



**Canadian  
Institute  
of Actuaries**

**Institut  
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**Subject: A Permanent Framework for Target Benefits**

The Canadian Institute of Actuaries (CIA) is pleased to offer the following comments on the draft regulations to support the implementation of a permanent framework for target benefit plans (TBPs).

The CIA supports having appropriately structured pension pooling vehicles to provide defined benefit-type benefits to pension plan members. The proposed regulations for TBPs in Ontario fit in this category. However, there are areas of the proposed regulations that we believe need increased clarity or room for introducing additional considerations. It is in this context that we are providing our comments.

**Target benefit plan eligibility**

The CIA believes that pooling pension risk in plans like TBPs is an effective alternative method of providing pension benefits to individuals where traditional defined benefit plans are not possible. For this reason, we believe there should be no restriction on what type of entity can implement a TBP. The new framework should also apply to single-employer TBPs and the non-union environment, as it is the nature of the pension promise, which essentially defines the difference between these and defined benefit plans. This should take effect prospectively only, as changes to the pension promise, if any, should be in accordance with the legal requirements governing the pension plan. Other jurisdictions allow for single-employer TBPs and Ontario should do the same. From a broad public policy perspective, the addition of single-employer TBPs would improve retirement income security for more Ontario citizens and prevent, or slow, the shift to defined contribution plans, group RRSPs or no plan at all.

**Provision for adverse deviation**

We support the change to allow each plan administrator to establish and implement a going-concern provision for adverse deviation (PfAD) that complies with their funding and benefits policy. PfAD is a common actuarial assumption, referenced in the CIA Standards of Practice [Section 1620.02](#). Plan trustees require the flexibility to set their own target PfADs based on each plan's specific relative determination of the importance of benefit adequacy, affordability, security, stability and equity. It is our understanding that the Financial Services Regulatory Authority of Ontario (FSRA) will be releasing guidance on acceptable PfADs. We encourage FSRA to allow trustees to have flexibility to set appropriate PfADs.

### **Benefit adjustments**

The proposed regulations would require TBPs to prioritize the restoration of previously reduced benefits over other benefit improvements. The circumstances that lead to benefit reductions and improvements can be complex and can vary significantly from plan to plan depending on the choices made in the design. Adjustment to benefits should be consistent with the intent of the plan as it was designed or amended from time to time. For example, the change in plan design may be due to changes in the industry or the membership's desire for different provisions. The restoration of previously reduced benefits will not be appropriate in all circumstances, owing to design decisions and supporting documents. As such, we do not believe the regulations should include this provision.

The trustees should continue to have flexibility in determining benefit adjustments and will remain subject to their responsibility to fulfill their fiduciary duties, including that any adjustments must be determined in a manner consistent with the terms of the pension arrangement that they are entrusted to manage.

### **Commutated values**

We support the change to determine commuted values (CVs) in accordance with the CIA standard of practice for target pension arrangements, including adjusting CVs by the funded status of the plan. We note that section 6 (2) states:

*“Before the payment of the first instalment is due in respect of a deferred pension or pension, the amount or the commuted value of accrued benefits cannot be reduced solely because of the termination of employment or membership of a member, or the death of a former member or a retired member.”*

If the intent of this section is to prohibit adjusting CVs by the funded status of the plan if the funded status is below 100%, we disagree with this application. A key feature of TBPs is the sharing of risk among members. Prohibiting reducing CVs if the funded status is below 100% would mean remaining plan members are disadvantaged relative to a terminating member. This, in our view, is contrary to the risk-sharing principle inherent in TBP design.

### **Family law matters**

CVs, as discussed above, are intended to provide a plan member with a lump-sum alternative to a deferred pension after termination of employment. There is no obligation for the plan member to elect the CV option. In the context of a TBP and as noted above, we support using the CIA's CV standard, including an adjustment for funded status, for terminating members to share risk in an even-handed manner.

The calculation of a Family Law Value (FLV) is fundamentally different. The plan member cannot opt out of disclosing the value of their pension for net family property purposes. An FLV is intended to represent as best possible a fair value of the pension asset as matrimonial property, subject to the constraints imposed when Ontario's Family Law Act and Pension Benefits Act were amended and when Regulation 287/11 under the Pension Benefits Act was first introduced more than 10 years ago.

While we support using the TBP CV basis (including an adjustment for funded status) for the “maximum transferable amount” calculation for lump-sum transfers from a TBP after relationship breakdown, the CIA believes that it would be unacceptable and not in the public interest to apply the adjustment for funded status to the Family Law Value of a TBP pension.

Neither the CV standard for defined benefit plans nor the CV standard for TBPs is consistent with the CIA standard for the valuation of pensions on relationship breakdown. The fair value of a TBP pension determined in accordance with that standard would probably fall somewhere between the values determined in accordance with the two CV standards. Use of the CV standard, without adjustment for funded status, would be a reasonable and practical compromise in the family law context.

Pension division after relationship breakdown in Ontario is neither required nor the default mechanism for net family property equalization. Given the uncertainty regarding the eventual amount of pension payable from a TBP, the CIA recommends that consideration be given to giving – for TBPs and perhaps eventually for all defined benefit plans – the non-member spouse the option to become a limited member of the plan entitled to their own lifetime pension after relationship breakdown. This option is already available after relationship breakdown for pension plans registered in British Columbia, Alberta, Saskatchewan, Nova Scotia, Newfoundland and Labrador, and under the Canadian Pension Benefits Standards Act.

Finally, in order to be aligned with family law principles, the CIA recommends that the CV standard applicable to separation dates prior to the TBP conversion date should be the CV standard that was in effect on the separation date. This is not entirely clear from the proposed amendments.

#### **Multi-jurisdictional plans**

The proposed regulations stipulate that plans would only be allowed to provide target benefits if, at the end of at least one of the plan's last three fiscal years, no more than 10% of their membership is in a jurisdiction that does not allow reductions in benefits. This provision will be difficult to administer given that a plan's membership can be mobile, resulting in frequent changes in a plan's membership distribution. Therefore, a multi-jurisdictional plan's status may change frequently. The CIA believes that the current multi-jurisdictional agreement, to which Ontario is a signatory, addresses this issue, and there is no need to limit target benefits to plans with membership in other incompatible jurisdictions in the proposed regulations.

#### **Member communication and disclosure**

The proposed regulations require statements on death of a member, former member or retired member to include the estimated going concern funded ratio calculated as of the end of the period covered by the statement. This requirement introduces practical challenges that suggest the consideration of a suitable alternative. The end of the period covered by the statement in this situation would be the date of death. It would not be practical to calculate estimated going concern funded ratios for each date of death. Also, the statements will already be required to include the going concern funded ratio of the plan as of the valuation date of the last filed report. We suggest that the disclosure of the funded ratio at the date of the last filed report with appropriate caveats, if necessary.

#### **Plan conversion**

The regulations will require conversion notices to be sent to all members, employers, unions, and associations that represent members. We believe that the required conversion notices should be removed for plans designated as specified Ontario multi-employer pension plans (SOMEPPs). For SOMEPPs, the required conversion communications will likely be confusing for members, employers, unions, and associations that represent members because the plan is already operating as a TBP.

The CIA appreciates the opportunity to provide feedback on these issues, and we would welcome further discussion with you throughout this process.

If you have any questions, please contact Chris Fievoli, FCIA, Actuary, Communications and Public Affairs, at 613-236-8196 ext. 119 or [chris.fievoli@cia-ica.ca](mailto:chris.fievoli@cia-ica.ca).

Sincerely,

Conrad Ferguson, FCIA  
President, Canadian Institute of Actuaries



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