Risk sharing is not new to the Canadian pension scene. Most Canadian defined benefit plans include features that can lead to variations in contributions and benefits for plan members. This research examines new risk-sharing ideas, such as Variable Payment Life Annuities, target benefit plans and shared risk plans, to see how they fit alongside more established plans. It explains why different types of employers can be expected to make different choices.

This research paper

- Examines various pension deals and their treatment under regulations and standards;
- Highlights the key features that distinguish four categories of risk-sharing deals in-between pure defined contribution and pure defined-benefit; and
- Explores the implications for regulation and retirement benefit plan design.

**HIGHLIGHTS**

- The public tends to think of employment-based retirement income plans as either “defined contribution” or “defined benefit.” This has the potential to lead to misunderstandings or become an obstacle to the adoption of risk-sharing arrangements that best suit the circumstances of employers and employees.
- Pension plan designs within each of the four categories of risk sharing established in the report have common attributes such as accounting treatment, the basis for commuted values, funding targets, income tax treatment and intergenerational equity.
- Public, for-profit companies, non-profit entities, public sector entities and rate-regulated entities will make different choices about risk-sharing.
- The existing range of options for communication and regulatory scrutiny of plan changes and conversions can serve as a guide for conversion of existing benefits to a shared risk basis.
- Nuances in regulations and accounting standards may unintentionally limit the range of target benefit plans, variable annuities and other risk-sharing arrangements that employers will consider.
LINK TO REPORT
Classification of Risk-Sharing in Pension Plans – Canadian Practices and Possibilities

METHODOLOGY

- Published: March 2020
- Process:
  - Review of over a dozen types of risk-sharing with an emphasis on their distinguishing characteristics and treatment under accounting, funding, tax, governance and benefit administration rules.
  - Illustrations of how gains and losses affect outcomes in different pension deals.
  - Insights into the constraints faced by different kinds of public and private sector employers and how these constraints will lead to different preferences.

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