
Target Benefit Developments What's New and What's Needed

OBA Pension and Benefit Hot Spots
October 8, 2019, Toronto, ON

Randy Bauslaugh
Toronto, Canada
416-601-7695



Target Benefit Plans What's New?

2019 Ontario Budget

Protecting What Matters Most

- ❖ Expanding the target benefit framework
 - ✓ Not-for-profit sector
 - ✓ Non-union sector
 - By not imposing discriminatory funding rules on plans for non-profit and non-union workplaces
- ❖ Expansion of pension coverage
 - “The introduction of this expanded framework paves the way for increased pension coverage as more Ontario workplaces will be able to provide employees with defined benefit-like pensions at more predictable cost for employers.”
- ❖ Reducing red tape in the pension sector
 - ?

Target Benefit Plans

What's Needed

1. Lose the fake history
2. Appropriate Legislation
3. Good Governance Principles
4. Effective Plan Communications
5. Appropriate Plan Design
6. Identify Mission –Critical Impacts

1. Lose the Fake History

Target benefit plans are not innovative or new

- Recognized legislatively in Ontario for more than 50 years
 - All MEPPS are target benefit plans
 - JSPPs are target benefit plans

- Contingent benefit plans are, and have been, the dominant form of defined benefit provision in the Province of Ontario – 69%

(see 2008 Expert Commission, p. 65)

2. Appropriate Legislation

1. Minimal prescriptions – fiduciary pollyfilla
2. Set funding thresholds for benefit cuts and improvements, e.g.:
 - Cuts required if funding below “X”
 - Improvements not permitted unless funding above “Y”
3. Modify reliance on representational governance
 - Representation of other stakeholders
 - Independent and expert
4. Funding/Sustainability testing
 - Solvency testing
 - Probabilistic testing

3. Good Governance Principles

1. Modify reliance on representational governance
 - Reduce inherent conflicts and constituent influences
2. Expand representation beyond employees and employers
 - Pensioners, deferred vested, survivors
3. Trustees self-appointing
 - Convert from sponsor role to fiduciary role
4. Make use of a skills matrix for recruitment and assessment
 - Identify critical competencies, e.g.:
 - Personal effectiveness skills
 - Specialized experience with pensions
 - Experience in finance, governance, law, public relations and human resources
 - Board/governance experience

4. Effective Plan Communications

1. Legislative prescriptions
 - Hard for members to understand
2. Fiduciary input
 - “Modify” legislative prescriptions
 - Focus on the goal – predictable lifetime income and the positive benefits of the conditional nature of the promise
 - Communicate the conditional nature of the benefit with a positive attitude, rather than an apologetic one
 - Repetition

5. Appropriate Plan Design

1. Scale (consolidation)
 - Diversity
2. Provide relevant benefits
 - For the workforce
3. Incorporate levers
 - *Ad hoc* levers
 - Ancillary benefits
4. Contribution corridors

6. Identify Mission Critical Impacts

1. Financial Impacts
 - Rate of return
 - Interest rates
 - Mortality
2. State of the Industry Impacts
 - Status and trends related to the nature, health, economic contribution, innovation, and outlook
3. Specific Material Risks
 - E.g., employer entry/withdrawal

Questions and Comments

VANCOUVER

Suite 2400, 745 Thurlow Street
Vancouver BC V6E 0C5
Tel: 604-643-7100
Fax: 604-643-7900
Toll-Free: 1-877-244-7711

CALGARY

Suite 4000, 421 7th Avenue SW
Calgary AB T2P 4K9
Tel: 403-260-3500
Fax: 403-260-3501
Toll-Free: 1-877-244-7711

TORONTO

Suite 5300, TD Bank Tower
Box 48, 66 Wellington Street West
Toronto ON M5K 1E6
Tel: 416-362-1812
Fax: 416-868-0673
Toll-Free: 1-877-244-7711

MONTRÉAL

Suite 2500,
1000 De La Gauchetière Street West
Montréal QC H3B 0A2
Tel: 514-397-4100
Fax: 514-875-6246
Toll-Free: 1-877-244-7711

QUÉBEC CITY

500, Grande Allée Est, 9e étage
Québec QC G1R 2J7
Tel: 418-521-3000
Fax: 418-521-3099
Toll-Free: 1-877-244-7711

NEW YORK, US

55 West 46th Street Suite 2804
NEW YORK NY 10036
UNITED STATES
Tel: 646-940-8970
Fax: 646-940-8972

LONDON, UK

125 Old Broad Street, 26th Floor
London EC2N 1AR
UNITED KINGDOM
Tel: +44 (0)20 7786 5700
Fax: +44 (0)20 7786 5702

Randy Bauslaugh
National Practice Leader
Pensions & Employee Benefits
McCarthy Tétrault LLP
Toronto, ON
rbauslaugh@mccarthy.ca
Tel: 416-601-7695

