A Comparison of Pension Fund Regulation in Canada and the Netherlands

Rowan Fredrix, Antoon Pelsser, Sally Shen

Executive Summary

This paper examines how the regulator should weigh and combine the following two objectives for occupational pension funds in order to guarantee the pensions of the fund's members:

- Long-term sufficiency (if the pension fund is able to pay out the indicated pensions) and;
- Short-term discontinuity requirements (if the pension fund is abolished today, is the value of the assets sufficient to cover its liabilities?)

Two supervisory frameworks are discussed: the Dutch and Canadian framework.

Fast Facts

- The Dutch regulatory framework follows the European framework, and is predominantly based on short-term requirements to ensure a healthy financial situation for the pension funds.
  - If the funding ratio falls below either of the lower limits, curtailments are implemented on the participants' pension benefits.
  - Annual indexations may only be implemented in case the funding ratio is over 110%.
- Canadian regulatory framework values both a pension plan's funds and liabilities on a solvency basis (short-term requirement) but also on a going concern basis (long-term sufficiency).
  - Both the solvency and going concern funding ratio must not be under 100%. If it falls below, it does not affect participants' pension benefits.
- Dutch framework results in better results on the downside of the distributions than the Canadian framework, especially after allowing for employer discontinuity.
- The notification of lower benefits in the Canadian framework only comes after the sponsor has collapsed, while the Dutch framework informs the participants of possible lower benefits in an early stage.
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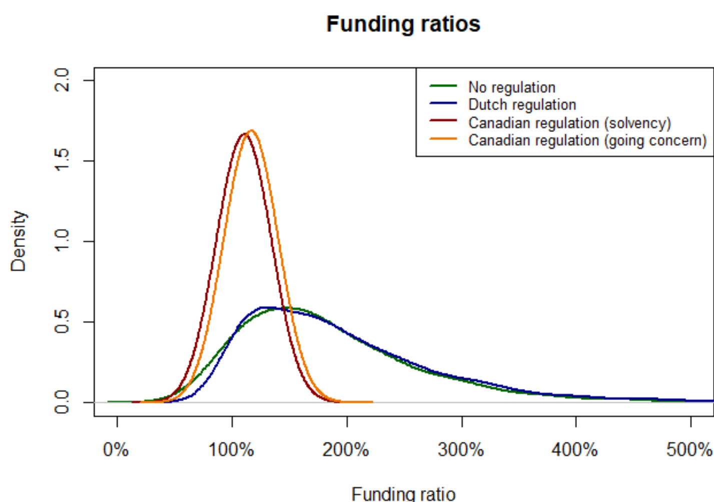

Figure: Distributions of the funding ratios without regulation, under Dutch regulation and under Canadian regulation.

Main Figure Results

- The outcomes under the non-regulated and Dutch models have far more extreme right-tailed outcomes than the outcomes under theCanadian models.
- The Dutch regulatory framework resulted in the distribution with the shortest left tail and the highest mean and minimum value, due to the fact that measures such as curtailments are taken relatively early in comparison to the Canadian framework.
- On average, the funding ratios under the Canadian model are lower than under the non-regulated and Dutch model. This is a direct consequence of the fact that surplusesare refunded to the employer under the Canadian model, taking away the possibility of having extremely high funding ratios.