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January 30, 2009

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Dear Sirs:

**RE: ALBERTA/BRITISH COLUMBIA JOINT EXPERT PANEL ON PENSION STANDARDS' REPORT RELEASED NOVEMBER 28, 2008**

This is to formally advise you that the Board of Trustees of the Boilermakers Pension Plan (BC PBSA 085447) fully support and endorse the subject Report's key recommendations for multi-employer pension plans (MEPPs), as summarized in the attached December 2008 Segal Bulletin.

These recommendations are vital to ensure the stability of MEPPs and members' retirement benefits, especially given the recent global financial meltdown.

Yours truly,

ON BEHALF OF THE BOARD OF TRUSTEES

*R. Halley FOR*  
Phil Halley, Chairman  
Boilermakers Pension Plan

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December 2008

## Alberta/British Columbia Joint Expert Panel on Pension Standards' Report

The Alberta/British Columbia Joint Expert Panel on Pension Standards recently released its long-awaited report: *Getting Our Acts Together: Pension Reform in Alberta and British Columbia*.<sup>1</sup> As the title of the report suggests, one of the Panel's key recommendations is greater alignment of the two provinces' laws and regulations, which the report refers to as "harmonization." The Panel concluded that:

The pension system in Alberta and British Columbia is not working well for the majority of Albertans and British Columbians. Pension coverage levels in the private sector continue to decline to alarmingly low levels. The costs and complexities of compliance are posing significant hurdles to the establishment and maintenance of pension plans. It is clear that a fundamental reform of pension legislation is urgently needed to address these issues.

The panel's numerous recommendations relate to pension plan funding, governance, reporting and communications, including increased disclosure to retirees.<sup>2</sup> Many of the recommendations, if adopted, would represent a significant change in policy. Implementation of all the changes would entail a comprehensive rewrite of the current legislation in both Alberta and British Columbia, with the goal of having the identical legislation adopted in each province. This *Bulletin* notes which recommendations are of most interest to trustees of multi-employer pension plans (MEPPs).

<sup>1</sup> The report, which was released on November 28, 2008, is available on the following page of the joint panel's Web site: [http://www.ab-bc-pensionreview.ca/2008\\_1125\\_jepps\\_final\\_report.pdf](http://www.ab-bc-pensionreview.ca/2008_1125_jepps_final_report.pdf)

<sup>2</sup> Many of the Panel's recommendations are similar to those of the Ontario Expert Commission on Pensions, which were released a few days earlier and are summarized in *The Segal Company Bulletin* available on <http://www.segalco.com/ca/àda/publications/dec2008bulletin.pdf>

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### THE KEY RECOMMENDATIONS FOR MEPPs

The following are the Panel's key recommendations for MEPPs:

- MEPPs have fundamental characteristics that are very different from those for single employer pension plans. Accordingly, one-size-fits-all types of legislation for all pension plans are inappropriate and new legislation specific to MEPPs should be drafted.
- A new category of pension plans called Specified Contribution Target Benefit (SCTB) should be created. This category would encompass pension plans where funding is specified or fixed by negotiation, where the employer liability is limited to making any contractually required contributions, and where the benefit levels are "target", rather than "defined" or "guaranteed." Most MEPPs would fall within the SCTB category.<sup>3</sup>
- SCTBs should not be required to fund benefits on a solvency funding or hypothetical wind-up basis. However, SCTBs should still report the hypothetical wind-up position to plan participants.
- Funding for SCTBs should be based on the going concern funding requirements and should contain a cushion or margin to protect against future unfavourable events. The funding target for any pension plan should consider the risks specific to that plan, including any asset/liability mismatch and changes in demographics. Each pension plan should be required to develop a funding policy addressing the funding goals, strategies and risks.

<sup>3</sup> The vast majority of MEPPs are funded by contributions that are established pursuant to a collective bargaining process. Consequently, trustees do not have the power to increase funding contributions to MEPPs. In the event of a funding shortfall, trustees are in fact required to reduce the benefit promise in order to eliminate the funding shortfall.

- Benefit improvements for SCTBs should only be permitted if the pension plans have a sufficient cushion or margin established.
- Communications to participants should be enhanced to ensure they properly understand the funded status of their pension plan and the "target nature" of the benefit promise made to them.
- Commuted values currently paid to individuals who cease participating in a SCTB and exercise their portability rights prior to retirement create inequalities. The current rules allow withdrawing individuals to eliminate future investment and funding risk by transferring their risk to the remaining plan participants. To realize equity between those who stay in the plan with those who exit the plan, the commuted value calculation rules should be modified to pay lower commuted values in most instances.
- All pension plan fiduciaries, including trustees, should be required to attain specific educational requirements.
- Each SCTB should be required to have a governance policy in addition to investment and funding policies, and be further required to assess and certify its compliance with the policies on an annual basis.
- The unlocking of pension monies, to the extent made permissible under legislation, should be at the option of each pension plan.

## IMPLICATIONS FOR TRUSTEES

Assuming the recommendations are all adopted as currently drafted, the implications for trustees would include the following:

- Permanent relief from solvency funding requirements, thereby eliminating the conflict between investment strategies geared towards maximizing long-term investment objectives with those minimizing short-term solvency funding risk.
- The introduction of legislated governance standards, potentially providing trustees with a safe harbour within which to govern their plans. The time and effort required to attain these standards will vary significantly from plan to plan.
- Development or re-assessment of funding policies requiring all parties, including trustees and their actuary, to consider strategies, objectives and risks in

both the short and long term. These funding policies, tailored to the specific characteristics of each pension plan, will replace the current solvency funding legislation as the minimum funding standard for these plans.

- The mandating of proactive governance and minimum educational requirements. Simply attending the periodic board meetings will no longer provide a safe harbour for trustees to discharge their responsibilities as fiduciaries.
- Proper communication of a pension plan's operational and governance strategies and risks.

In addition to the recommendations considered in this *Bulletin*, the panel made other recommendations that were either specific to single employer pension plans or general in nature. The full report can be reviewed by accessing the Web site referenced in footnote one on page one of this *Bulletin*.

Trustees have until March 2, 2009 to voice their support for and/or opposition to the various recommendations.



*As with all issues involving the interpretation or application of laws or proposed changes to laws, trustees should rely on their fund counsel for authoritative advice on the implications of the panel's recommendations. The Segal Company can be retained to work with trustees and fund counsel to assess the potential impact.*

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