PENSION BOARD SECRETARIAT

March 26, 2003

This article is written in response to the article published in the Vancouver Sun on March 20, 2003 entitled "Pension Cutbacks Possible in the Public Sector". The article is published under Michael Kane's byline and essentially is an interview of Greg Hurst a consultant with Heath Lambert Benefits Consulting.

In the article Mr. Kane has provided Mr. Hurst with a platform for expressing his views about the management of the public sector pension plans (College, Municipal, Public Service and Teachers'). In doing so, Mr. Kane has not questioned the issues raised by Mr. Hurst but rather accepted them at face value. In the article he noted that I did not return his calls. Unfortunately Mr. Kane did not state that the calls were made on two days on which I was in all day board meetings. He also failed to note that immediately following the meeting I returned his calls on five separate occasions prior to the day on which the article was published. In actual fact he did not return my calls until four days after the article was published.

Further, it would appear Mr. Kane made no attempt to seek advice from any of the professional pension consultants in Vancouver nor to consider information published in a recent report by the Auditor General on the management of the public sector pension plans. As well it does not appear that he checked with the Superintendent of Pensions to see if there were any violations under the regulations that apply to pension plans in British Columbia. Finally, he did not review the trust agreement to see if the information that was being provided to him was in fact accurate. These avenues were all available to Mr. Kane in researching the issue. At the end of the day the content of the article can best be described as incorrect and grossly misleading. Unfortunately, the result of publishing such an article is that it will cause unnecessary and unwarranted fear amongst those who are relying on the public sector pension plans to provide them with income during their retirement years.

I have been involved in the management of the British Columbia public sector pension plans for almost 25 years. Until this article was published, I had no previous knowledge of Greg Hurst or of his firm Heath Lambert Benefits Consulting. Mr. Hurst believes that in establishing the new joint trust arrangements that the government and the public sector unions did not consider all of the potential disadvantages to plan members in concluding the agreement. The truth of the matter is that the current indexing arrangements have been in place since 1980 and have from time to time been discussed by the parties. They were not changed one iota when the joint trust arrangements were established.

College Pension Board
of Trustees

Municipal Pension
Board of Trustees

Public Service
Pension Board of Trustees

Teachers' Pension
Pension Board of Trustees

Mailing Address:
PO Box 9460 Stn Prov Govt
Victoria BC V8W 9V8

Location:
5th Floor
395 Waterfront Crescent
Victoria BC V8T 5K7

Phone (250) 387-8200
Fax (250) 387-4199

pension.board@pensionsbc.ca

To support his belief, Mr. Hurst categorically states his "truth", that is, that the inflation protection arrangements in the public sector pension plans are underfunded. The problem with the statement is that it is absolutely wrong.

The truth is that the inflation protection benefit in the public sector pension plans is **not guaranteed**. Each of the pension plans provides inflation protection providing there are sufficient funds available in an account established for that purpose. If there are insufficient funds in that account to pay full inflation protection benefits then a proportional benefit is paid. This information is clearly communicated to plan members. Finally, it is important to note that, as a result, this arrangement can never be underfunded.

Mr. Hurst's basic thesis is that many plan members believe that they have fully indexed pensions. His solution is to accept this belief as fact and to call for the inflation protection benefit to be funded regardless of what the parties have agreed to. Further, he concludes that since this phantom funding is not occurring that a very large unfunded liability has been created that is not being addressed. This is simply inaccurate.

Mr. Hurst further supports his position by:

Suggesting that the recent change to police officer and firefighter pension arrangements is just a foreshadowing of future changes in public sector pension plans. Mr. Hurst states that this change has occurred because of underfunding, dismal financial markets and public sector downsizing.

The truth is these changes were made because the underlying actuarial table was outdated and provided inequitable results in relation to other plan members, to this group, as well as a desire on the part of the trustees to comply with the spirit and intent of the ***Income Tax Act.***

*Suggesting that the current inflation protection arrangement is a defined benefit arrangement and that if this were a private sector pension plan the benefit would have to be guaranteed and fully funded. He further suggests we are hiding behind a statutory exemption to the funding requirements of the **Pension Benefits Standards Act**.*

There are two funding standards established under the statute. One standard provides information on the basis that the pension plan is a continuing entity while the other provides information on the basis that the pension plan is terminating. Under the terms of the trust agreements the trustees are required only to comply with the first standard and are not required to comply with the second standard. The main purpose for the second standard is to protect plan members in the event that the pension plan is terminated. As this is an unlikely event for the public sector pension plans the government and the Superintendent of Pensions have agreed that it was not necessary for it to be applied to the public sector plans. The truth is that the current inflation protection arrangements are not considered to be a defined benefit arrangement by the Superintendent and that the funding arrangements are in compliance with the regulations.

/3

Suggesting that Ontario has faced this problem and has resolved it by now fully funding pensions with guaranteed inflation protection.

The problem in Ontario was that the pension plan provided guaranteed inflation protection that was not being properly funded. As a result, Ontario implemented the recommendation to fund the benefit that was being promised. In the BC pension plans there is no promise of guaranteed inflation protection thus there should be no requirement to fund such a benefit.

Suggesting that the Canada Pension Plan (CPP) has come to terms with its demographic sustainability and it is time that the BC public sector pension plans do the same.

In this comment Mr. Hurst has changed his supporting argument to include demographic issues rather than the previous economically based funding arguments. The managers of the CPP should be congratulated on the changes that have been made in the program to improve their ability to sustain the benefits promised under the plan. However, I challenge Mr. Hurst to name any reputable pension consultant who will categorically state that the CPP is a better funded pension plan than any of the BC public sector pension plans.

Let me conclude this article by stating that the BC public sector pension plans are much better funded than the CPP. They also meet the tests established under the ***Pension Benefit Standards Act*** for pension plans that are continuing to operate in the future as is required of all private sector pension plans in the province.

The trustees are committed to managing the public sector pension plans in the very best manner possible. They take their responsibilities seriously and are distressed when misleading and confusing articles are written regarding the plans. They are also concerned about the unnecessary raising of anxiety amongst plan members when commentary of this nature is made about the plans. It is my hope that this response will, to the extent it is possible, help put members' minds at ease with regard to the issues raised in the letter.

John W Cook

John W. Cook
Chair
College, Municipal, Public Service and Teachers'
Pension Boards of Trustees