



LODGE 359

ADMINISTRATION OFFICE:
4510 DAWSON STREET
BURNABY, BRITISH COLUMBIA
V5C 4C1

TELEPHONE: 604-298-5411
CALL TOLL FREE: 1-888-612-6611
FAX: 604-298-5833
EMAIL: 359plans@telus.net

March 23, 2007

Via email: fcsp@gov.bc.ca

Mr. Andy Robinson, Assistant Deputy Minister
Strategic and Corporate Policy Division
Ministry of Finance
1st Floor – 617 Government Street
Victoria, BC V8W 9V8

Dear Mr. Robinson:

Re: Ministry of Finance Policy Review of Solvency Rules for Defined Benefit Pension Plans

Thank you for your letter of February 23, 2007 inviting input on the policy review of the solvency rules for defined benefit pension plans under the BC PBSA. On behalf of the Board of Trustees, our response to the policy review questionnaire is as follows:

General

Do you think it is appropriate for government to provide any measure of solvency relief for defined benefit pension plans?

- Yes, it is appropriate for government to provide measures of solvency relief for defined benefit pension plans. It is government's responsibility to ensure that the tests for solvency are appropriate. When these tests are in doubt, and under review, as they are in every pension jurisdiction in Canada, it is reasonable to grant relief while the right measures are defined. Further, there may be extenuating circumstances that must be recognized so that the government does not force the termination of an otherwise healthy pension plan covering British Columbia residents.

If government provides some measure of solvency relief, would you recommend that the relief be temporary or permanent?

- It is important that the government determine what the appropriate rules are. While this is underway, it is necessary for the government to provide temporary relief. Once the appropriate rules are in place permanent relief would not be required.

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?

- If the government provides solvency relief while it takes time to examine the rules, this relief should be granted to pension funds which have demonstrated that their going concern funded position is within the standards set by the Plan and compliant with pension legislation.

Do you think plan members should have the right to approve or disapprove a plan sponsor's proposal to adopt a solvency relief measure?

- Plan members, via their governance process, have determined the administrators of their pension plans. It is important that pension plan administrators advise plan members of the plan's solvency status and that the administrator has applied for/been approved for solvency relief. The agreement of plan members would be unmanageable in most situations and should not be required.

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?

- If temporary solvency relief is granted by the government, it is appropriate that the pension plan covered by this relief not make benefit improvements. If the period of time taken to determine "what the rules are" is prolonged, then benefit improvements should be allowed provided the fund actuary can attest to compliance under the going concern funding of the plan.

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?

- Solvency rules should be the same from province to province. There is no reason why these rules should be different given that they are expected to apply a macro-test to pension fund health. A different rule in each province creates uncertainty, especially when there is portability between provinces or multi-jurisdictional pension plans. Pension plan regulators have the duty to plan members to be consistent.

Do you think government should consult more widely before deciding whether to provide some measure of solvency relief?

- Government should provide **immediate solvency relief** since it is obvious that the current rules are creating undue stress on pension plans and pension plan members. Once the temporary solvency relief is in place, broader consultations should take place. It is important that pension plan members be included in the consultation process since they are the beneficiaries of the plans, and after all it is their retirement future which is at stake.

Letters of Credit

Do you support the use of letters of credit as an alternative to making special payments to amortize a solvency deficiency?

- Letters of credit have been accepted in other jurisdictions as a method of supporting a solvency deficiency amortization period. In the interest of being consistent, B.C. should allow this also.

The other issues to do with Letters of Credit are not related to SMEPPs/Negotiated Cost Pension Plans.

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?

- If the financial criteria used to determine solvency is relevant, the solvency deficiency should be amortized over the expected remaining service life of the active plan members.

Do you support consolidating previous solvency payment schedules and amortizing the entire solvency deficit existing over a single, new five-year period?

- No, we do not support amortization of solvency deficiencies over a five year period under any conditions.

Multi-Employer Negotiated Cost Plans/SMEPPS

Would you recommend that solvency funding rules for multi-employer negotiated cost plans be different than solvency funding rules for single-employer plans?

- Solvency rules for Multi-Employer plans should be different from those applied to single employer plans. The reason for this is in the classification of “multi-employer” given to these plans. These plans are not necessarily dominated by one employer or several employers. It is therefore not appropriate to use the same test given to single employers when measuring the ability of a multi-employer pension plan to deliver its pension promise.

Government has a responsibility for creating legislation which is relevant and which protects the interests of British Columbians. Currently, legislation has had the effect of reducing benefits for thousands of British Columbians.

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?

- **Solvency funding should be eliminated for multi-employer pension plans.** Additional tests, which can be uniformly applied, can be implemented to ensure that the plan is not under long term stress due to market conditions (i.e. is the plan's asset mix likely to provide returns in line with the going concern assumption, has the plan's mortality experience followed the plan's mortality assumption, is the industry in which the plan operates under stress, are employers leaving the sector, is work in the sector under permanent decline?). These are all tests which can be independently verified and which, when applied, would produce a relevant conclusion about a multi-employer pension plan's health.

Longer Term Funding Issues

How important is it to you that any longer term funding rules be based on a model law, or otherwise harmonized legislation, in Canada?

- Long term funding should be based on a harmonized pension law in Canada. However, since this is likely not to take place soon, provincial legislators should implement solvency relief and relevant solvency tests for their own constituents so as not to create further harm to the pension system in Canada.

Do you consider it important to settle the law on the ownership of plan surplus amending solvency rules? If so, how would you address the issue of surplus ownership?

- Ownership of plan surplus should be determined by the plan's documents. In multi-employer pension plans it is clear that the surplus is owned by the members.

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?

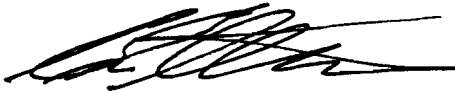
- No, we do not support the concept of asset matching to liabilities. We see this as a current "trend" which in many cases has resulted in the permanent reduction of pension benefits to thousands of plan members. There are certain stakeholders who have a lot to gain from asset/liability matching and their interest may be in opposition to the interests of plan members. Most pension plans have determined their asset mix following a thorough study of the financial markets and have included professional advice. The legislation and the regulator should be in a position to review this asset/liability review and determine whether the plan's investment activities follow the target asset allocation.

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?

- The determination of solvency based on a measure tied to the yield of government of Canada bonds is verifiable. However, unless the plan is demonstrated to be under stress and likely to fail, calculating liabilities on this basis results in conclusions about the plan's health that are not grounded in reality. If the plan has been shown to be under stress then calculating solvency based on the yield of long-term government bonds may be reasonable. In the meantime, the most appropriate measure might be using the going concern investment return assumption, minus a factor for adverse experience.

We hope this input is beneficial. If you wish to discuss it further, we would be pleased to do so.

Yours truly,



Mr. Carl Ellsworth, Chair
Board of Trustees
Boilermakers Pension Plan