Is regulation killing Canadian pensions? New School of Public Policy report

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Calgary – Canadians are not fond of hearing news about people losing their hard-earned pensions because their employer misused the money. The thought of some Working Joe or Jane being deprived of a pension, after a lifetime of working for a company, is naturally repugnant. That is why regulations around defined-benefit pension plans are designed to force employers to keep their pension funds sufficiently solvent. But there are many ways to achieve that end and, while the rules that Canadian companies must follow might serve to help preserve pension savings, they also cost far too much money compared to other policies that can do the same thing. In fact, better rules might even make it easier for companies to offer richer pension benefits to employees than they already do.

Today, The School of Public Policy with author Norma Nielson released a report that provides an overview of the issues surrounding solvency funding requirements and provides ways in which regulation can best protect plan participants (consumers) against losses driven by decisions that are not within their control. The report also aids plan sponsors in responsibly managing their pension plans, including preventing fraud and egregious mistakes.

According to the report, "In the days when fixed-income returns were lucrative, companies relied on pension fund investments to top up the funds, reducing sponsor contributions to unsafe levels. The solvency rules required plans that were reaping higher returns in the stock market to continue making some contributions to their plans. Back then, the gap between a going-concern valuation and a solvency valuation was small, and so the rules were not an unacceptable burden."

Regulators everywhere should be revisiting pension rules to: develop a method to rate the credit risk of a plan; to be less stringent and more realistic about plan liabilities (by allowing some types of liabilities to use a longer amortization period); but still restricting plan changes for underfunded plans. The result would not only reduce the cost and work of over-regulating well-funded, well-run plans, while freeing up cash. By reducing pressure on the cash flow for sponsors, and adding more flexibility, the policymakers will ultimately make defined-benefit pension plans more sustainable.

The paper can be downloaded at https://www.policyschool.ca/publications/

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