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How Ontario’s new pension transfer rules could elevate DC plans

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New DC transfer rules provide DC sponsors an alternative to messy wind-ups, says Jason Vary

Jason Vary

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A legislative change tucked into Ontario's fall budget bill has opened a door that’s never existed for defined contribution (DC) pension plans. And depending on how the regulations land, it could reshape the retirement savings landscape for a significant portion of the Canadian workforce enrolled in employer-sponsored pension plans.

The amendment permits single-employer DC plans to transfer into jointly sponsored pension plans (JSPPs) such as CAAT, UPP, and HOOPP, notes Jason Vary. The president at Actuarial Solutions Inc., believes the change addresses a frustration he has encountered repeatedly while advising employers on pension strategy.

"There's never really been a path for DC plans to get into it," said Vary. "Historically, if you joined a jointly sponsored plan, you could join it for the future, but you would either be stuck in the DC plan or the employer or plan sponsor would have to wind up that DC plan. And when you wind up a DC plan, it gets a little messy because the money goes to the wind, potentially, as some will buy a DB pension with the new plan or target benefit with the new plan. Some employees will take their money their own financial institution or financial planners and they end up in a retail world and start paying retail fees instead of institutional fees. It's a shame for people who are saving for money in a DC world."

While that complexity has been a serious weakness in the old rules, Vary underscored the legislative change creates a direct transfer route for DC plans into JSPPs, backed by a negative-option structure: members who do nothing are moved and converted into a lifetime target benefit pension, while those who object must actively opt out and move their money elsewhere.

He sees this as a clear improvement because it lets DC sponsors bring the past with them instead of running messy wind-ups, and it gives engaged members real flexibility. But he also stressed that it also shifts responsibility onto members who are inattentive or overwhelmed and may later wish they had stayed in DC or in a locked-in RRSP.

According to Vary, opening the door for DC plans to join JSPPs is a genuine industry shift because DC has become the dominant model after decades of movement away from traditional DB plans into capital accumulation vehicles like group RRSPs, TFSAs, and DPSPs. Letting DC assets flow back toward a target-benefit-style arrangement challenges that trajectory and will worry existing DC providers who now face more competition from large JSPPs such as CAAT, UPP, and HOOPP, Vary said.

Still, allowing DC plans to join JSPP's shouldn't be read as an indictment of DC design, Vary suggests, as many existing DC members will quite reasonably choose to stay where they are, especially those who like managing their own investments and who want income that can rise and fall with their spending needs in retirement. He thinks a mix of arrangements is often the healthiest with money spread across several different retirement savings vehicles rather than concentrated in a single structure.

"There is a real role for DC plans in retirement savings. It's not like DB is good and DC is bad. It's not black and white like that, in my mind at least. DC can be very, very good in the sense that it can be very flexible as far as saving for different retirement savings patterns, and it can also be very flexible for the accumulation phase. You can withdraw year to year, staying within the minimums and maximums so a DC plan can respond favourably to those kinds of spending pattern changes in retirement," he said.

Vary also highlighted a key boundary in the new rules, noting that they apply only to single-employer registered DC pension plans. Multi-employer DC plans are excluded, despite clear demand from some sponsors that would like to join JSPPs but are effectively trapped in their current arrangements. He hopes lawmakers eventually extend the framework to that segment. He also noted the change does nothing for group RRSPs, DPSPs, or TFSAs, which people often lump under a broad "DC" label even though those vehicles will still have no route into a JSPP.

The regulations, which are expected soon, will be the real test in both how the conversion basis is structured and how individual JSPPs implement the transfers, noted Vary. If the basis is too generous, existing JSPP members are effectively subsidizing newcomers whereas if it’s too harsh, incoming members are shortchanged. While he expects plans and regulators to be strongly motivated and land on a fair conversion methodology, he argues that the regulations will need to spell out guardrails and oversight like what counts as too rich or too stingy, and how supervisors will review or challenge transfer terms.

Despite the new rules offering choice and flexibility for retirement, Vary sees the DC transfer pathway as one more variable in an already complex equation rather than a gamechanger.

"It's not a magic silver bullet that everyone's just going to do this all of a sudden. It's just one new incremental change," he said. “This is just another piece of the puzzle that will help employers think about whether it’s right for their employee group.”

Communication remains critical

To that end, Vary sees communication as the make-or-break factor in the new framework. After all, converting a DC benefit into a target benefit pension is a complex concept, and he argues the outreach strategy needs to meet members across multiple formats, everything from short emails, written materials, webcasts, and FAQs. He also runs "ask an actuary anything" sessions for employers transitioning DB plans into JSPPs and found that once members are engaged, they surface questions that reveal how little they understood about their own plans to begin with.

"Employees don't even know if they have a DB plan or a DC plan. Like, they understand they have a pension, but don't even know what flavour of pension it is," he said.