The Time has come to Revisit Solvency Funding Rules[[1]](#footnote-1)

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# Abstract

Regulators are charged with protecting pension plan participants’ ability to collect on DB pension promises. The main risk to the ability to keep those promises arises because of (1) credit risk and (2) financial risk that accompanies the pension’s portfolio of assets. It is not necessary to make all pension plans meet a hypothetical valuation standard that was intended to provide security to pension participants in extremely different economic times. Maintaining the so-called solvency funding standard serves only to create extra work and extra expense for DB plans, especially those that are extremely well-funded. Moving the solvency standard from one that is required of all plans during all valuations into one of a set of valuation parameters that a regulator can employ to protect plan participants would grant greater flexibility to both plan trustees and regulators while achieving the mandate to protect the most vulnerable. Several complementary changes also are discussed.

1. The author would like to thank Bob Baldwin and Elaine Noel-Bentley for their comments on an earlier draft of this paper and for their usual thoughtful comments. [↑](#footnote-ref-1)