

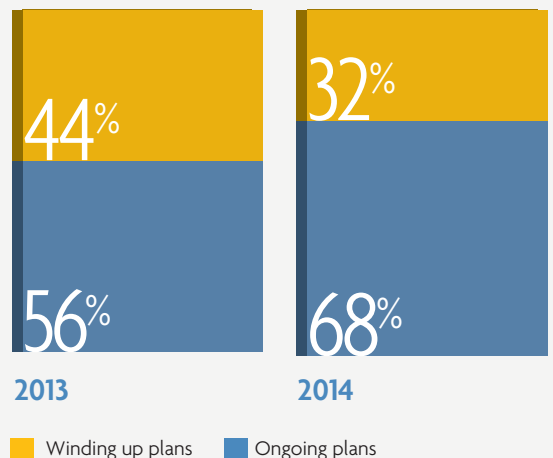
Quebec provides fuel for pension de-risking

Quebec recently released Bill 57, with changes affecting private sector defined benefit pension plans to take effect January 1, 2016. We applaud Quebec for taking actions that will encourage better pension risk management, and highlight two key provisions that may be of interest to plan sponsors.

Annuity buy-outs from ongoing pension plans will result in full liability settlement

Annuity buy-outs are a powerful risk management tool for ongoing pension plans. Leveraging the exceptional protection offered by Canadian insurers, annuities can help ensure plan sustainability and enhance member benefit security. By following British Columbia in allowing a full liability settlement, Quebec is removing a key barrier to pension de-risking. Many plans have been waiting for this change so we expect to see demand for annuities increase as a result.

Ongoing plans are buying more annuities



Source: Towers Watson Group Annuity Market Pulse

New stabilization provision may encourage liability driven investing

Quebec is introducing a stabilization provision as part of its new funding rules. The amount of the stabilization provision will be based on a plan's asset mix. Final rules are not yet known, but we expect liability matching assets will attract a lower required provision. In an ideal world, the new stabilization provision would not apply to assets invested in annuity buy-ins or liability driven investing portfolios that closely match liabilities because these strategies provide significant risk reduction. We will be advocating for a sensible stabilization provision that doesn't penalize plan sponsors who are doing the right thing.

Many Quebec plan sponsors are proactively managing their pension risk and the new stabilization provision may encourage others to follow suit. This can only lead to positive outcomes for plan sponsors and plan members.

What is Liability Driven Investing (LDI)?

LDI means investing assets to move like liabilities to minimize volatility in the plan's funded position. Pension liabilities move like bonds, so LDI portfolios typically include government bonds, corporate bonds and sometimes even private bonds to provide diversification and yield. The duration of the assets is matched to the duration of the liabilities to ensure sufficient risk reduction.

WHAT'S NEXT?

Demand for annuities and LDI is likely to grow as a result of the upcoming changes in Quebec. Plan sponsors should consider the following actions:

- Determine how Bill 57 may impact their pension plan and educate internal stakeholders.
- Review their de-risking strategy in light of Bill 57, and determine whether any changes are required.
- Consider advocating with the Quebec government for a sensible stabilization provision.

For more information about Sun Life Financial's de-risking solutions for defined benefit pension plans, please contact:

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