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Solvency relief: a loaded gun?

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The Ontario government recently announced its approved solvency relief measures for pension plan sponsors. While relaxing pension funding rules through deferred payments and revised/extended payment schedules is certainly welcome to sponsors in trouble, the risk is that this will only perpetuate the problem. The measures are in fact simplistic, and without prudent governance and proper advice, sponsors are potentially playing Russian roulette with a loaded gun.

Many advisors are pushing hard on the new measures, encouraging companies to “take full advantage” of the relaxations. In some cases I am sure that is the right thing to do. But in many more cases it will not be so clear cut and all advisors out there—actuaries or otherwise—need to be very careful in steering their clients in this direction. There are major traps that come with taking any of these measures, and we have seen precious little discussion around those issues.

First, the level of plan funding will be reduced as a consequence of applying the relief measures, and this will hold true for a few years to come. That is obvious; it is after all the whole point—how to put less money in the plan. But if an employer goes out of business in the interim, benefits paid on a plan windup will be reduced. Essentially we are encouraging employers to increase the debt they owe to the plan with little regard for the creditors—in this case the plan members.

Second, there’s the issue of payback. Surely we have learned from recent times that debt must ultimately be repaid and it is folly to assume that such repayment can always come from growth—isn’t that the US subprime issue all over again? All advisors need to be very clear with their clients that the relief measures will, in all likelihood, result in higher plan contributions at some future point. You can only push a snowball uphill for so long.

All involved parties have to act responsibly here in handling this loaded gun.

The company directors or officers must make the decision that best suits their circumstances, but in doing that they must not ignore the obligation they have to deliver on promised pension benefits. It is simply not appropriate to continually put the pension plan at the bottom of the list of priorities.

Bargaining units and pension plan members—particularly those still in employment linked to the plan in question—must understand that things will change. We still hear of unions refusing to put concessions on the table. How realistic is this when sometimes the only option, other than applying the relief measures, is a large increase in contributions? How does that increased cash flow get funded? Concessions have to be on the table, even if they come with cancellation triggers once the funding issue is resolved.

And as advisors, we must explain all the possible consequences of using these relief measures. It is not for us to judge if a company should reduce their payments or not. Our job is to give them all the options and make sure they understand all of the consequences for the parties involved, including the plan members.

It disappoints me greatly that we have gone for such a simplistic solution to the funding difficulties we face, and one that lacks any real implementation checks and balances (our March article in Benefits Canada set out how we would have approached the problem). At the very least I hope we can apply the new rules with care, wisdom and a balanced consideration for all stakeholders. We can not afford to fail again

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