

C.D. Howe Paper: Target Benefit Plans In Canada – An Innovation Worth Expanding



Jana Steele recently co-authored the C.D. Howe Institute paper “Target Benefit Plans in Canada – An Innovation Worth Expanding” with Mel Bartlett and Angela Mazerolle.

The paper reviews the challenges facing defined benefit (DB) and defined contribution (DC) pension plans, and argues for the need to move beyond the DB versus DC debate towards “a middle-ground option that incorporates some of the positive attributes of both designs.”

Target-benefit plans (TBPs) can deliver the cost predictability of DC plans combined with a defined-benefit-type pension to retirees, with predictable contribution levels, and enable pooling of longevity and investment risks.

The paper discusses New Brunswick shared risk pension plans and considers lessons that can be applied to the design of similar TBP legislation in other Canadian jurisdictions.

Currently, the pension standards legislation in most Canadian jurisdictions do not accommodate single-employer TBPs. In particular, pension legislation generally prohibits reduction of accrued benefits outside of the multi-employer unionized environment – this would have to change, as a key element of TBPs is their ability to let benefits vary as a function of the funding status of the plan. In addition, federal tax rules would have to be amended and accounting guidance would have to be provided in order to facilitate the development of TBPs.

The paper concludes by noting that governments should be encouraged to make the necessary legislative amendments in order “to move outside the pure DB versus DC debate and permit other design options.”

You can also watch Jana interview with BNN, where she discusses the advantages of TBPs.

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