

When the Buck

A Framework for Sustainable Pension

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Can pension surplus and financial resilience be translated into meaningful improvements for members without undermining long-term security? The author proposes a framework to assess benefit enhancements using three key criteria: affordability, fairness between generations and practical implementation.

et Overflows:

Improvements



For years, many Canadian multi-employer and jointly sponsored defined benefit (DB) pension plans have operated in a world defined by caution. Trustees navigated periods of low interest rates, volatile markets, new regulatory regimes and the ever-present challenge of balancing benefit security with long-term sustainability. But today, a different reality is emerging. Strong investment returns, resilient contribution patterns, revised provincial funding rules and favourable experience have pushed many plans into surplus—sometimes well beyond what trustees have historically seen.

With that strength comes a new governance problem: what to do when the pension bucket overflows.

Benefit improvements are often the first consideration. Members notice strong results, ask when benefits will increase and expect trustees to share good news. But a healthy surplus does not directly translate to affordability, nor does it imply that any specific improvement is equitable or sustainable. Pension plans operate within long horizons, and one strong period does not erase the volatility, demographic uncertainty and regulatory risk that lie ahead.

This article outlines a structured, governance-driven way to evaluate benefit improvements, drawing heavily on the actuarial principles embedded in DB plan management. It focuses on three interconnected considerations—

affordability, intergenerational equity and execution—and provides trustees with a framework for translating financial strength into member value without jeopardizing long-term security.

Affordability: Looking Beyond the Surface of Surplus

It is tempting to view surplus as extra money waiting to be spent. In reality, surplus is a complex and dynamic measure. It reflects not only the plan's asset position, but also the assumptions, policies, smoothing techniques and regulatory frameworks used to calculate liabilities. Determining whether a plan can afford an improvement requires a deeper look beneath the surface.

One of the core measures, the going-concern funded ratio, remains the most relevant lens for evaluating long-term sustainability. But its reliability depends on more than the number itself. Trustees should consider how the ratio has evolved over time, whether it has been stable or volatile, and whether recent investment gains are masking underlying fragility. A funded ratio of 125% tells one story if it has grown steadily for several years and quite another if it resulted from a single exceptional investment year.

Another key affordability component—one that is often overlooked outside actuarial circles—is the contribution margin. Many plans operate with negotiated contribution rates that exceed the actuarial cost of delivering benefits. That excess builds implicit margins into the plan. These margins provide resilience during downturns, allow plans to weather assumption changes and act as a natural stabilizer. But contribution margins are not static. They can shrink in future rounds of collective bargaining or through declining demographics. Trustees, therefore, need to understand not only the size of the margin today but also how likely it is to persist.

Plan assumptions must also be considered. Discount rates, retirement patterns, termination assumptions, inflation expectations and mortality assumptions all directly influence the plan's financial position. Small changes have large impacts. A 25-basis-point reduction in the discount rate or the introduction of a new mortality table can wipe out a material portion of surplus. With new Canadian mortality tables anticipated in 2026, trustees must assume that liabilities may rise in the near future—even if the plan's current experience looks favourable.

Takeaways

- **Affordability means more than having surplus today.** Trustees must examine durability, contribution margins, actuarial assumptions and scenario tests before making improvements.
- **The source of surplus should guide decisions.** Temporary gains warrant temporary benefits; durable gains support long-term improvements.
- **Intergenerational equity is essential.** Good governance requires balancing the needs of retirees, actives and future members—and explaining those choices clearly.
- **A strong funding and benefit policy is the backbone of fair decisions.** It provides structure, clarity and guardrails for when and how improvements occur.
- **Execution matters as much as the decision itself.** Success requires thoughtful timing, transparent communication and coordinated implementation.
- **Sustainable generosity depends on discipline.** Trustees who act slowly on good news and quickly on bad news help keep the plan strong for the long run.

Scenario and stress testing are equally essential. Affordability must be tested under conditions that reflect not only typical volatility but also the compounding effect of multiple adverse shocks. Plans that appear comfortably funded under expected conditions may experience strain if equity markets decline suddenly, interest rates shift, hours of work fall unexpectedly or inflation persists above assumed levels. Stress testing illustrates how quickly the surplus could erode and helps trustees distinguish durable surplus from temporary gains.

Perhaps the most important affordability consideration—one that should be explicitly examined in every improvement discussion—is the source of surplus. Is the surplus primarily attributable to strong investment performance, stable contribution margins, a favourable mortality experience, changes in funding regulations or a confluence of several factors? Permanent improvements should be supported by a structural, persistent surplus. Temporary surplus, on the other hand, is better suited to temporary or one-time enhancements.

Affordability, then, is not a single metric. It is a composite of funded status trends, contribution patterns, assumption governance, stress test results and surplus attribution. When trustees place all these elements together, they gain a more complete picture of the plan's capacity to support change.

Intergenerational Equity: Balancing Today's Opportunities With Tomorrow's Needs

Even when a plan can afford improvements, trustees must determine whether to proceed and for whom. DB pension plans naturally involve subsidies—from those who live shorter lives to those who live longer lives, from late to early retirees and across generations. The goal is not to eliminate these subsidies, as doing so would undermine the mutual support nature of DB plans, but to ensure they are transparent, intentional and defensible. Trustees have a responsibility to ensure that improvements do not unduly favour one cohort at the expense of another.

A central tool in this analysis is the plan's funding and benefit policy. A well-constructed policy outlines the objectives of the plan, identifies the metrics used to evaluate its health, defines thresholds for action and provides a framework for assessing the appropriateness of improvements. It brings consistency and transparency to decision making,

preventing the plan from being steered by short-term pressures or emotional appeals.

Intergenerational equity requires trustees to explicitly consider how improvements will affect retirees, active members and future members. For retirees, past service improvements and inflation catch-ups can meaningfully enhance lifetime income, especially following periods of elevated inflation. However, these improvements increase liabilities immediately and permanently, and they can shift risks to future generations of plan members.

For active members, enhancements to future accrual rates can improve long-term retirement adequacy and align contributions more directly with benefits. Future service improvements are easier to manage from a risk perspective because they can be adjusted prospectively if conditions worsen. But they may not address immediate concerns for members approaching retirement.

Future members (those who have not yet joined the plan) are uniquely vulnerable because they inherit the consequences of decisions made before their arrival. Trustees must therefore ensure that improvements do not erode margins too far, compromise future sustainability or unduly increase the likelihood of future reductions.

The equity conversation extends beyond demographic cohorts. Plans must also consider fairness across employers, job classes, industries and regions. Each plan's context varies, but the principle remains the same: Improvements should be justifiable, transparent and aligned with the long-term interests of the entire membership.

In addition, trustees should reflect on the behavioural implications of improvements. Granting enhancements too frequently can create expectations that improvements will occur annually. This can make future restraint more difficult and erode trust when improvements pause or reverse. Conversely, long periods without enhancement, even in strong conditions, may make the plan appear overly conservative, causing members to question whether their contributions are being used effectively.

Solidarity is not unlimited. Members may see themselves as part of a shared plan, but their perspectives differ. Retirees often prioritize inflation protection; actives focus on future accruals; new entrants value certainty and sustainability. Trustees must be ready to explain why certain groups benefit more or less in a given cycle, as well as why fairness sometimes means taking turns.

Effective equity governance requires acknowledging trade-offs, articulating the rationale behind decisions and grounding improvements in policy—not pressure.

Turning Sound Decisions Into Effective Implementation

Even the most technically sound improvement can falter if poorly executed. Implementing benefit changes requires careful planning, clear communication and strong coordination across all parties involved: actuaries, administrators, custodians, legal advisors, employers and trustees themselves.

Timing is a critical early consideration. Many plans choose to align improvements with actuarial valuation cycles to ensure that decisions are grounded in the most current financial information. Trustees should also be mindful of assumption updates, such as mortality table releases or changes in discount rates. If a significant assumption change is expected in the near term, it may be prudent to wait for the updated valuation to avoid reversing or adjusting improvements soon after implementation.

Communication is another pivotal component of execution. Members must understand what is changing, why it is changing and how it affects them personally. The tone matters. Members respond best when communication is clear, transparent and contextualized within the plan's policy framework. Explaining the rationale helps manage expectations and reinforces the idea that benefit levels may evolve in either direction, depending on financial conditions.

Operational readiness is equally central. Administrators must update systems; adjust benefit calculations; revise member statements; coordinate with custodians for retired member payments; and ensure that contributions, if changed, are processed correctly. Errors in implementation can have long-lasting consequences and undermine member confidence. Trustees should allow adequate time for parallel testing, quality assurance reviews and data validation before changes go live.

Regulatory compliance and documentation round out the execution process. Most improvements require plan amendments and filings with provincial regulators. Trustees should ensure that meeting minutes, actuarial reports and policy references are thoroughly documented. This audit trail helps future trustees understand the basis for past decisions,

BIO

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supports regulatory review and reinforces a culture of strong governance.

Execution, in short, is a multistep and multistakeholder process. Successful plans treat it not as an administrative formality but as a central governance function in its own right.

Conclusion: Strength, Stewardship and Sustainable Decisions

Surplus brings opportunity (sometimes a long-awaited opportunity), it also brings a responsibility to act prudently. Deciding *how* to improve benefits, *when* to do so and *who* should benefit introduces layers of complexity that go well beyond the simple question of whether the plan has “extra money.” Trustees must navigate affordability, fairness across generations and the practical realities of implementation.

Benefit improvements are one of the most consequential decisions a trustee board can make. Done well, they reinforce the plan's value, strengthen retirement outcomes, and build trust between members and trustees. Done poorly, they can create volatility and frustration and lead to future benefit cuts.

Trustees who approach improvements through this structured framework—integrating actuarial analysis, policy governance and thoughtful communication—are best positioned to convert strong funding results into long-term member value. The pension bucket may be overflowing today, but sustainable stewardship ensures that members will continue to benefit long after today's surplus has been absorbed by the ebb and flow of future economic cycles. ☪