

Financing Problems of D B Pension Plans: Some Reflections

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Welcome to the New Millennium!

- **Blissful 1980s and 1990s vanish with declining stock prices and interest rates**
- **Regular surpluses disappear**
- **Percentage of DB plans in Ontario that are under-funded on a solvency basis:**
 - *2001: 58%*
 - *2002: 76%*
 - *2004: 83%*

Concerns

- **Increase in employer DB contributions:
\$6.4 B to \$18.5 B**
- **Conversion to DC accelerates**
- **Benefit security**
- **Impact on DC too:**
 - *Smaller asset accumulations*
 - *Higher annuity prices*

Are DB Plans on the Brink of Extinction?

- **A long road still to travel**
- **7,000 DB plans**
- **4.8 million members**
- **Holding up most strongly in: public sector, unionized private sector, executive plans**

DB Risk Dilemmas for All

**Minimum
Risk**

**Maximum
Risk**

Sponsor

*stability of
contributions*

lower contributions

Member

*more secure
benefits*

more benefits

Actual Appetite for Risk

- **Low Reserves**
 - *Contribution holidays*
 - *Benefit improvements*
 - *Policy of underfunding*
 - *ITA rules*
- **CG Discount Rules** (*Imply significant risk*)
- **High Equity Content**
- **Non-use of Insured Products**

Addressing Security of Benefit Issues

- **External to Plan Management:**
 - *PBGF*
 - *Regulatory rules*
 - *Bankruptcy (plan termination) rules*
- **Internal to Plan Management:**
 - *Sharing governance and financing responsibilities*
 - *Negotiating financing policy*

Regulatory Rules: Some Issues

- **Credit Worthiness of Plan Sponsor**
- **Role of Plan Member**
- **Funding Targets and Investment Policy**

Who Bears the DB Risk?

Upside:

- *Sponsors and members sharing risk*

Downside:

- *First order effect: sponsor*
- *Are there second order effects that shift the burden?*

Important question that needs more work

Summary Thoughts

- *Future of RPPs matter*
- *RPP coverage: little progress since early 1980s*
- *Shift to DC ongoing since mid 1980s*
- *Important influences:*
 - *Labour market changes*
 - *Regulatory and tax changes*
- *Recent financing problems:*
 - *Important in their own right*
 - *Accentuate other problems*
- *Crisis?*