



March 13, 2009

Diane Lafleur  
Financial Sector Policy Branch  
Department of Finance  
L'Esplanade Laurier  
20<sup>th</sup> floor, East Tower  
140 O'Connor Street  
Ottawa, ON K1A 0G5

Via email: [pensions@fin.gc.ca](mailto:pensions@fin.gc.ca)

Dear Ms. Lafleur,

**Re: Response to Finance Canada's Discussion Paper on Private Pensions**

On behalf of the Association for Financial Professionals (AFP) of Canada, I am pleased to write in response to the consultation paper regarding the framework for federally regulated defined benefit (DB) pension plans. The AFP of Canada is an advocate for financial professionals in Canada. Its mandate is to raise the stature and visibility of its members, who bring expertise from a range of industries, including financial services, manufacturing, communications, retail and natural resources.

The AFP of Canada believes that the government must act to reform the policy framework for DB pension plans. We commend the Minister of Finance's commitment to make permanent changes to that framework in 2009. We also encourage the federal government to continue to show leadership to its provincial counterparts in moving toward pension reform.

The changes that we endorse in this submission will ensure that plan sponsors are not financially destabilized by outdated and overly burdensome solvency funding rules. This package of recommendations is aimed at ensuring that plan members will benefit from stronger sponsors and enjoy increased transparency regarding the status of the plans.

Our members have been on the frontlines professionally, coping with the effects on businesses of the historic and dramatic decline of financial markets in 2008. Plan sponsors of federally regulated defined benefit pension plans are facing significant increases in their pension contribution obligations this year. We know that in recent years, too, there has been extreme volatility in plan contribution requirements. That volatility is indicative of larger systemic problems that must be addressed through changes to the regulatory framework.

The need for permanent changes is critical to the future of DB pension plans and for plan sponsors who face strenuous, and potentially untenable, contribution requirements.

The rules result in drains on free cash-flow for many capital-intensive companies, limiting the ability of those companies to invest in the Canadian economy and compete internationally, and creates the risk of "trapping capital" (when markets recover and a sponsor realizes a surplus, but is unable to withdraw that excess amount). The financial demands that result from these funding requirements unnecessarily weakens plan sponsor companies. We do not believe that such a scenario in is any stakeholder's interest, not sponsor, not members, not the broader Canadian public.

The government is seeking a balanced approach to the changes in the framework governing pension plans. It is our view that any new government policy direction addresses the concerns and interests of both plan sponsors and plan members.

We recommend to the government that it adopt the following balanced approach to changes:

- an extension of the amortization period for all current and future solvency deficits to 10 years, up from the current five years, and without conditions (such as requiring member consent or the posting of letters of credit)
- a solvency discount rate that is better aligned with the marketplace, e.g. based on a AA corporate bonds index
- full funding of any deficit upon plan termination (amortized over five years)
- filing of actuarial valuations on an annual basis
- greater pension plan financial disclosure to all plan members
- for sponsors of indexed plans, the exclusion of indexing from the calculation of solvency liabilities when determining solvency amortization payment requirements, and
- an increase in the current Canada Revenue Agency "excess surplus" limit on employer contributions above its current 10% surplus threshold to 25%, thereby giving employers the option to pre-fund cyclical market downturns.

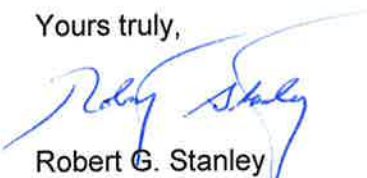
These recommendations should be taken as a package.

If the government chooses to implement these changes to the framework, it will be making great strides towards ensuring that plan sponsors are not subject to unnecessarily restrictive solvency funding rules that create unwarranted financial instability, and plan members will benefit from stronger sponsors and increased transparency regarding the status of the plans.

A financially strong sponsor is the best security for plan members and retirees. We also believe that implementing these changes will strengthen Canadian companies and make them more competitive globally.

The AFP of Canada appreciates the opportunity to provide our views to the Department of Finance on the future of the framework for pension plans under federal regulation.

Yours truly,



Robert G. Stanley  
Chairman and President, Association for Financial Professionals of Canada