<u>CSEP -Advocacy Association</u>

Catalyst Salaried Employees and Pensioners

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Dr. Andrew Weaver – MLA
Leader, B.C. Green Party
By Email: andrew.weaver.mla@leg.bc.ca

Dear Dr. Weaver,

Re: **"A Review of the Solvency Funding Framework under the Pension Benefits Standards Act"**

I am sure you are aware of the widely publicized losses suffered by pensioners at companies such as Nortel and Sears when their former employers (the sponsors of their "Defined Benefit" or "DB" pension plans) became insolvent and were no longer able to make contributions to their plans. Pensioners of those large companies as well as many less prominent ones such as Harmac Pulp here in B.C. have lost 25% or more of the pensions they earned over many years of employment. Over 1000 Catalyst Paper pensioners, including the members of CSEP, narrowly escaped losing almost 35% of their pensions when Catalyst became insolvent in 2012.

Regrettably, a Review now underway by the B.C. Ministry of Finance proposes changes to the way in which DB pension plans are funded in B.C. If enacted, these changes will further increase the already considerable risk to the pensions of thousands of private sector retirees.

Currently, employers (plan sponsors) must fund DB pension plans according to a formula aimed at achieving 100 % "solvency funding". This level of funding is intended to ensure that pensions will be fully paid even if employers become insolvent and are no longer able to make contributions to their pension plans. Unfortunately, due to factors such as poor investment returns, or falling interest rates, pension plan funding can drop far below the targeted 100 %. Since employers are allowed up to ten years to restore underfunded plans to full funding, over 64% of the DB pension plans in BC are underfunded (as of December 31, 2017). If a private sector employer becomes insolvent while its DB plan is underfunded, then pensions will be reduced.

Pensioner advocates such as CARP (the Canadian Association of Retired Persons), CFP (the Canadian Federation of Pensioners) and NPF (the National Pensioners Federation), which collectively represent almost two million members, have been pushing for a tightening of funding regulations for private sector pensions to raise funding to more secure levels, and protecting pensions though a "pension guarantee fund", so pensioners would no longer face the threat of income loss. But instead of increasing protections for pensioners, the **current Review proposes to move B.C. in the opposite direction.** Under this proposal, the existing "solvency funding" framework would be replaced by an approach called "going concern funding", which would fund DB pension plans at a much lower level. Solvency funding would not be required unless plans dropped below the 85% funded mark. Most, if not all, DB pension plans in B.C. would fall to a state of permanent underfunding on a solvency basis.

While lower solvency funding is of no concern to the vast majority of DB pensioners whose plans are backed by government, it is the primary concern of a minority who depend on private sector pensions and are at extreme risk in the event of sponsor insolvency. The concerns of these people, including Catalyst pensioners, are being ignored in the current Review process. CARP and CFP forcefully raised "insolvency risk" in written submissions and at stakeholder meetings, but later learned that early in the Review an arbitrary decision had been made to ignore insolvency's impact on private sector DB plan members. This decision strongly biased the outcome.

The Review documents indicate that the need for protection in insolvency has been subordinated to a desire to make DB plans less costly for employers, in the hope this will bring about an increase in the number of DB plans being offered. Besides being highly prejudicial to current members of private sector plans, this approach is futile. Private employers have been moving away from DB plans for years, some of the plans that do remain are closed to new members, and there is no evidence whatsoever that they will proliferate simply because funding rules are relaxed to reduce annual contributions by 10 or 15% as is being proposed.

This Review process is apparently being driven by the wishes of employers/plan sponsors including the Provincial Government. A change from solvency funding to going concern funding would allow employers in B.C. to retain billions of dollars over the next few years, that otherwise would have been paid into DB pension plans to help ensure they were fully funded in the event of insolvency.

While this proposal makes perfect sense for secure, government-backed plans where there is no insolvency risk, it cannot be justified for the relatively small number of **private sector** plans. For those plans any change from 100 % solvency funding **should be deferred** until action is taken to otherwise protect pensions in the event of insolvency. There are proven approaches to doing this. The most effective is to require employer-paid pension guarantee funds (insurance) of the type used in a number of other countries, including the US, the UK and Germany (all of which fully protect at least $85,000/year of pension income), and in the Province of Ontario. The cost of private employers supporting such a fund would be far less than their potential savings in moving away from solvency funding. The concept of a pension guarantee fund is attracting growing interest and support among pensioners and seniors' advocates across Canada and should be embraced by the Provincial Government in order to protect B.C. pensioners.

On behalf of Catalyst pensioners and other private sector pensioners in B.C., I urge you to prevail upon the Minister of Finance to defer changes to the funding of private sector DB plans until the question of protection in insolvency can be adequately addressed.

Thank you for your attention to this matter.

Yours truly Gary McCaig – President, CSEP Advocacy Association