

Law &amp; Policy Group

**GRIST**

# Canada launches consultation on strengthening pension plans

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7 Dec 2020*

Canada's Federal Department of Finance has launched a major consultation (Consultation on Strengthening Federally Regulated Pension Plans) on potential short-term solvency funding relief options for 2021, and longer-term measures to strengthen the framework for federally regulated pension plans. The consultation comprises a series of questions on each topic and invites other relevant comments by 14 Jan 2021.

Additionally, the consultation follows the government's commitment to consult with stakeholders on options to provide additional solvency funding relief in 2021 as necessary, and includes several other proposals to support the sustainability of defined benefit (DB) pension plans and enhance retirement security. Consultation topics include pension plan governance, solvency reserve accounts, variable payment life annuities and ministerial guidelines on special funding relief.

## Temporary broad-based solvency funding relief for 2021

- Extending the solvency amortization period from five to ten years, with conditions such as a buy-in from plan beneficiaries or a letter of credit covering the difference in payments resulting from the longer amortization. This option would not be just for 2021.
- For the 2021 plan year only, extending the solvency amortization period from five to ten years.
- Temporarily increasing the letter of credit limit beyond 15% of solvency liabilities.
- Using alternative valuation methodologies, such as a discount rate averaged over three years rather than the market-discount rate as of the valuation date; calculation of an average solvency ratio over five years instead of three; and a requirement to file a valuation report at the end of 2020 to be deferred or made optional.

## Strengthening the pension plan framework

Proposed measures aim to further strengthen the framework for federally regulated pension plans subject to the Pension Benefits Standards Act (PBSA). Some measures are already featured in budgetary announcements. Highlights include:

- **Plan governance and administration.** Measures include expansion of plan member and retiree representation in plan governance (pension committees); consideration of requirements for governance and funding policies; steps to encourage plans to factor environmental, social and governance factors into their investment strategies; and steps to facilitate the use of electronic communications by plan administrators.
- **Solvency reserve accounts (SRAs).** A detailed proposed legislative framework would include how SRA funds would be set aside within the pension plan, and outline how sponsors could access surplus SRA funds following solvency special payments.
- **Variable payment life annuities (VPLAs).** A framework sets out how members and retirees of Pooled Registered Pension Plans and defined contribution plans could convert their account balances into a lifetime stream of retirement income. It establishes requirements for plans offering VPLAs, including how benefits may be adjusted and what information must be provided to enable informed decision-making by potential members.
- **Ministerial guidelines for DB pension plan sponsors.** Guidelines would include information on the process for seeking special funding relief under the PBSA; information to be included in relief applications; factors that the Department of Finance would consider when advising the minister about recommending special funding regulations; and additional actions that could be taken alongside special funding relief to improve pension plan sustainability.

## Next steps

The issues covered in this consultation are extremely diverse, but Mercer is disappointed that the Department of Finance did not include more structural changes to the current DB pension plan funding regime. With the objective of striking a better balance between benefit security and affordability for plan sponsors, most Canadian jurisdictions have already adopted new funding rules, relaxed solvency requirements and implemented enhanced "going concern" requirements.

## Related resource

[News release](#) (Department of Finance, 6 Nov 2020)

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