the pensions that were owed when the plan wound up. As a result, pensioners suffered losses to their retirement income. Even with the current solvency funding rules, pensioners today commonly face losses when their plan winds up. This is because the current rules leave some plan provisions out of the solvency calculations, effectively requiring funding to match only a part of the pension commitment. In addition, it can take years to bring an underfunded plan back to full financial strength. If the plan is forced to wind up before that happens, its pensioners are hurt. Ontario's Pension Benefit Guarantee Fund (PBGF) provides only limited protection against windup underfunding. These factors combine to leave pensioners in a very vulnerable position.

The inability of the current regime to protect pensioners is clear evidence that reform is necessary. Whether or not some employers require financial relief, CFP proposes reform of the pension regime that promises both to improve the benefit security for pensioners, and at the same time to reduce financial obligations on employers.

The reform consists of three interdependent parts:

1. Fix the solvency calculation so that it properly incorporates all plan provisions;
2. Replace the PBGF with an enhanced guarantee fund (EGF), funded by all DB employers in a manner that ensures that the EGF can pay for any plan shortfalls upon involuntary wind up; and
3. Retain plan-specific solvency requirements, at a target level lower than the current 100% funding target. The solvency requirement would remain at 100% until such time as the EGF is in a position to backstop any windup funding shortfalls.

The EGF premium structure can be designed to reward positive plan governance and performance. The funding target, to be no less than 90%, and the EGF premium amounts should be established in a follow-up consultation, informed by an actuarial study.