Sun Life Financial

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Mark Schaan
Director General
Marketplace Framework Policy Branch
Innovation, Science, and Economic Development Canada
235 Queen Street, 10th Floor
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Sent via email: mark.schaan@canada.ca

Dear Mr. Schaan:

Re: Consultation Document – Enhancing Retirement Security for Canadians

We have reviewed the consultation paper **Enhancing Retirement Security for Canadians** (the "Paper") and thank the Government of Canada for the opportunity to participate.

Our comments on the Paper are provided in our capacity as a life and health insurance company active in the provision of group life annuities and longevity insurance to defined benefit (DB) pension plans. In 2018, Sun Life Financial was the largest provider of group annuities in Canada, assuming $1.7 billion of pension liabilities. We have been the largest group annuity provider for many years and as such, care deeply about the protection of members' benefits and the long-term sustainability of DB pension plans.

Our comments – overview

As a life insurance company, we have a deep understanding of the capital and risk management principles required to make and deliver on a pension promise. Members of DB pension plans count on their benefits as an important source of retirement income, and incorporate them into their financial and retirement planning. They have a reasonable expectation that sponsors will fund plans in a manner that will ensure benefit security.

We commend the Government of Canada for its actions to examine further measures that could be adopted to enhance retirement security for employees and retirees affected by employer insolvency.

Our comments on solvency reserve accounts (SRAs)

We support the proposal to establish SRAs that employers could withdraw from once pension deficits are eliminated. This measure would strike the right balance between providing plan members with benefit security and providing plan sponsors with financial flexibility.

Our comments on pension funding relief criteria

We believe that requiring plans to fund to 100% solvency is the best way to protect members' benefits and the long-term sustainability of DB pension plans.

We believe that the historical volatility in solvency funding ratios (and the resulting advocacy for solvency funding relief) is due to plan sponsors mismatching their assets with solvency liabilities. Softening solvency funding rules, as we have seen in Ontario and Quebec, and potentially in British Columbia, could lead to plan sponsors taking more risk by continuing to make calls on interest rates and equity markets, and potentially even considering re-risking their pension plans.

According to Mercer and Aon Hewitt, Canadian DB pension plans are better funded in 2018 than they have been in the past decade, with many plans having solvency ratios close to or above 100%. Given this improvement in solvency funding ratios, now would seem to be the time to encourage plan sponsors to lock in strong solvency funding ratios – as opposed to encouraging them to take additional risk that would compromise members' benefit security and the long-term sustainability of DB pension plans in the event of a market downturn. If plan sponsors continue to make the wrong calls, they will fall short of the required funding framework (regardless of how it is defined) and will once again approach governments across Canada for funding relief in the future.

The recent Sears insolvency highlights the risk of solvency underfunding; upon windup, the company had a $267-million funding shortfall, but it paid $1.5 billion in dividends and share buybacks since 2010. Pension plan funding is only needed when a pension plan ceases to be a going-concern (usually as a result of its plan sponsor becoming insolvent), but at that time, it is unlikely that the plan sponsor will be able to top up a solvency deficit. The result is a shortfall in assets when they are needed the most – leading to a reduction in plan members' promised benefits.

We support the option to provide employers with special pension funding relief, which we believe can protect pensioner and employee interests by improving the likelihood that an employer is able deliver promised benefits – while also continuing to promote economic stability, growth and international competitiveness.

However, while we acknowledge that benefit reductions may be unavoidable in complex cases, we believe that any new pension funding relief rules should require employers to agree to strong criteria or conditions with an aim to protect benefit security, to avoid additional risk for plan members in the event of insolvency.

Our comments on transfers to self-managed accounts

We do not support the option of allowing retirees of DB plans to transfer their reduced pension amount, as a lump sum, to a personally managed locked-in savings plan as an alternative to annuities. As noted in the consultation document, this measure could expose retirees to further risks, such as investment losses and the possibility of outliving their retirement savings, whereas annuities provide a guaranteed income that is secure from both market and longevity risks.

On a related note, some of our federal clients have expressed concern with one of the default provisions under the *Pension Benefits Standards Act*, which requires deferred members of DC plans to transfer their pension amount to deferred annuities. In addition to the annuity option, Canadians seeking more flexibility in their retirement planning would appreciate other options, including an ability to leave their pension funds in the plan.

We also believe Canadians should be able to acquire longevity protection through their RRIFs and TFSAs with insurance company-provided late-life deferred life annuity contracts. For example, such a contract could be purchased at age 65, with payout commencing at age 85 providing constant payouts until death. To minimize the tax deferral implications of this option, the purchase amount could be capped in relative and absolute terms.

Our comments – other

We were pleased to see the Government of Canada take great initiative in including language on annuity discharges in Bill C-27. We are strongly in favour of the administrator discharge for annuity buyouts because this will encourage plan sponsors to take positive risk management action, protected by the considerable financial strength of Canadian life insurance companies. We encourage the Government to move forward with this proposed measure, potentially as an addendum to the 2019 Budget Bill.

Conclusion

We commend the Government of Canada for examining this important topic and thank you for considering our comments.

We appreciated the opportunity to provide input at the roundtable consultation on December 6, 2018. We look forward to continuing to participate in the review process and we would be happy to share our experience and expertise where they may be helpful through a subsequent meeting.

Sincerely,

Brent Simmons

Brent Simmons
Senior Managing Director & Head
Defined Benefit Solutions