



Thank you for joining us – the  
webinar will start shortly

## Bill C-228

*Canada's pension super-priority bill: Implications and potential risk management strategies for DB plan sponsors*

Wednesday May 31<sup>st</sup>, 2023

9am (PT) / 12pm (ET)



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# Our expert panel



**Michael Reid**  
Head of Pensions – North America,  
Club Vita



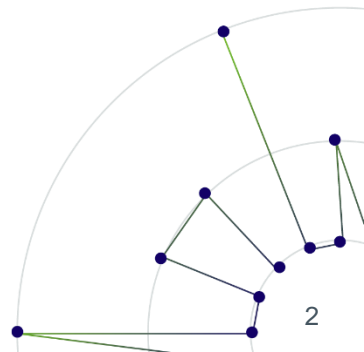
**Susan Nickerson**  
Partner,  
McCarthy Tétrault LLP



**Ryan Kastner**  
Chief Business Development Officer,  
Brookfield Annuity Company

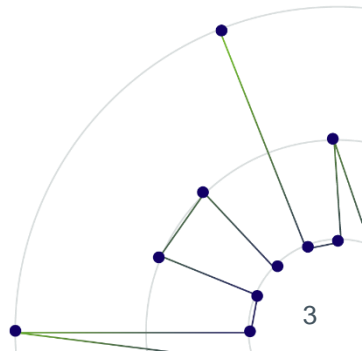


**Alexandra Sonnenwirth**  
Client delivery Director  
Club Vita



# Agenda

- 1 Bill C-228: Implications for pension plan sponsors and lenders
- 2 Impact of Bill C-228 on the pension risk transfer market
- 3 Important considerations when preparing for pension risk transfer
- 4 Q&A



# Bill C-228: Implications for Pension Plan Sponsors and Lenders

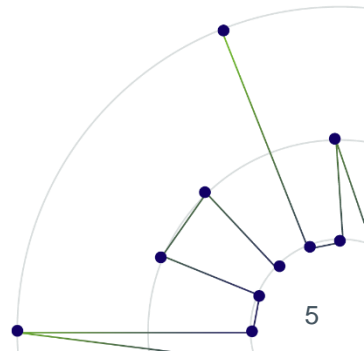
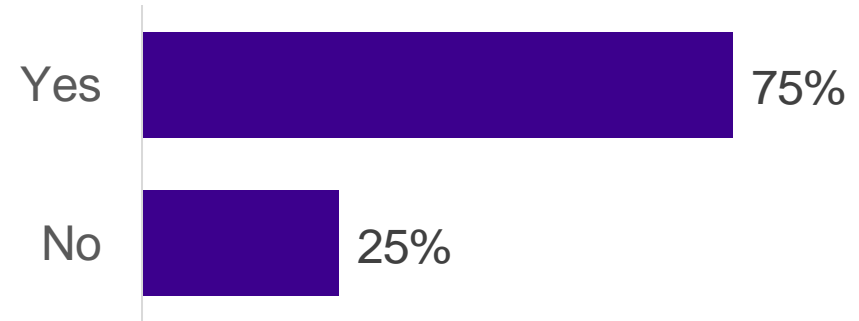
Susan Nickerson, Partner

# Poll



Do you view Bill C-228 as being a major concern for DB plan sponsors?

Poll results



# Current Pension Protections under the BIA and the CCAA

## Current Super-Priority Pension Protections:

1. Amounts deducted from an employee's remuneration for payment to the pension plan
2. Unpaid current service ("normal costs") contributions by the employer

## Existing legislation protects such amounts by:

- mandating that no CCAA plan of arrangement or BIA proposal can be approved unless:
    - such amounts are to be paid, and
    - the Court is satisfied that employer can and will make them

(**"Plan/Proposal Requirements"**)
  - granting security for such amounts over all assets of the debtor
- (**"Legislated Security Provisions"**)

## New Expanded Protections under Bill C 228

### Amends Plan/Proposal Requirements and Legislated Security Provisions:

- Now also provides priority protection to the following:
  - An amount equal to the sum of all special payments, determined in accordance with s. 9 of the PBSA, required to liquidate an unfunded liability or a solvency deficiency; and
  - Any amount required to liquidate any other unfunded liability or solvency deficiency of the pension fund
  - All as determined on the day on which the insolvency proceeding commenced
- Represent a significant expansion in priority
- Introduces element of risk and uncertainty with respect to priority amounts
- Forces lenders to companies with DB plans to stand behind pension liabilities in priority
  - Amounts will be unknowable and likely material

# New Expanded Protections under Bill C 228

## Also Amends *Pension Benefits Standards Act, 1985*

- Requires extra reporting on pension deficits
  - Superintendent of Financial Institutions to report to Minister of Finance at end of each fiscal year
    - The operation of the Pension Protections Act during the year; and
    - Measures taken or directed to deal with pension plans not meeting funding requirements under the PBSA
  
- Will not come into force for four years – April 27, 2027



# New Expanded Protections under Bill C 228

## Implications for Pension Plan Sponsors/Employers

- May trigger negative and unintended consequences
  - Increased cost of borrowing
  - Inability to borrow
  - Pension funding deficits may be included as an event of default in lending agreements
  - Pressure to increase valuation frequency and keep plan fully funded
  - Pressure to terminate DB pension plan or transfer DB liabilities via annuity purchase
  - Forced insolvency by lenders

# New Expanded Protections under Bill C 228

## Implications for Pension Plan Sponsors/Employers

- If sponsors choose to terminate DB pension plans, timing may be an issue
  - Employee notice considerations
  - Union approvals, if necessary
  - Timeframe to complete regulatory steps to wind up a pension plan
  - Annuity purchase timing

# New Expanded Protections under Bill C 228

## Implications for Pension Plan Sponsors/Employers

- What should DB plan sponsors do now to mitigate risk:
  - Review funding, investment and risk management strategies
  - If purchasing an annuity, ensure plan texts and investment policies permit and prepare data
  - Determine all approvals required if looking to implement a conversion or windup

# New Expanded Protections under Bill C 228

## Implications for Lenders

- Key concerns:
  - Loans more challenging and increased risk of not obtaining full recovery against insolvent debtors who sponsor DB plans
  - Inability to quantify risk
  - May cause delays in recovery
  - Litigation risk increases due to drafting/ambiguity of provisions of the PPA

# New Expanded Protections under Bill C 228

## MEPPs and JSPPs

- Legislators have indicated that multi-employer plans fall outside the scope of the PPA
  - the intention is not to create new liabilities, but rather deal with any defined benefit pension liabilities that employers are legally responsible for
- Unlikely a court would apply bankruptcy and insolvency statutes to alter the funding obligations of these plans set under pension legislation

# Impact of Bill C-228 on the pension risk transfer market

BROOKFIELD ANNUITY COMPANY

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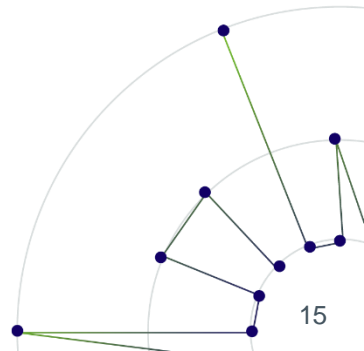


# Poll

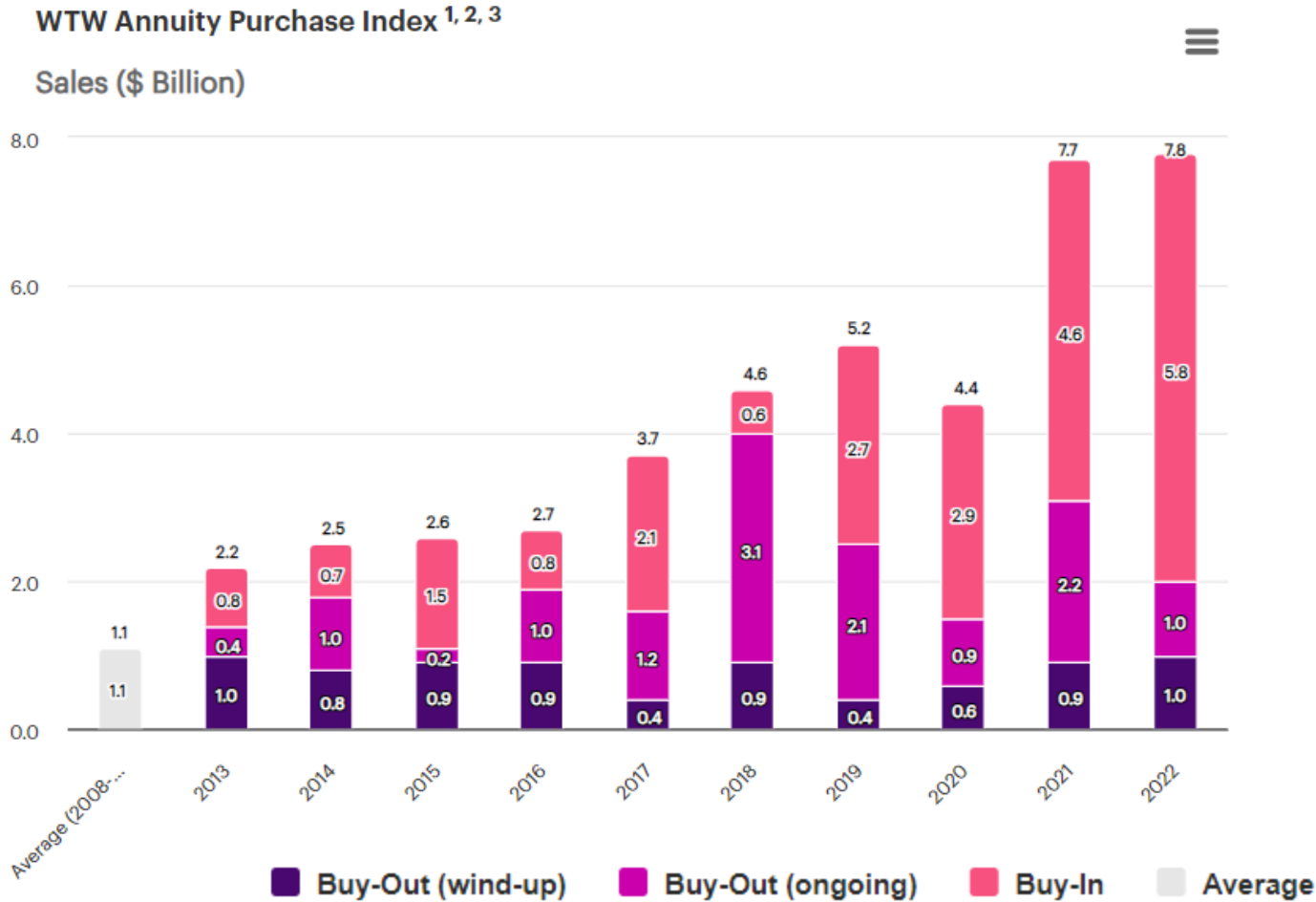


Do you anticipate a heightened demand for pension risk transfer solutions as a result of Bill C-228?

Poll results



# The market for annuities in Canada continues to grow



## Key Observations

- Four insurers recorded a volume of sales greater than \$1 billion in 2022, including two insurers with sales greater than \$2 billion.
- The second and third quarter were the busiest with \$2.8 and \$3.6 billion of group annuities sales completed, respectively.
- 10 transactions north of \$300M were completed.
- Largest transaction during 2022 was Stelco with \$1.3B of buy-in annuities, also representing the largest transfer with a single insurer (~\$1.2B with Brookfield) and second largest single day transaction after GM transaction announced in 2021.
- CPI linked annuities represented approximately \$1 billion of market volume.

1. For 2008 to 2012, the breakdown of sales between buy-in and buy-out for terminated plans and buy-out for ongoing plans is not available.

2. Excludes longevity insurance agreements.

3. Sources of data: LIMRA, Assumption Life, BMO Financial Group, Brookfield Annuity, The Canada Life Assurance Company, Co-operators Life Insurance Company, Desjardins Financial Security, iA Financial Group, RBC Insurance and Sun Life Financial.



# Why do plan sponsors purchase annuities?

- **REGULATORY REASONS**

- Required as part of the wind-up process
- In certain other instances, an annuity purchase may be required by jurisdictional regulations

- **RISK MANAGEMENT REASONS**

- Avoid risk of a deterioration in current funded position
- Desire to reduce volatility in the plan
- Discharge of liability
- Offload administrative responsibilities related to the pension plan

# Why do plan sponsors purchase annuities?

- **FINANCIAL REASONS**

- Reduce balance sheet liability
- Plan sponsor believes that pricing may be favourable
- Plan sponsor is looking to secure a certain economic impact in a given time period

- **OPERATIONAL REASONS**

- Upon Bill C-228 receiving Royal Assent, plus a transition period of 4 years, unfunded plan liabilities will receive super-priority on the plan sponsor's bankruptcy or insolvency
- Cost of borrowing likely to increase materially
- Annuities can be purchased to satisfy pension plan liabilities and remove the super-priority

## Why now?

Be proactive

*Might lenders begin reflecting higher borrowing costs prior to the Bill C-228's effective date (Royal Assent plus 4 years)?*

Transact on your terms

*What happens if pricing or economic conditions are not as expected?*

Beat the rush

*Will there be excessive demand as the effective date approaches?*

# The importance of non-pricing data in an annuity transaction

- Insurers use supporting data to refine their view of a particular individual / group's longevity:
  - socio-demographic information
  - individual job titles
  - type of work
  - mortality experience data
  - salary at retirement
  - related lives
  
- **HELP INSURERS CORRECTLY ASSESS MORTALITY**
  - The longevity assumption plays a major role in the ultimate cost of annuities
  - By providing the desired supporting data, plan sponsors can directly impact the pricing they receive
  
- **ALLOW INSURERS TO REDUCE THEIR MARGINS**
  - Can result in a lower premium, even if data indicates higher than expected life expectancy

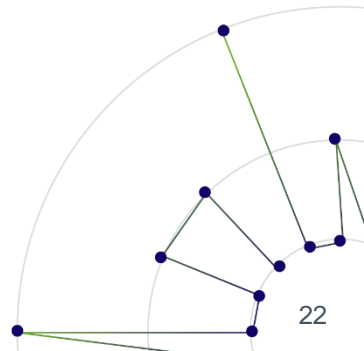
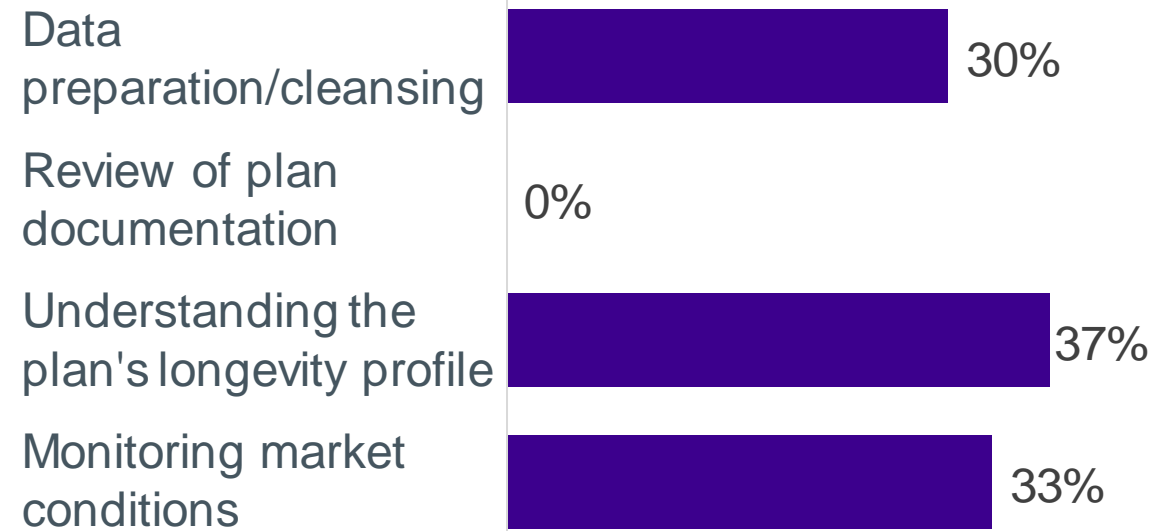
# Important considerations when preparing for pension risk transfer

# Poll



Which step has the biggest impact on the annuity premium?

## Poll results



# Data preparation is key to understanding your plan's longevity profile



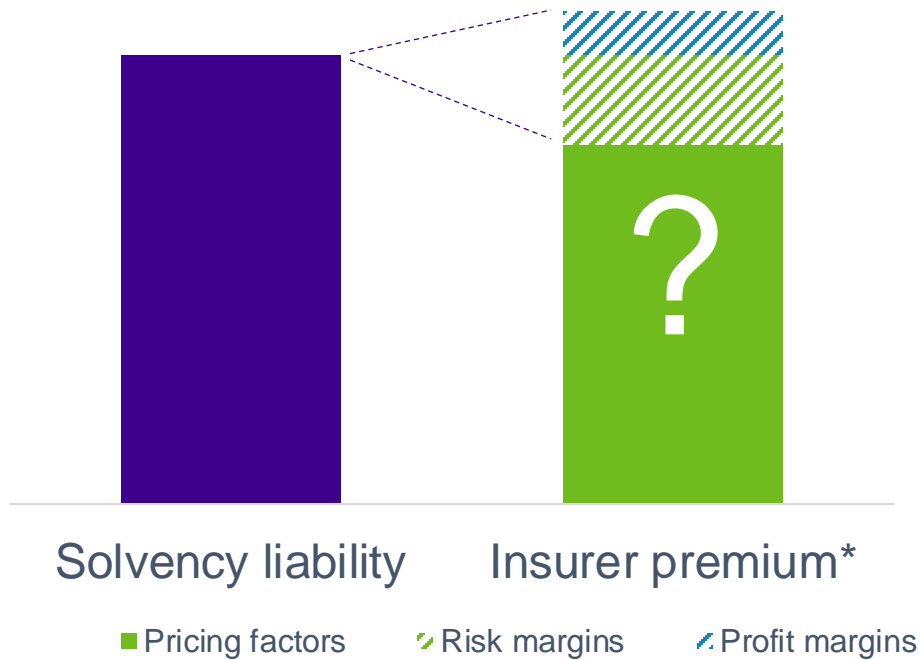
Increase insurer confidence in the data and in analyses



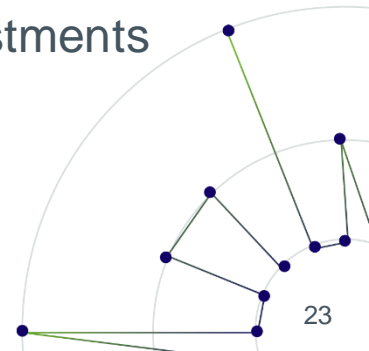
Reduce insurer margins



Avoid large premium adjustments



\*Chart is not at scale and for illustrative purposes only.



# Different approaches

**“Top Down”  
traditional approach**

**“Bottom Up”  
insurer approach**



Collect large amounts of data from similar pension plans

Average out experience and apply to plan

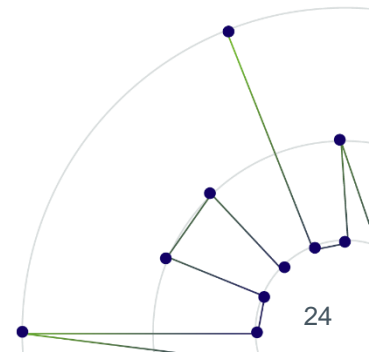


Plan assumption

Combine assumptions for the individuals within plan



Calculate longevity for different individuals based on their characteristics



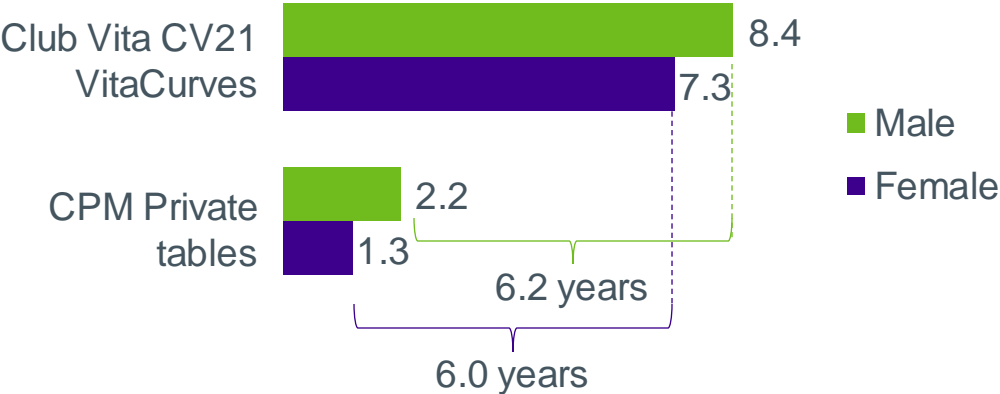


# Insurers don't use standard mortality tables – they fail to capture the reality of longevity risk

## Drivers of variations in longevity

The Canadian Institute of Actuaries' CPM mortality tables focus only on gender, sector and pension size, which result in very blunt measures of longevity.

Life expectancy range comparison



Lifestyle  
(Postal code)



Affluence  
(Pension/salary amount)



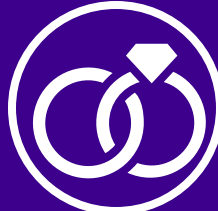
Gender  
(Male/female)



Occupation  
(Blue/white collar)



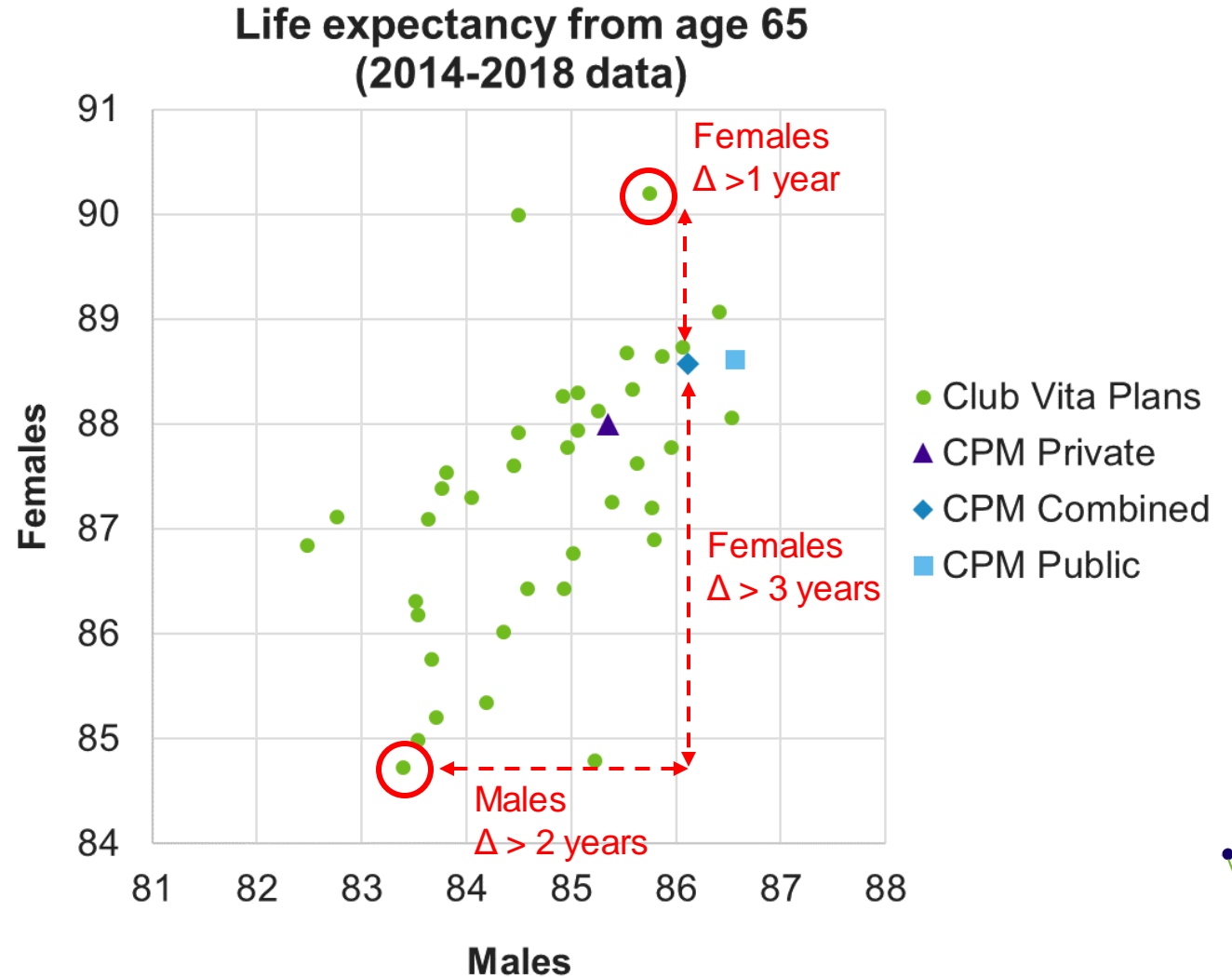
Retirement health  
(Disabled vs. normal retirement)



Marital status  
(Pension form)

# Understanding your group's longevity will strengthen your hand when negotiating pricing with insurers

Understanding your plan's historical experience and how much weight (credibility) to give to that experience hones pricing assumptions.



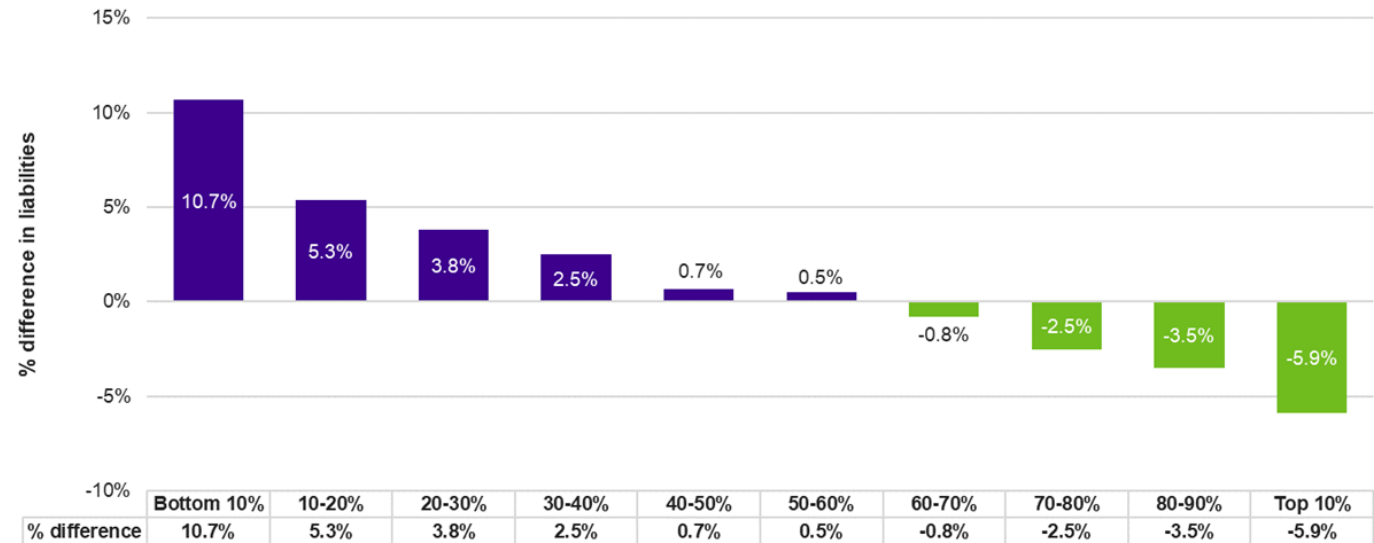
Note: Chart shows period crude life expectancy and smaller plans were excluded due to lesser credibility.

# Determining mortality using a multivariate model will provide additional insights when structuring a PRT transaction

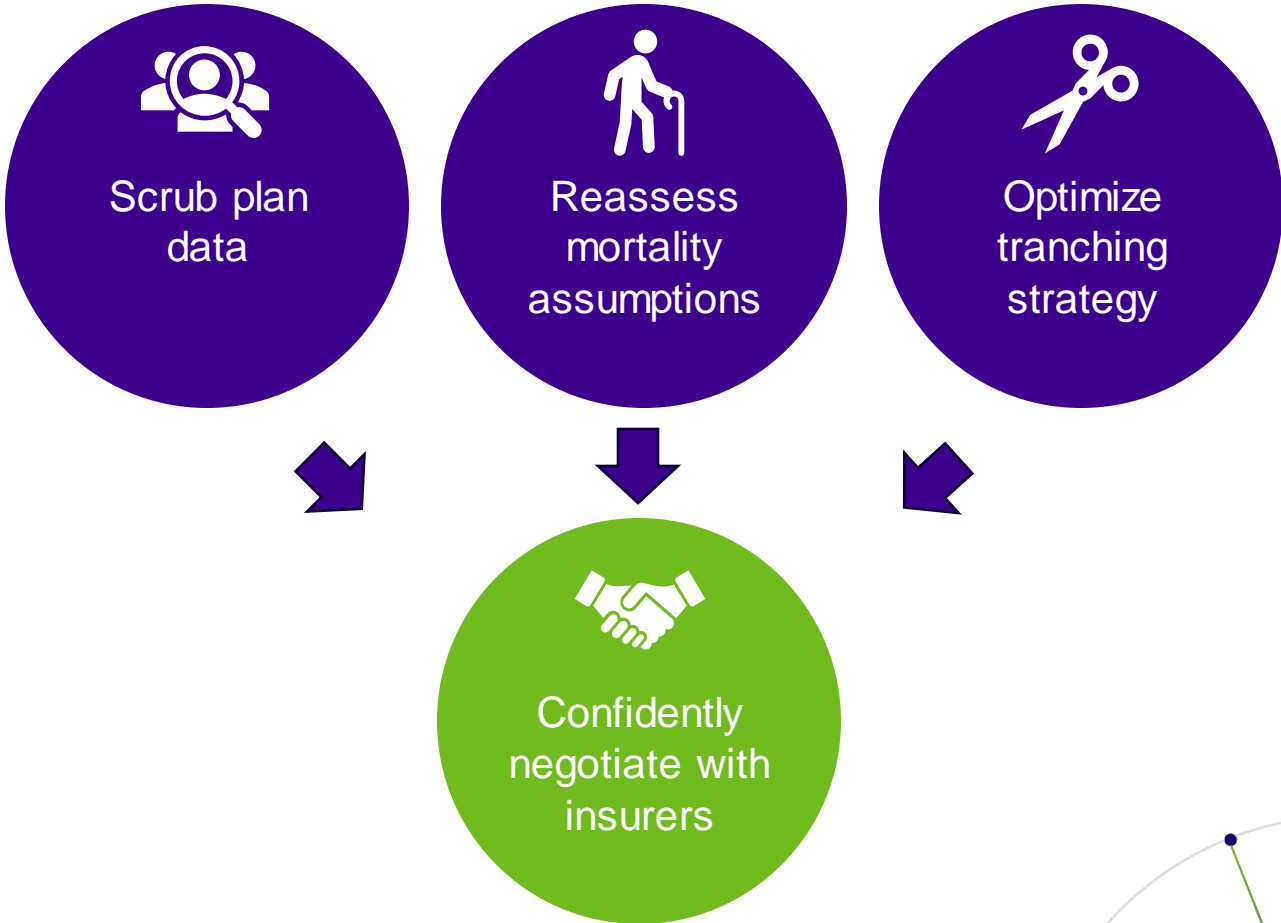
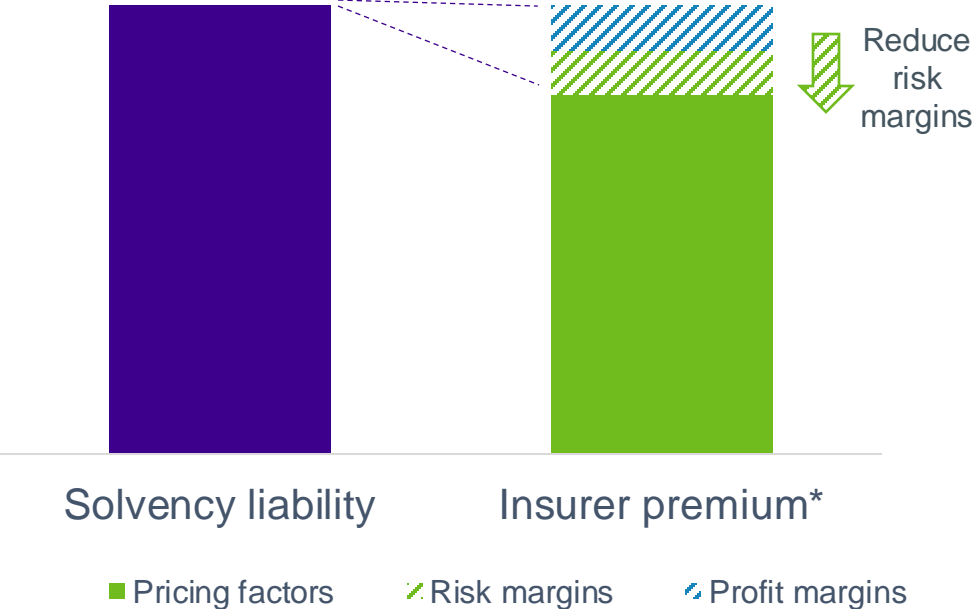
Allows plan sponsors to identify where each insurer is most competitive and take an informed view of the most optimal way of tranching a transaction.



Misestimation of liabilities from using blunt longevity assumptions



# Clean data and a robust mortality model allows plan sponsors to negotiate confidently with insurers and secure optimal pricing



Q&A



# Thank you

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