ONA
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May 4, 2018

Target Benefit Funding Framework
Pension Policy Branch, Ministry of Finance,
5th Floor, Frost Building South
7 Queen's Park Crescent
Toronto, ON M7A 1Y7

Dear Sirs,

Re: Proposed Funding Framework from Target Benefit Multi-Employer Pension Plans

The Ontario Nurses' Association (ONA) is the union representing 65,000 registered nurses and health-care professionals, as well as 16,000 nursing student affiliates, providing care in hospitals, long-term care facilities, public health, the community, clinics and industry.

ONA welcomes the opportunity to provide the Pension Policy Branch, Ministry of Finance, with recommendations from the perspective of our nurses primarily in the long-term care sector, who are members of the Nursing Homes and Related Industry Pension Plan (NHRIPP), a multi-employer pension.

ONA believes the proposed funding rules are a poorly thought out attempt to convert multi-employer pension plans ("MEPPs"), which are designed by pension professionals to provide a targeted level of benefits, to defined benefit plans, in which all benefits are guaranteed. The announced funding rules threaten the long-term viability of virtually every MEPP in Ontario, including those serving ONA members, and the retirement incomes of hundreds of thousands of Ontario workers.

During its consultations on the Ontario Retirement Pension Plan (ORPP), the province publically recognized that MEPPs are better retirement savings vehicles than are defined contribution plans, group RRSPs and pooled retirement pension plans. Undoubtedly, defined benefit plans are the best pension plans. However, such plans are not available to most Ontario workers. If Ontario proceeds with its flawed provision for adverse deviations (pfad) regime, it will make it even more difficult for working Ontarians to save effectively for their retirements.

The ONA's main difficulty with the proposed funding rules is that the amount of the required provision for adverse deviations, or pfad, is far too large. Every dollar required to be held as a reserve for a MEPP is one less dollar available to pay pensions. The proposed funding rules require MEPPs, in which benefit levels are targeted, to fund larger pfads than single employer plans, in which benefits are guaranteed. By doing so, the proposed funding rules favour benefit security over benefit adequacy to an inappropriate degree. The proposed rules will reduce the future pensions of current MEPP members to less than the pensions now paid to the pensioners of the MEPPs, in which ONA members now participate.

If Ontario insists on requiring MEPPs to fund a pfad, the Saskatchewan's pfad system should be its model. The maximum pfad required for a Saskatchewan target-benefit MEPP, which is fully invested in equities, is 10 per cent. Such a plan with a typical 60-per-cent allocation to equities and a 40-per-cent allocation to bonds has a pfad of 7.5 per cent. Ontario's proposed framework will require Ontario MEPPs with a similar asset mix to maintain pfads, which are almost twice that amount or greater. If the trustees of a Saskatchewan MEPP decide their plan requires more margin, they can fund additional margin. Unlike Ontario's proposed rules, the Saskatchewan model does not require all MEPPs to fund an excessive amount of pfad.

The proposed funding rules also assume that unions representing MEPP members will be able to negotiate the contribution increases needed to fully fund the soon-to-be-required pfad. That assumption reveals a fundamental misunderstanding of how most MEPPs are structured. The benefits provided by most MEPPs are linked to the contributions received. Ninety per cent, or more of the contributions now received by such MEPPs, are needed to pay the cost of new benefits and plan expenses. That means that for every new dollar received in additional contributions, less than 10 cents will be available to fund any pfad. Implementing the proposed funding rules will require benefit reductions by MEPPs, including those in which thousands of ONA members participate.

Even if the funding of a pfad did not require immediate benefit reductions, setting aside 14 per cent or more of contributions as pfad will leave MEPPs much more vulnerable to future investment market corrections.

Rather than requiring a MEPP to fund its pfad and any required special payments at the same time, any pfad regime should instead require MEPPs to fund only the greater of the two. For example, if a MEPP has to fund a 14-per-cent pfad but is not required to make any special payments, it must fund only its pfad. If that same MEPP has to make special payments equal to 10 per cent of expected contributions, it would need to make those special payments while funding a 4-per-cent pfad. If the required special payments exceed 14 per cent, only the special payments would need to be funded and the funding of the pfad would be suspended until the special payments are less than 14 per cent of expected contributions. Such a funding regime would leave MEPPs much better able to deal with future market corrections and other experience losses and much less likely to have to cut benefits.

Imposing funding requirements on MEPPs which essentially mirror those for defined benefit plans, fails to recognize the fundamental differences between a pension scheme in which benefits are guaranteed and one in which benefit levels have always been contingent on available funding. The proposed funding rules promote benefit security at the cost of benefit sufficiency to an inappropriate degree. They will leave millions of dollars unavailable to address a MEPP funding shortfall. MEPP members and pensioners will be much better served if these funds remain available to fund their retirements.

ONA recommends the Ministry of Finance abandon its proposed new funding rules for MEPPs. Rather, we recommend the Ministry work with the MEPP industry to develop a framework that will ensure the long-term viability of target benefit MEPPs, so that they can continue to provide meaningful pensions to the hundreds of thousands of Ontarians who participate in them.

Yours truly,

ONTARIO NURSES' ASSOCIATION

Vicki McKenna

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