



Comments on the Proposed Target Benefit Plan Framework

Submitted by:

The Board of Trustees

The I.A.M. Multi-Employer Pension Plan

1. Purpose

We are the Trustees of the I.A.M. Multi-Employer Pension Plan (IAM MEPP). This paper is our response to the Consultation Paper released by the Department of Finance on Target Benefit Plans (TB Plan). In particular, we wish to explain why the proposed TB Plan framework should not apply to multi-employer pension plans.

2. Background on the IAM MEPP

The IAM MEPP was established through collective bargaining between various employers in the air transportation industry and various Canadian Lodges of the International Association of Machinists and Aerospace Workers. It is registered under the Pension Benefits Standards Act, 1985.

The Plan is managed and administered by a Board of Trustees where management and union each appoints half of the members of the Board. Contributions to the Plan are fixed by collective agreement with each employer and, where required under the collective agreement, employees also contribute to the Plan. It is important to note that the contribution rates established in the collective agreements cannot be changed by the Board of Trustees.

The Trustees are responsible for all aspects of the Plan's operation including setting the benefit levels. If the assets of the Plan are not sufficient to fund the cost of benefits, the Board of Trustees has the authority to reduce benefits subject to regulatory approval.

The IAM MEPP operates as a typical MEPP as can be found in all jurisdictions of Canada.

3. Multi-Employer Pension Plans ("MEPPs")

Since the 1950s, MEPPs have served as an effective means to deliver retirement benefits to workers and their families in industries typified by small companies and a mobile work force. MEPPs can be found in industries such as building and construction, food, service, retail, textiles, transportation, and entertainment. A single MEPP may be national, regional, provincial, or local in coverage. Anywhere from two to over 1,000 employers may contribute to one of these plans under collective agreements.

Unlike single employer plans (SEPPs), these plans have a low risk of being wound up or converted to (or replaced by) defined contribution plans. Further, they are not the subject of disputes about contribution holidays or surplus ownership since all assets in a MEPP belong solely to the participants. The "defined benefit" is in reality a target benefit, because contribution rates typically are fixed in collective agreements.

A MEPP is typically structured as a pension trust fund for purposes of the Income Tax Act. A board of trustees, not the participating employers, is responsible for all aspects of plan

administration, investment of funds, compliance, etc. The board of trustees, whose members are appointed pursuant to a trust agreement, is usually comprised of at least 50% member representatives.

MEPPs have fixed contribution rates that cannot be changed by the Trustees who administer these plans. Minimum funding requirements do not cause MEPPs' contribution income to increase. The only way to remedy an apparent minimum funding violation is to reduce benefits. In most jurisdictions, the Trustees have the authority to make such benefit reductions, typically subject to approval by the regulator. Thus, these plans are more accurately described as having "target" benefits, with the members effectively bearing the risk.

4. Why the proposed TB Plan Framework Should Not Apply to MEPPs

Target benefit plans were created by the multi-employer industry. The real question is how does one apply the concept of a MEPP to a single employer environment rather than how does one create single employer target benefit plans and apply them to MEPPs.

We hope that our explanation of how a MEPP operates is helpful. In closing, we would like to leave you with these final thoughts:

- MEPPs that are subject to a fixed contribution requirement negotiated through a collective agreement are already essentially a "target benefit plan". This fact needs to be reflected in any new PBSA legislative regime.
- As MEPPs are fundamentally different from SEPPs they require a different legislative and regulatory framework. The governance structure of existing MEPPs has been established and refined over decades. Any new PBSA legislative regime regarding governance structure should take this into account and provide exclusions for affected MEPPs.
- The introduction of a requirement to establish a funding test as outline in the consultation paper would not be helpful. Each MEPP is different, based on industry and history, and the Board of Trustees is ultimately responsible for setting an appropriate funding model applicable to the plan.

We believe that the current funding requirement without solvency funding has proven efficient in other jurisdictions. The whole idea of solvency funding requirements is to prevent benefit reductions in the unlikely event of a plan wind-up. The current inclusion of solvency funding requirements forces the initial level of benefits to be unnecessarily low given the relatively small chance of plan wind up. Since the concept of solvency is eliminated, we support the proposed termination value in lieu of the current transfer value rules.

We appreciate this opportunity to submit our comments. Should you have any questions, please do not hesitate to contact us.

Sincerely,

Board of Trustees of the I.A.M. Multi-Employer Pension Plan