Benefits CANADA

A look at MEPPs in a shifting pension landscape

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As the move away from traditional defined benefit plans continues and intensifies, Canada's multi-employer pension plans are providing employers with another retirement savings option for their employees.

And despite facing a number of challenges, from industries in decline to legislative obstacles, MEPPs continue to attract plan sponsors from across the country.

Read: Canadian MEPPs facing challenges due to provincial funding requirements, plan growth

PfADs by the numbers

> **35%** — The highest percentage at which B.C.'s PfAD has been calculated, compared to a low of **20%**
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> **3** — The number of years B.C.'s target-benefit MEPPs were exempted from the PfAD, set to end in December 2022
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> **0%** — The current PfAD rate in Newfoundland and Labrador

For roughly 30 years, Ontario-based wine producer Andrew Peller Ltd. maintained a patchwork of closed DB plans, defined contribution plans and group registered retirement savings plans.

"Our investment platform had 12 accounts," says Cindy Palmer, director of human resources information systems and HR automation. "Our pension committee would meet several times a year and monitor the investments. We also spent a lot of time educating our employees on risk tolerance and how to choose accounts. As the years went on, we also offered options like target-date and target-risk funds. We found that no matter how much time or money we spent, there was still a big disconnect among employees in understanding investments."

In 2021, Andrew Peller joined the Ideal Canadian Pension Plan, a multi-employer collective DC plan, with an eye toward simplifying its retirement savings offering. The organization matches employee contributions up to six per cent.

Read: FSRA advising DB MEPPs on governance, risk-management practices

"It translated into bigger payouts for employees, compared to what private sector retirement plans could offer," says Palmer. "We did a great job negotiating over the years with our previous provider and we had very competitive fees, but the fees we're getting now are even better. That's money that goes back to the plan members. As an employer, it was about the lower costs and reducing our fiduciary risk, as well as the outsourced administration services. We can spend our time on other value-added things now."

The portability of the ICPP also addresses decumulation issues. "Several years ago, we started to grapple with the concept of decumulation," she says. "An employee would finish with us and they'd be on their own. Now they have an option; they're not forced to keep their money in the ICPP, but if they join another employer, they don't have to move their assets out of the plan."

The impact of industry

> **FSRA benchmarking Ontario MEPPs**
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> The Financial Services Regulatory Authority of Ontario is in the middle of a three-year pilot benchmarking exercise for the province's DB MEPPs.
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> Last March, the FSRA produced a series of leading practices for the sector, covering areas such as plan member communication, governance and risk management. Paul Martiniello, director of relationship management and special pension services at the FSRA, says the province's MEPPs will then benchmark themselves against these practices in a self-guided assessment. The FSRA expects to complete this exercise by spring 2024.

> “Many MEPPs see the benchmarking as an important piece of education. The leading practices paper has become part of trustee education sessions and third-party administrators are driving deep-dive governance reviews of all the MEPPs they administer. . . . There’s stability [in the sector] and the beauty of MEPPs is that they aren’t subject to the same risks as a corporately-sponsored plan.
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> “There’s a lot of positive aspects to this type of structure and it will be interesting to see which way they evolve.”

The future of industry-based MEPPs is largely determined by the growth — or lack thereof — in various sectors and the consolidation of pension plans across the wider labour movement, says Derrick Johnstone, chief executive officer for the British Columbia-based IWA–Forest Industry Pension Plan & LTD Plans.

“MEPPs have traditionally come from the industrial side of the pension world, but . . . industrial plans are shrinking for the most part. . . . A lot of plans can’t survive on their own anymore. A valuation costs thousands of dollars, whether you’re a $5-million plan or a $5-billion plan. Coupled with the administration and legal issues [of maintaining a plan], we’re going to see a lot more [consolidation].”

But while MEPPs are shrinking in some sectors, they’re growing in others. In January, the Anglican Church of Canada’s roughly 1,000 DC plan members joined the General Synod pension plan. The transition came in response to a legislative change announced by the Ontario government in April 2019, which updated the target-benefit plan framework to include MEPPs with participating employers outside of the collective bargaining environment.

Read: An update on MEPPS, JSPPs and PRPPs

And in March, MD Financial Management Inc. and Scotiabank announced the development of a new MEPP designed specifically for Canadian incorporated physicians. The Medicus Pension Plan will provide physicians with predictable lifetime retirement income based on personal earnings and years of service with their medical corporation, while pooling investments, longevity and economic risks among all plan participants. The plan is expected to launch within a year, subject to applicable regulatory approvals.

Across Canada, target-benefit MEPPs are subject to a range of funding frameworks. Many provinces have eliminated solvency requirements in favour of a provision for adverse deviation calculation, but the latter approach can be challenging for MEPPs, says Domenic Barbiero, a principal and consulting actuary at Eckler Ltd.

“Newfoundland and Labrador recently moved to zero PfAD, but in some provinces, it’s up to 40 per cent. That’s a big problem with these funding frameworks — there’s such a wide range of PfAD requirements. We know some of the jurisdictions with a higher PfAD, such as Alberta and British Columbia, are reviewing their structure, so hopefully we’ll see some changes that bring a little more consistency to the rules across Canada.”

Read: Newfoundland and Labrador granting MEPPs permanent solvency funding exemption

While solvency funding was becoming difficult for many of B.C.’s MEPPs, the province’s PfAD requirement — which was enacted in 2015 and has fluctuated from 20 to 35 per cent of members’ contributions — has proven too prescriptive, says Johnstone, noting the province’s PfAD review is

expected to be made public later this year. In late 2020, B.C. temporarily suspended the application of the PfAD to the province's target-benefit plans for a three-year period, following any actuarial valuation filed from Dec. 31, 2019 to Dec. 30, 2022.

"We had to get rid of funding for solvency — plans were going to collapse because they couldn't fund it. But as it turned out, [the PfAD] is incredibly volatile because of its link to bond rates and, in terms of absolute values, it's seen by almost everyone as being too high. . . . Asking a plan to hold 35 per cent of assets just in case — you can't manage a plan that way. You can't tell members, 'We've got [$1.5 billion of] your money just sitting there and we can't use it.'

"No one knows what the sweet spot is — the risk tolerance for each plan is different. No trustee wants to tell their members that benefits are going to be cut, especially if it's because they can't meet the 35 per cent PfAD threshold."

Dean Newell, vice-president of Actuarial Solutions Inc., says Ontario is also reviewing its solvency exemption rules for MEPPs. "Maybe there needs to be different rules [around how to address a deficit]. Is it through increasing contributions or by potentially cutting benefits? The MEPPs are a different breed in that the benefits can be cut; they operate differently from a traditional DB plan and therefore the rules ought to be different for them."

Other challenges

> **Key takeaways**
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> • While MEPPs are shrinking in some industries, they're expanding in others.
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> • Funding frameworks for MEPPs need to account for each plan's individual circumstances instead of taking a one-size-fits-all approach.
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> • The pandemic's impact on MEPPs varies between industries and is largely related to how many hours employees are working.

The 2021 federal budget introduced changes to the Income Tax Act to prevent working retirees and members over the age of 71 from contributing to the DB provision of a specified multi-employer pension plan. Barbiero says the change is problematic for SMEPPs. "In the past, if a member was working, because contributions are required according to the collective agreement, they still needed to be made to the plan, even if the member isn't earning benefits. Now, the changes in the regulation put the plan in a revocable position if contributions are made to DB provisions and a member is receiving a pension from the plan."

Since these plans deal at an arm's length from employers, the legislation creates administrative complexities, he adds. "The plans are having to implement systems to be able to track [who is in receipt of a pension] and make sure they're not accepting contributions that put [the plan] in a revocable position. There isn't a one-size-fits-all solution — it's going to be a solution that's right for each plan and its individual circumstances."

In addition, Barbiero notes legislation drafted for single-employer plans doesn't always work well for MEPPs. "The funding for MEPPs is fixed — the amount is based on a collective agreement or participation agreement and that's the amount that's there to fund the plan. When you introduce legislation like PfAD requirements, you reduce the amount of money that can be used to provide benefits."

The pandemic's impact

While the coronavirus pandemic led to the insolvency of many organizations that participated in MEPPs, the closures have somewhat stabilized, says Mitch Frazer, a partner and chair of the pensions and employment practice at Torys LLP.

"There was a lot of insolvency work a year ago when there was more uncertainty, but things have settled down. The recoveries that went out took place quickly, when those companies realized they weren't going to survive."

Among the businesses that have survived, many likely turned to alternate sources of capital, he says. "The strange thing about the pandemic was that the financial services industries did well and there's more capital to go into these companies. In terms of MEPPs, the companies we saw go under a year ago aren't going under, so there's stability there."

Read: DB regulations a bad fit for target-benefit plans, MEPPs: report

And while Ontario's MEPPs have generally fared well, reduced hours of operation in sectors like hospitality could impact funding levels, says Newell. "The one thing unique about MEPPs is there's more of an emphasis on what's being accrued, including the hours and the workforce. Some industries have done well without any slowdown at all, while the hospitality sectors would be most impacted.

"A potential concern for some multi-employer plans is that the hours may be lower than expected, so the amount of money flowing into these plans and the benefits that have accrued are lower than over the last couple of years."

Blake Wolfe is the managing editor of *Benefits Canada*.

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