



February 23, 2007

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Carl Ellsworth
Chair
Board of Trustees
Boilermakers Pension Plan
4510 Dawson Street
Burnaby BC V5C 4C1

Dear Mr. Ellsworth:

I am writing to inform you that the Ministry of Finance has commenced a policy review of the solvency rules for defined benefit pension plans under British Columbia's *Pension Benefits Standards Act* (PBSA), and is seeking your input.

The PBSA is designed to protect the interests of British Columbia pension plan members by setting standards for provincially registered pension plans. The Financial and Corporate Sector Policy Branch provides policy advice to the Minister on emerging pension issues and changes to the legislation. The Financial Institutions Commission of British Columbia (FICOM) administers and enforces the PBSA.

Solvency funding is one of the key rules applicable to defined benefit pension plans. Solvency rules are in place to provide some assurance that member benefits can be paid in the event of unexpected plan terminations. These rules require that any solvency deficiency be paid over a period of not more than five years.

Recently, the decline in long-term interest rates and changes in actuarial standards have increased plan liabilities and led to significant solvency deficiencies for many pension plans. Some plan sponsors, while committed to funding their pension plans, are concerned about ownership of plan surplus and believe that funding requirements stemming from recent solvency deficiencies are driving excessive, unrecoverable cash flow away from expenditures that could enhance productivity and competitiveness and benefit the economy. For example, in 2005 plan sponsors in British Columbia made special payments in the amount of \$101 million to address solvency deficiencies.

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Ministry of
Finance

Strategic & Corporate Policy
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Some plan sponsors also say that the current solvency rules could undermine their willingness to provide defined benefit pension plans. Other interests, however, believe that strict solvency rules based on conservative investment yields are essential to pension plan regulation and the security of benefits for plan members.

In response to these challenges, some Canadian jurisdictions have taken steps to provide measured solvency funding relief for multi-employer and single employer defined benefit pension plans (see Schedule 1).

We are interested in your views on whether British Columbia should make any changes to its solvency funding rules, both in the short term and in the longer term, recognizing that a balance must be reached between the funding of pension plans and the protection of pension benefits and that the best protection for pension benefits is a financially healthy plan sponsor that is willing to provide a defined benefit pension plan.

In particular, we invite your response to the following questions on potential short term measures:

General

- *Do you think it appropriate for government to provide any measure of solvency relief for defined benefit pension plans?*
- *If government provides some measure of solvency relief, would you recommend that the relief be temporary or permanent?*
- *If government provides some measure of solvency relief, would you recommend that the relief be granted to all sponsors, or should relief be dependent upon some criteria related to the sponsor's strength as a going concern entity?*
- *Do you think plan members should have the right to approve or disapprove a plan sponsor's proposal to adopt a solvency relief measure? Please provide an explanation.*
- *If a plan chooses to take advantage of any solvency relief measure that is implemented, should the plan be restricted from making benefit improvements while a solvency deficiency exists?*
- *Do you consider it important that any solvency relief measure implemented in British Columbia be the same as, or consistent with, a solvency relief measure implemented in another Canadian jurisdiction? If so, which jurisdiction and which measure?*
- *Do you think government should consult more widely before deciding whether to provide some measure of solvency relief?*

Letters of Credit

- *Do you support the use of letters of credit as an alternative to making special payments to amortize a solvency deficiency?*
- *If a letter of credit is used, should employers be required to make interest payments to the plan to cover the income that would have been earned if the special payments were made? If so, what rate of interest should be used to determine the payments?*
- *If a letter of credit is used, should the amount of the letter of credit be included as an asset of the plan for the purpose of calculating funding on a solvency basis? Or on a going concern basis?*
- *Do you support the use of letters of credit only if the plan is fully funded on a going concern basis or meets another proxy test?*
- *Would you recommend that a cap be placed on the amount of letters of credit used by any one plan?*

Amortization of Solvency Deficiencies

- *Would you recommend that the solvency amortization period be extended to 10 years or another longer period, with or without conditions?*
- *Do you support consolidating previous solvency payment schedules and amortizing the entire solvency deficit existing over a single, new five-year period?*

Multi-Employer Negotiated Cost Plans

- *Would you recommend that solvency funding rules for multi-employer negotiated cost plans be different than solvency funding rules for single-employer plans?*
- *Do you support the suspension, or elimination, of solvency payment requirements for multi-employer negotiated cost pension plans? If so, for what period of time?*
- *Do you support suspension of solvency special payments only if a plan is fully funded on a going concern basis?*

Other

- *Do you have any alternative suggestions for amending solvency funding rules? For example, do you support creating a special account for solvency deficiency payments so that they could be returned to plan sponsors if the plan achieves a solvency surplus?*

We are also interested in hearing your initial views on the following longer term funding issues. Your responses will guide us in developing recommendations for further analysis.

- *How important is it to you that any longer term funding rules be based on a model law, or otherwise harmonized legislation, in Canada?*
- *Do you consider it important to settle the law on the ownership of plan surplus before amending solvency rules? If so, how would you address the issue of surplus ownership?*
- *Do you support the idea that solvency deficiencies may be better addressed in the future by requiring or encouraging plan sponsors to better match plan assets with plan liabilities, for example by requiring more investment in government bonds or by building provisions for adverse deviation into solvency asset or liability valuations ?*
- *What are your views on whether solvency funding liabilities should be based on a broader range of investments than government bonds? Would you favour using risk-based factors in determining solvency liabilities?*

Comments should be transmitted electronically to:

fcsp@gov.bc.ca

However, if you wish to send comments in paper format, please direct them to:

Financial and Corporate Sector Policy Branch
Ministry of Finance
PO Box 9418 Stn Prov Govt
Victoria BC V8W 9V1

The deadline for receiving comments is **March 23, 2007** to enable the ministry to proceed with the next phase of the review.

Please note that the ministry may be sharing comments it receives with its counterparts in other governments. Even where confidentiality is requested, freedom of information legislation may require the ministry to make responses available to those requesting such access.

Thank you in advance for your participation in this important review.

Sincerely,



Andy Robinson
Assistant Deputy Minister

Attachment

Schedule 1

Summary of Recent Measures in Other Canadian Jurisdictions

Federal Government

The federal government has recently finalized temporary regulatory changes that will allow pension plan sponsors under federal jurisdiction to choose one of the following options to address a solvency deficiency appearing in a plan's first actuarial valuation before 2008:

- Consolidate previous solvency payment schedules and amortize the entire solvency deficit existing over a single, new five-year period. This would have the effect of extending previously established solvency special payment schedules over the next five years.
- Extend the solvency funding payment period to ten years from five years provided that no more than one-third of active plan members or non-active members and beneficiaries, including retirees, object. No plan improvements are permitted in the first five years unless the improvements are pre-funded to avoid worsening the solvency deficit of the plan.
- Extend the solvency funding payment period to ten years when the difference between the five-year and ten-year level of payments is secured by an irrevocable letter of credit obtained by the plan sponsor and held by a trustee.
- Extend the solvency funding payment period to ten years for federal agent Crown corporations on paying the government an amount equivalent to the financing fee for a letter of credit to encourage a level playing field.

Alberta

The Alberta government has amended its regulations to:

- Permit multi-employer pension plans to apply to the Superintendent for permission to suspend solvency deficiency payments for a period no longer than three years. The Superintendent's consent is subject to several conditions including:
 - i) amortizing unfunded liabilities over a period not exceeding ten years;
 - ii) filing annual valuations that show the plan's solvency status; and
 - iii) making no benefit improvements while there is a solvency deficiency.

The Alberta has also asked for comments on the following proposal:

- Permitting an employer to provide a letter of credit to the fund holder in lieu of making any special payments that would ordinarily be required to amortize a solvency deficiency, subject to specific requirements. The employer would be required to make monthly interest payments related to the solvency deficiency payments covered by the letter of credit within 30 days after the end of the month to which they relate at the rate assumed when determining the solvency deficiency. A letter of credit would not be an