

TEXTE ANGLAIS

May 7, 2008

Geoffrey Kelley, Chair
Committee on Social Affairs
National Assembly of Quebec
Att: Me Anik Laplante
Secrétariat des Commissions parlementaires
1035, rue des Parlementaires, 3^e étage
Québec, QC G1A 1A4

Subject: Private consultations on Bill 68, An Act to amend the Supplemental Pension Plans Act, the Act respecting the Québec Pension Plan and other legislative provisions

Dear Mr. Kelley:

I am writing on behalf of Watson Wyatt to provide our comments regarding certain aspects of Bill 68, *Loi modifiant la Loi sur les régimes complémentaires de retraite, la Loi sur le régime de rentes du Québec et d'autres dispositions législatives*. Watson Wyatt assists many plan sponsors with the planning and administration of their pension plans. We are one of the largest retirement, actuarial and human resources consulting firms in the world and have the honour of being the first in our field, tracing our roots back to 1878. We are the leading actuarial provider to some of the world's largest pension plans. In Canada, we serve clients through our offices in Montréal, Toronto, Kitchener-Waterloo, Calgary and Vancouver.

Our questions and comments relate to those aspects of Bill 68 that deal with registered pension plans governed by the *Supplemental Pension Plans Act*, R.S.Q., c. R-15.1 (SPPA), and are provided below.

Proposed Section 21.3

We request clarification regarding the wording and operation of the proposed new section 21.3 of the SPPA. We believe this new provision is designed to ensure that an amendment impairing the solvency of a pension can only be made if the surplus is first used to fund the cost of the amendment, but this is not clear on the face of the provision. As this would trigger the application of Chapter X.1 of the SPPA regarding the appropriation of surplus assets in a situation where the plan sponsor may have wished to otherwise fund the amendment, clarification of the operation and impact of the new section is required.



Proposed Section 67.4

Based on published materials, it is our understanding that the government's intention was to allow plan members who are on phased retirement to continue to accrue benefits during the phased retirement period. We read the proposed section 67.4 to provide that the plan member can continue to make contributions during the phased retirement period, and that the member's pension at retirement would be increased by these additional contributions in the same manner as is applicable on postponed retirement.

As currently written, this section does not appear to require that continued accrual of benefits during the phased retirement period be based on actual participation *per se* but rather on (at least) the accumulation of contributions that are then converted into a pension. This would mean no further accruals in the case of a non-contributory plan, and could still mean less than continued accrual of benefits based on actual participation in a contributory plan. As the whole purpose of the changes to the *Income Tax Act (Canada)* are to allow for receipt of a pension and continued accrual, we feel that this section does not fulfill its mandate as written.

We hope that additional clarification will be provided in the final version of the Bill.

Phased Retirement from Defined Contribution (DC) Pension Plans

Although we welcome the prospect of offering phased retirement benefits to members of DC pension plans, we have the following concerns regarding Bill 68's proposed DC phased retirements programs, found in the new section 67.5:

- We request confirmation of our understanding that DC plans would not self-annuitize, but would instead pay what amounts to variable pensions directly from the plan.
- We feel that issues may arise in hybrid plans, given that the phased retirement benefits in respect of the defined benefit (DB) portion can be paid earlier than those from the DC portion. This could cause synchronization and administrative issues for plans as well as problems of potential inequity between members of DC and DB components in the same plan.

We hope that additional clarification of or information regarding these issues will be provided, either through amendments to Bill 68 or in subsequent regulations.

Use of Letters of Credit (LOCs)

We applaud Bill 68's amendment to section 11 of the SPPA, which eliminates the current limits on the amount of LOCs a pension plan can obtain. However, we are unclear regarding the operation of the 15% cap on the value of the plan's liabilities on plan wind-up.

Where a plan is wound up with insufficient assets, we assume that the value of all LOCs necessary to fully fund the contributions owed to the plan fund, even those in excess of the 15% cap, will revert to the plan to satisfy its funding obligations. By contrast, where a plan is

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wound up in a surplus position, we assume that the value of the LOCs in excess of those necessary to fully fund the contributions owed to the plan fund will be cancelled as they are not required to satisfy the plan's funding obligations.

We request that additional information on the operation of the LOCs and the 15% cap in these situations be included in either amendments to Bill 68 or in subsequent regulations.

Should you have any questions regarding our preceding comments, or any other matter, please feel free to contact me at 514-985-3866 (roxanne.poulin@watsonwyatt.com). You may also wish to speak to Karen DeBortoli, Director of our Canadian Research and Innovation Centre, at 416-813-4444 (karen.debortoli@watsonwyatt.com).

Sincerely,

A handwritten signature in black ink, appearing to read 'Roxanne Poulin', enclosed within a large, loopy oval scribble.

Roxanne Poulin
Senior Consultant

c. c. Karen DeBortoli, Watson Wyatt Canada ULC