Defined Benefit Plans - Are they Sustainable?

Pensions…and YOU
Saskatchewan Federation of Labour
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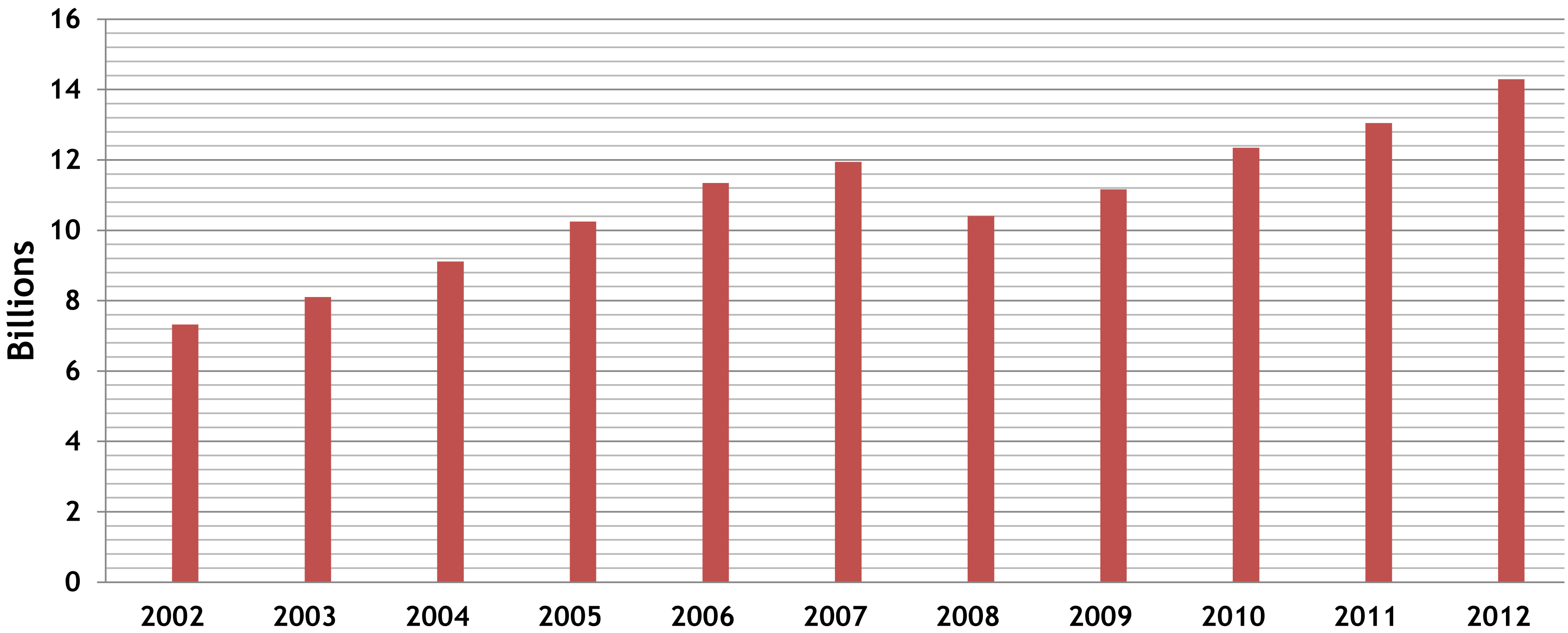
According to Mercer:

"The solvency health of Canadian pension plans continued to improve sharply in the fourth quarter of 2013 due to strong equity returns and rising long-term interest rates…….It's hard to overstate how good 2013 was for most defined benefit pension plans."

Market Value of all Defined Benefit Plans Registered with the Pensions Division



What are we seeing in Saskatchewan?

Although asset values are better, the solvency health of our plans is not as good as compared to Mercer’s data. This is due to:

- Growing maturity of plans
- Longer life expectancies
- Expensive benefits
- Asset/liability mismatch

Asset/liability mismatch

From 1980 – 1999: annual growth in a pension fund invested 50% in equity and 50% in fixed income outpaced the growth in liabilities by 0.7% on average.

From 2000 – 2012: annual growth in liabilities increased on average 4.0% greater than growth in pension funds.[1]

1 "Pension Reforms in Canada"

OBA Institute 2014

Randy Bauslaugh, Ian Edelist, Jana Steele

Solvency Ratio of Saskatchewan Plans

- Average solvency ratio of plans that filed a December 31, 2012 valuation:

- Public sector plans (12 filed): 69%
  - Range: 56% - 89%
- Private sector plans (16 filed): 78%
  - Range: 62% - 121%

Solvency Ratio of Our Plans

- Average solvency ratio for all plans, including valuations prior to December 31, 2012:

- Public sector plans (19 plans): 76%
  - Range: 56% - 100%
- Private sector plans (41 plans): 80%
  - Range: 62% - 121%

Solvency Ratio of Our Plans

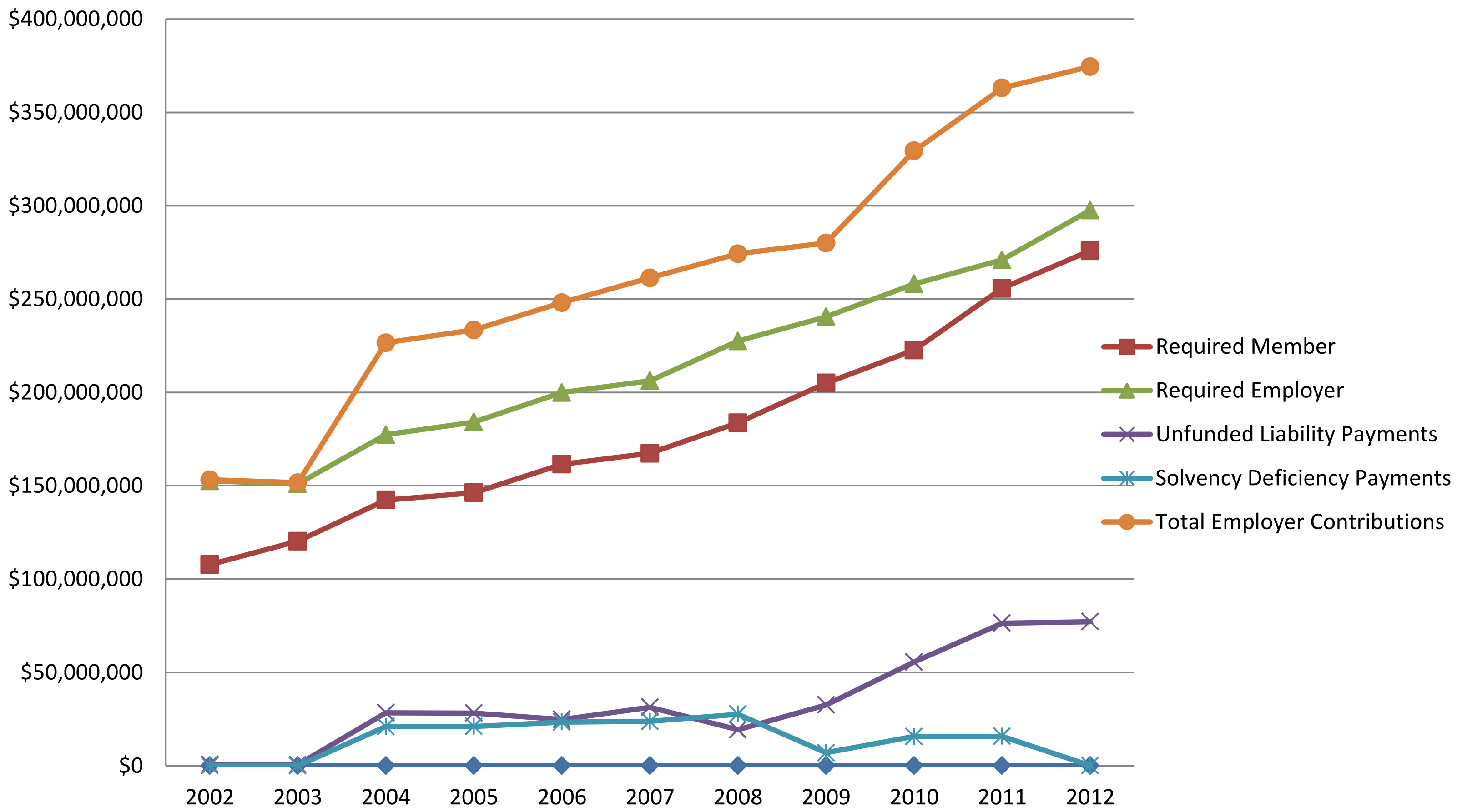
- There are 21 plans (1/3 of our plans) that must file a Dec 31, 2013 valuation. The long-term bond rate is lower now than it was when they last filed in 2010, so solvency ratios will not likely improve.

Going concern

- The average going concern funded ratio for public sector plans that filed a December 31, 2012 valuation: 87%

- The average going concern funded ratio for public sector plans, including those that did not file a December 31, 2012 valuation: 91%

Public Sector Contributions – 2002 to 2012



Public Sector Contribution Rates

Illustrative contribution rate for a medium-sized municipal pension plan (cost-shared):

December 31, 2012

Contribution rate = 36%

December 31, 2009

Contribution rate = 24%

Defined Benefit Plans
Are they Sustainable?

YES…….

…But changes to some plans are needed

- Changes to the benefit levels
- Changes to the structure

Are Changes to Legislation Required?

Yes…..

….But not for all plans

- In 2013, the government changed the funding rules for public sector plans
  - Eliminate solvency funding, 10 year going concern funding
- Plan specific rules
  - In conjunction with plan changes

Plan Specific Rules

FCAA would support legislative changes to allow more time to pay deficits if:

The Past

- Extended time applies only to past service liabilities.
- Part of a broader solution – future must change.
- High level of confidence that liability will not grow.

The Future

- Plan must be affordable going forward.
- Clear governance processes.
- Risk management.
- Confidence that future will be sustainable.
- Mechanism (other than increase contributions) for dealing with funding issues.
- Can’t favour interests of one group over another.

What is a Shared Risk Pension Plan?

The New Brunswick model:

- The government is setting the benefit structure, the cost sharing arrangements, and the required margins.

Saskatchewan prefers negotiated solutions.

Legislative Changes for Private Sector Multi-employer Plans

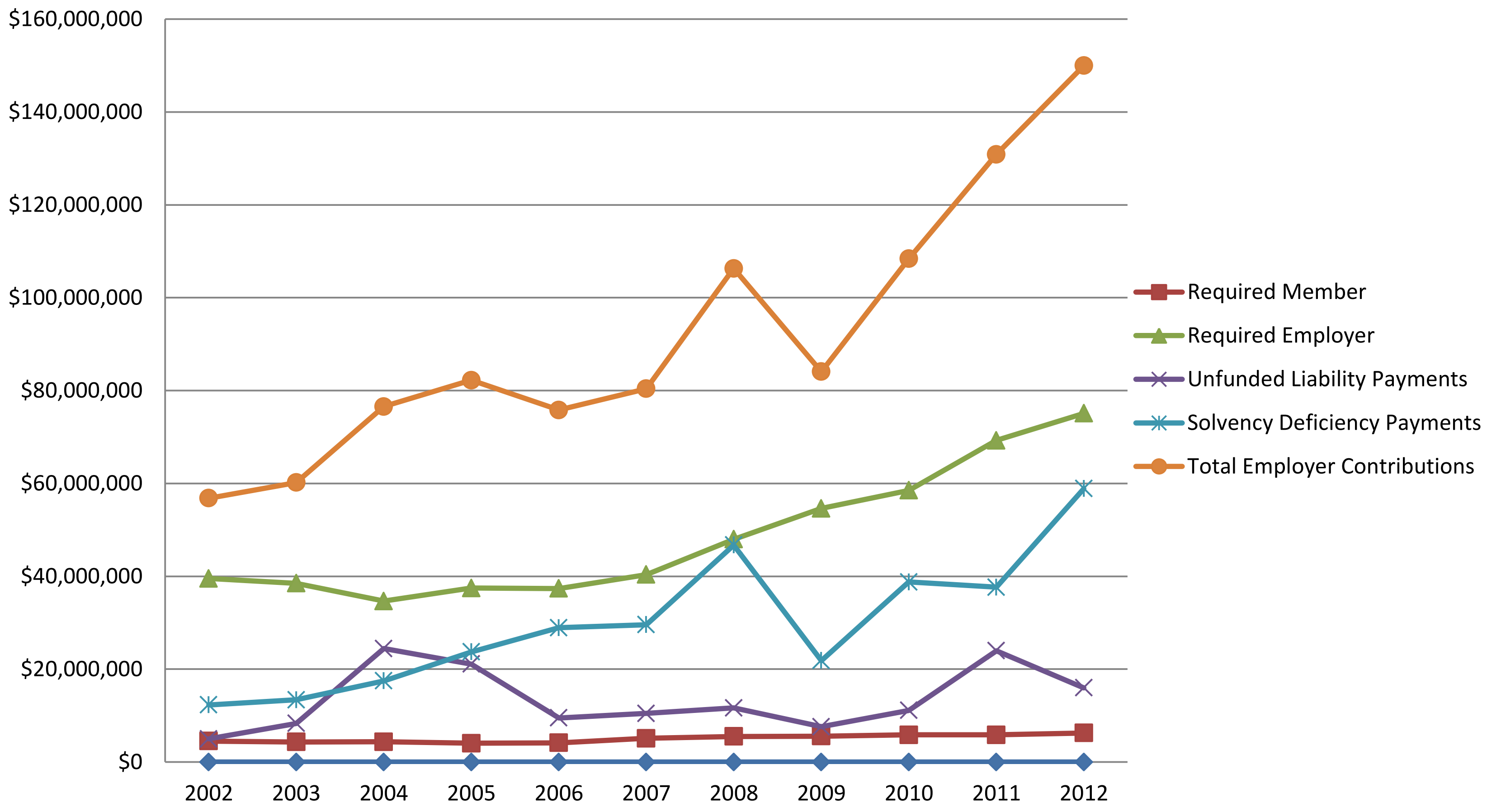
- Firstly, extend temporary solvency deficiency payment relief

- Then conduct a broader review of the rules

Single Employer Private Sector Plans

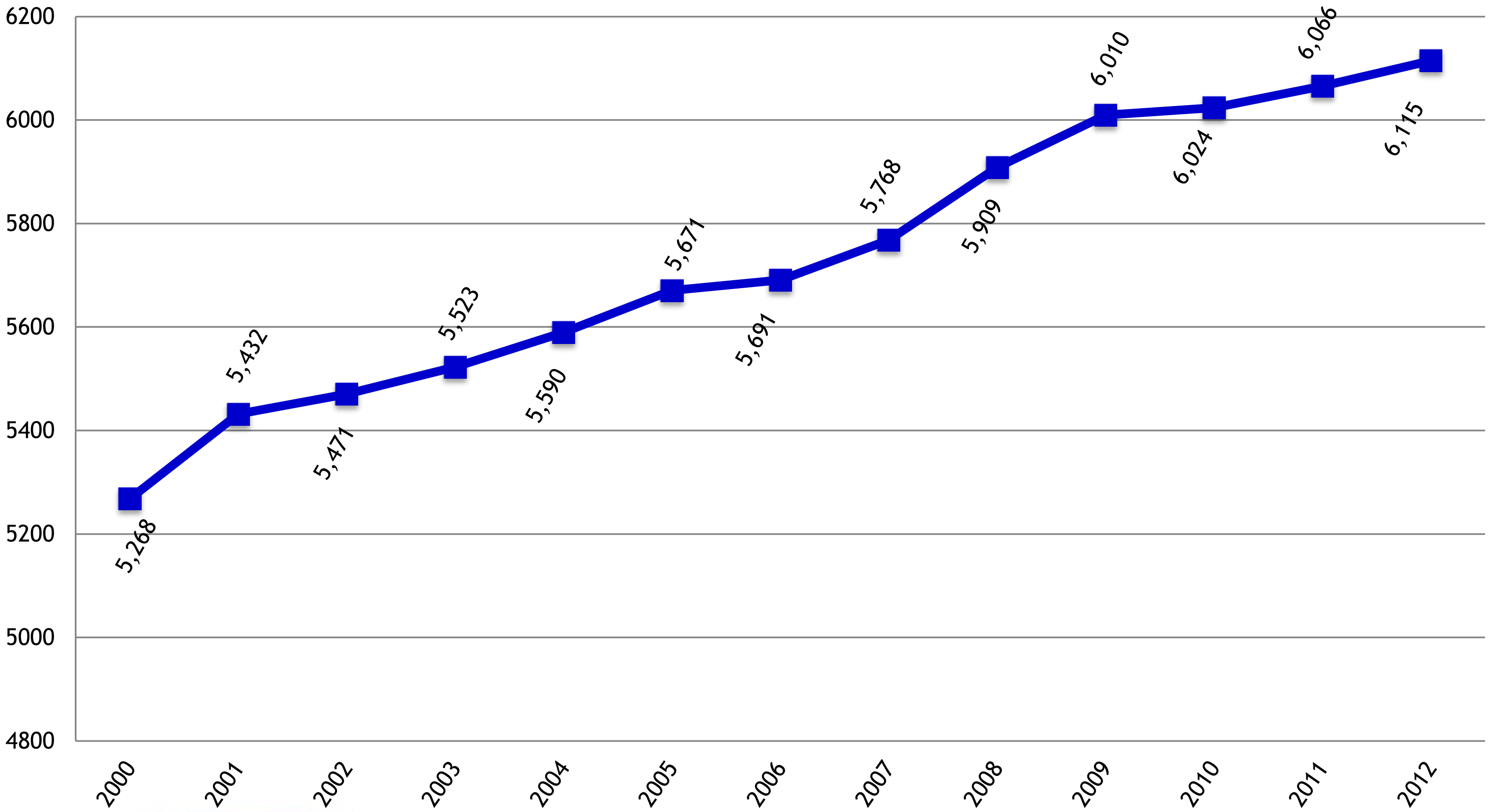
- These plans continue to improve benefits. Most plans are collectively bargained.
- Contributions are about 80% higher than they were 3 years ago
- The employers pay for most of the benefits.

Private Sector Contributions – 2002 to 2012

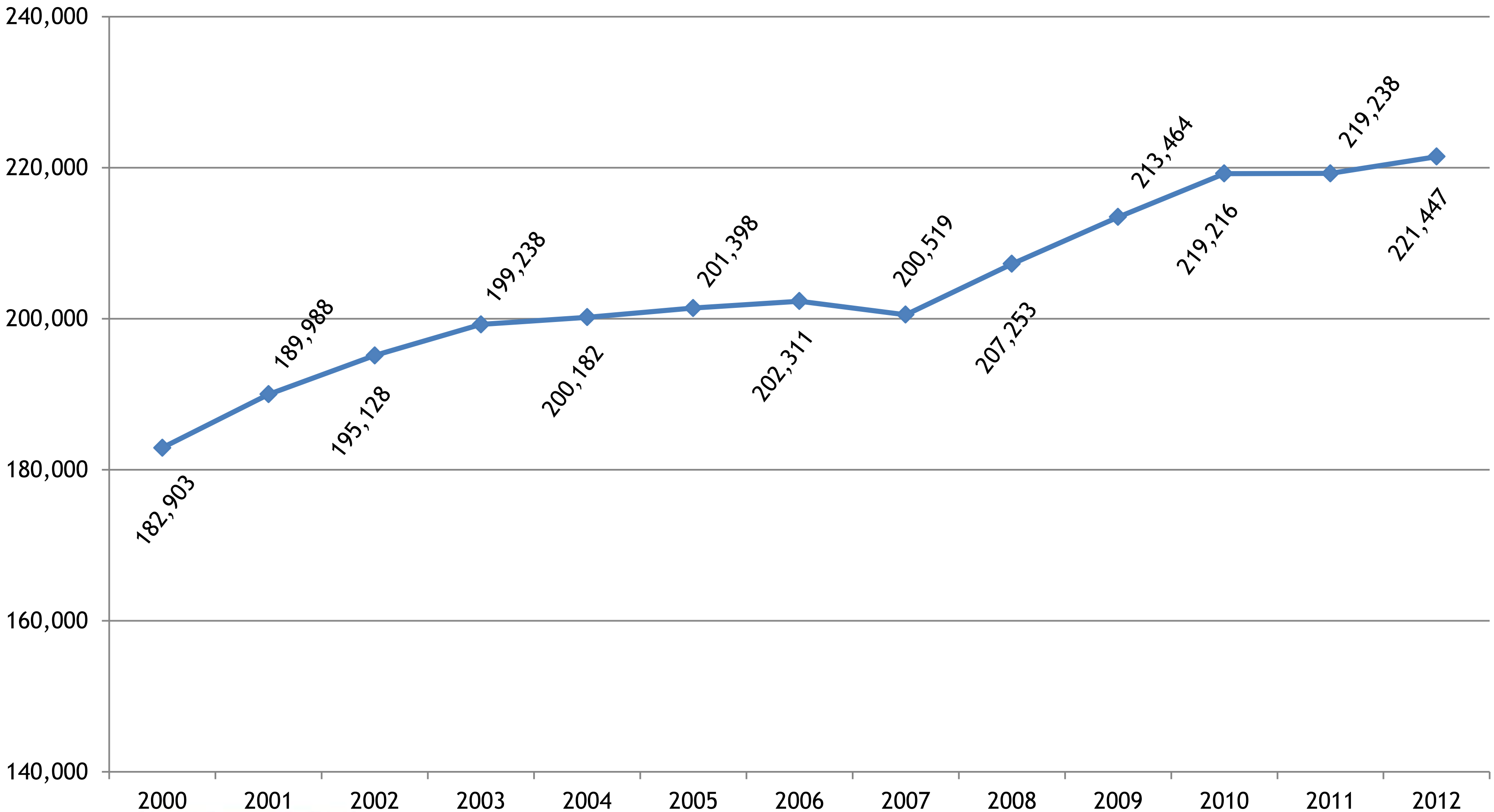


Canadian Comparison

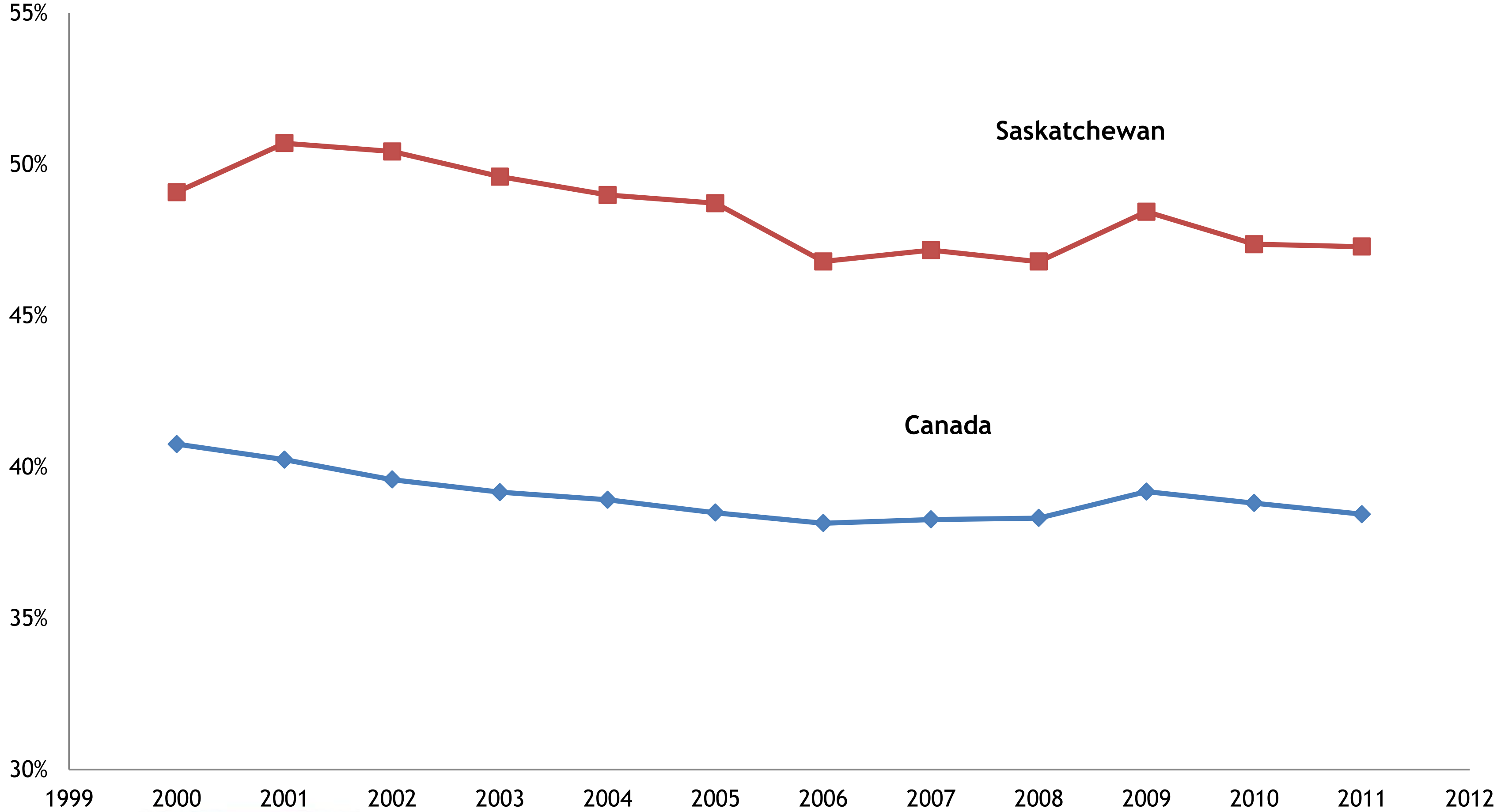
Plan Members in Canada (in 000's)



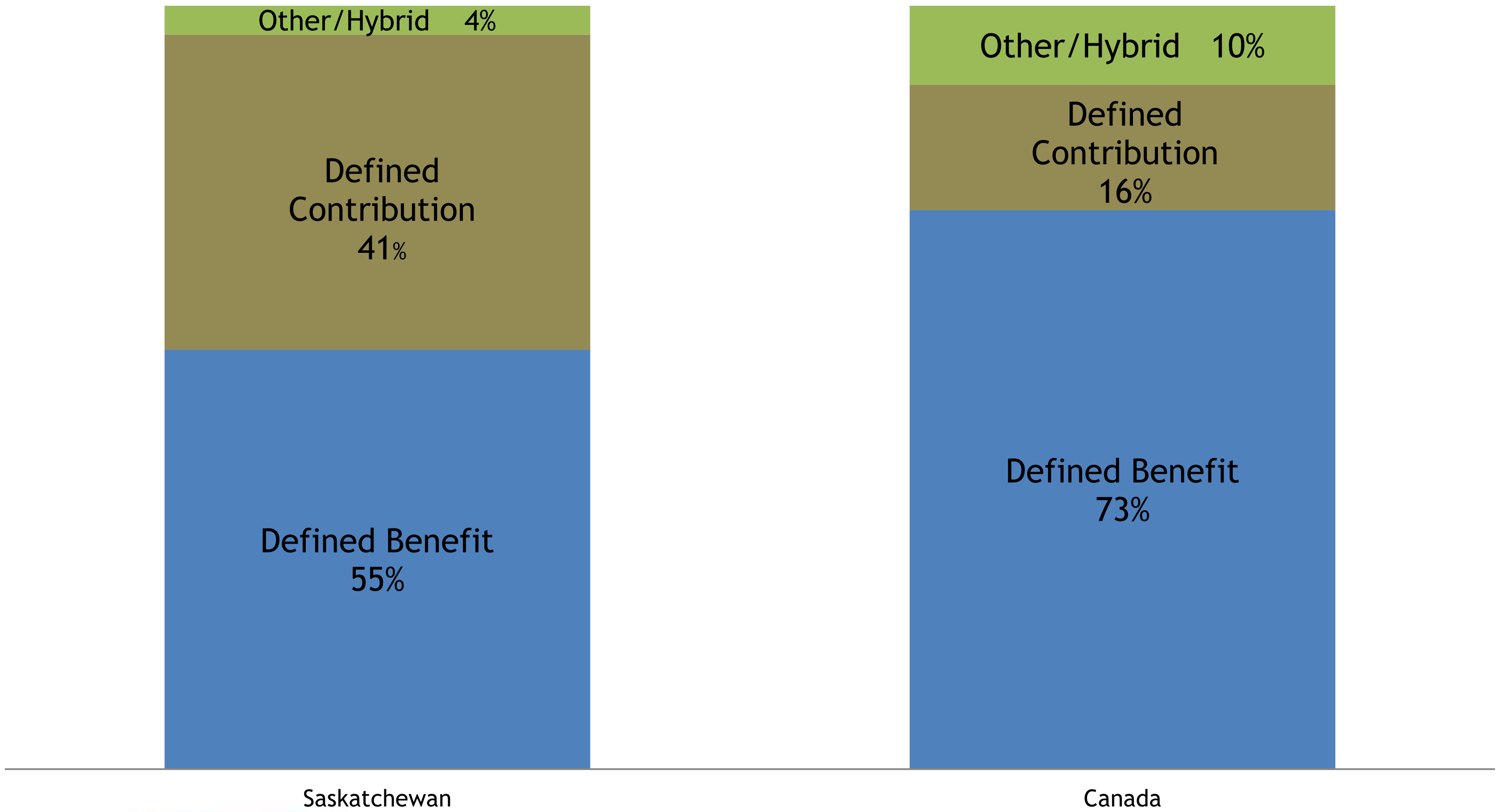
Plan Members in Saskatchewan



Coverage Rate (percentage of paid workers)



Home of Defined Contribution Plans



DC Plans

Of all plans that we regulate, 45% of assets are in DC plans.

DB vs. DC

Pension plans need to work better to meet the needs of all participants' interests:

DB

- Benefit - mitigation of plan member risk through pooling.
- Challenge - the cost of benefits has been under-estimated and the return on investments has been over-estimated.
- Solution - do a better job of forecasting, and have more flexibility in adjusting benefits to experience.

DC

- Benefit - precision between contributions and benefits, and fairness between plan members and generations of plan funders.
- Challenge - individual plan members bear the risk.
- Solution - ensure effective pooling approaches in investments and retirement products, and provide advice to plan members on how to manage risk.

PRPP

- Saskatchewan was the first province to pass legislation enabling PRPPs.
- A multilateral agreement (MLA) is being developed to determine the rules that will apply to plans that operate in more than one province.
- Once the MLA is complete, we will be closer to putting the program in place.

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