

Most Defined Benefit pension plans are still reeling from last year's market collapse and many face steep solvency shortfalls. The good news is that the federal government and a number of provincial jurisdictions have introduced solvency relief measures. The challenge, however, is that those measures are often tied to strict disclosure requirements and, in several cases, require member consent.

Before electing a solvency relief option, plan sponsors need to know what's required to meet disclosure requirements. More than that, however, they need to have a communications strategy in place to ensure messages are delivered in an effective (and positive) manner to avoid a crisis in confidence.

The existence of solvency shortfalls has left many sponsors wedged between a rock and a hard place. Under normal funding rules, plans with a solvency shortfall must take steps to eliminate that shortfall within a designated time frame. Typically, that means increasing contributions or making special payments (or, in the case of some multi-employer plans, reducing benefits). Unfortunately, the reality is that many plan sponsors (and members) simply can't afford to dig deeper into their pockets to cover

still have to provide members and former members with an annual progress report until the solvency deficiency is eliminated.

Keep in mind that, depending on the jurisdiction, the regulations are very specific about:

- ◆ what has to be disclosed
- ◆ how it has to be disclosed
- ◆ when it has to be disclosed

Again, to use Ontario as an example, a notice advising members that the plan sponsor intends to defer the start of any new special payments must be sent to members and former members within 60 days of when special payments would otherwise begin. Furthermore, that notice needs to include information such as:

- ◆ the valuation date of the solvency relief report
- ◆ a description of the option allowing the sponsor to defer payments
- ◆ an explanation of how benefit security could be affected

Plotting Your Strategy

Before you decide on a particular solvency relief option, make sure you've considered the communication challenges that go along with that option. To



COMMUNICATIONS

By: Ted Thaler

Solvency Relief Reality Check

this unexpected and badly timed expenditure.

In response, the federal government and a number of provincial governments have stepped in to introduce a range of solvency relief measures.

Typically, these measures are designed to balance the need to ease solvency funding requirements for plan sponsors with the need to protect the pension benefits of employees and retirees.

While solvency relief measures give plan sponsors options for managing deficiencies, these options often come with strict and detailed disclosure requirements. And, depending on the option and the jurisdiction, member consent may also be required. Of course, as with most things pension in this country, the solvency relief measures vary by jurisdiction, as do the disclosure and consent requirements.

Devil In The Details

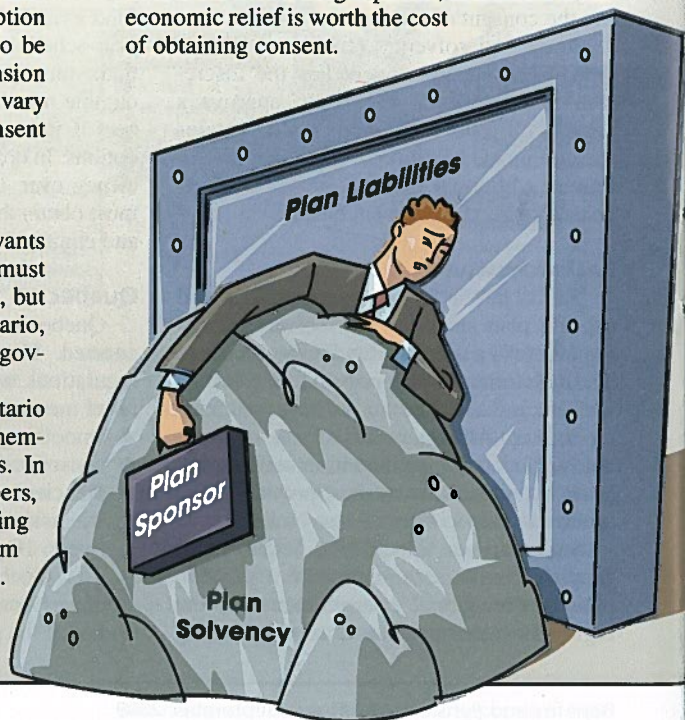
For example, in B.C., a plan sponsor who wants to extend the solvency amortization period must provide members with details of the extension, but does not need to obtain member consent. In Ontario, however, consent is required, except for jointly governed plans.

To get that consent, a plan sponsor in Ontario must provide an information statement to all members, former members, and bargaining agents. In addition, all bargaining agents, former members, and members not represented by a bargaining agent must receive a Notice of Objection form and be given a minimum of 45 days to respond.

Even if the plan administrator is successful in getting consent, the work isn't done. They

that end, you should:

- ◆ Familiarize yourself with the regulations. Confirm exactly what you need to disclose, how you need to disclose it, and when you need to disclose it.
- ◆ Determine if consent is required. If consent is required, do the math. Depending on the size of your plan, the cost of obtaining consent (even implied consent) can be significant. Given that it's only new solvency deficiencies that can be amortized over a longer period, determine if the economic relief is worth the cost of obtaining consent.



◆ Know your audience. When you start communicating solvency deficiencies, you're opening a can of worms. A solvency deficiency doesn't necessarily mean a pension plan is in financial trouble. However, in an era of corporate bankruptcies and pension plan wind-ups, the spectre of a solvency deficiency will – for many members – be cause for alarm.

Disclosure Versus Education

There is no question that you need to meet disclosure requirements around solvency. However, depending on your needs and objectives, disclosure may not be enough.

If you want members to understand the issues at hand, continue to feel secure about their pension, and have confidence in those calling the shots, you need to make the leap from disclosure to communication.

Done well, effective communication of solvency issues can actually serve as a catalyst for improved member understanding and appreciation – and raise the bar on member engagement. That said, shifting from disclosure to communication means taking the time to educate your members.

If your pension plan slips into a solvency shortfall, here are some communication tips to help ensure your members get the information they need to understand what's going on.

◆ Be upfront about it. For many members,

their pension is the foundation of their financial future. They have a right to know what's going on – be it good news or bad. Burying bad news will only create mistrust and heighten insecurity. And once you lose the trust and confidence of your members, it can take a long time to get it back.

◆ Clarify it. There's a difference between a solvency shortfall and a going concern shortfall. (A solvency shortfall is based on the assumption the plan will be wound up as of a specific date. A going concern shortfall is based on the assumption the plan will continue to operate indefinitely.) Make certain your members understand the difference and why it's important – particularly if your plan has a solvency shortfall, but not a going concern shortfall. Let members know that DB pension plans are required (by law) to fund on a solvency basis, but point out that pension plans are designed to operate indefinitely. After all, someone starting off in the plan today, may still be collecting a pension 30, 40, or even 50 years from now.

◆ Put it into context. Context is crucial. Somehow there is comfort in knowing that others are in the same boat or that you've survived similar rough seas before. For example, paying a buck a litre for gas doesn't seem so bad when

you know our friends in Europe are paying \$1.50 or more. Likewise, members of a DB pension plan are more likely to accept news of a solvency deficiency if they know that most other DB pension plans are in the same predicament.

◆ Explain it. If you have a solvency shortfall, there's a reason. Give that reason. Explain how you ended up with the shortfall – and what you are doing to eliminate it. In the end, members may not like what they hear, but they'll be more likely to support your solvency relief measures. In addition, members will feel more confident about the future if they can see that you are closely monitoring the situation and have a clear-cut strategy for eliminating the shortfall.

Member Understanding

Solvency relief measures may ease the financial pressure, but strict disclosure requirements can increase the pressure on the governance side of the equation. That said, there is an opportunity for plan sponsors to enhance member understanding and appreciation – if they are willing to shift gears from disclosure to education. ■

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