



February 7, 2007
LODGE 359

The Honourable Carole Taylor
Minister of Finance
PO Box 9048 Stn Prov Govt
Victoria, BC V8W 9E2

Dear Minister Taylor,

Pension Plan Solvency Rules Must be Changed

There is a glaring defect in British Columbia's pension funding rules that is jeopardizing the pensions of thousands of British Columbians. The undersigned is the Chair of the Board of Trustees of the Boilermakers Pension Plan, and I am writing to urge you to take urgent action on this issue.

The problem is the "solvency rules" applicable to multi-employer pension plans (MEPPs). The sponsor of every British Columbia pension plan is required by the Pension Benefits Standards Act (PBSA) to regularly demonstrate to the Superintendent of Pensions that over the long term the contributions to that plan are sufficient to pay the promised pensions. No one questions the appropriateness of these "going concern" funding rules.

The problem is with "solvency" funding rules, which are designed for single employer plans, and are intended to protect members of those plans from the insolvency of the sponsoring employer. The solvency rules require that a plan sponsor show that if their pension plan was wound up, there would be enough money available to buy annuities that would replace all of the pensions payable under the plan.

When the financial health of a pension plan is linked to the financial health of a single employer, the solvency rules make sense. However, a MEPP and its financial health is not tied to the financial health of a single employer. Therefore, applying the solvency rules to a MEPP protects it from a risk it does not face.

Because "solvency" liabilities must be calculated using long term bond rates, solvency liabilities are usually much larger than "going concern" liabilities, which are calculated using the rates of return that would be realized on a diversified portfolio. To make matters worse, solvency deficiencies in a plan must be made up in 5 years, whereas going concern deficiencies can be amortized over 15 years.

In British Columbia, many MEPPs are considered fully funded on a going concern basis, but are considered to have a deficit on a solvency basis. Most MEPPs are established under a collective agreement, and the board of trustees of a MEPP can only recommend to the bargaining parties an increase to the contributions to address a

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solvency deficiency. Rather, in many cases the trustees have been forced to cut benefits to eliminate a solvency deficiency even though the plan is fully funded on a going concern basis, and there is no risk that the plan will have to be wound up because of an employer's insolvency. In other words, pensioners and working members are being penalized so that their pension plan can comply with a funding rule that has only theoretical application to their plan.

These concerns are well known to the Superintendent of Pensions and his colleagues at the Financial Institutions Commission (FICOM). However, the Superintendent must administer the PBSA in its current form.

Legislators in other Canadian jurisdictions (Quebec, Nova Scotia, New Brunswick and the Federal jurisdiction) have recognized the inappropriateness of applying the solvency rules to MEPPs, and have introduced changes to them. The most decisive action to date has been taken by the Government of Alberta, which recently declared a three year moratorium on forcing MEPPs to comply with the solvency rules, subject to certain conditions.

We urge you to take the step taken in Alberta. We also strongly urge you to go one step further and amend the PBSA so that trustees of MEPPs no longer have to cut benefits if a MEPP is fully funded on a going concern basis.

I would be pleased to meet with you and your advisors to discuss our concerns and proposals more fully.

We urge you to act quickly to address this urgent matter.

Yours truly,



Carl Ellsworth, Chair, Board of Trustees
Boilermakers Pension Plan
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