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Dear Members:

Big news regarding your pension plan! Over 10 years ago, UA Local 740 engaged with industry professionals to begin lobbying the provincial government to change the solvency funding rules for Multi-Employer Pension Plans (MEPPs), like ours. Over time, other Trade Unions with similar pension plans joined in the effort. We are excited to announce that the provincial government has finally agreed to amend the Pension Benefits Act Regulations to provide a **permanent exemption from the solvency funding requirement** under the Pension Benefits Act. The effective date of the amendment is retroactive to December 1, 2020, when the temporary solvency funding relief expired. This is a monumental decision with an immeasurable benefit towards protecting the pensions for our plan members.

What is a MEPP?

A multi-employer pension plan (MEPP) is one in which two or more employers contribute to the same pension fund. The UA Local 740 MEPP is a defined benefit plan that was established through your collective agreement. The collective agreement dictates the amount of the pension contribution the employer pays to the MEPP on your behalf. The level of pension benefit that is provided to you, as a plan member, is determined by the Board of Trustees that administer the plan. This type of pension benefit is also be referred to as a target benefit, because the benefit is a target, not fixed. The benefits in a MEPP may be susceptible to reductions in the event of serious funding difficulties, such as with solvency funding.

The UA Local 740 MEPP is registered with the province of NL and is subject to the regulations of NL Pension Benefits Act. Regular filings are required, including an actuarial valuation every 3 years that provides a snapshot of the funded status of the plan. Part of the actuarial valuation is a test to evaluate the solvency of the pension plan.

What is Solvency and Solvency Funding?

As noted earlier, as a registered pension plan, we are required to file an actuarial valuation with the Superintendent of Pensions (a division of Service NL) every 3 years. The actuary is required, by law, to look at two separate tests when they review the funded status of the plan – going concern and solvency.

The solvency test is hypothetical, and looks at what would happen if the plan suddenly stopped operating and the total benefits earned by all plan members (active and retired) had to be paid out at once. In other words, if the plan shut-down today, does it have enough assets to pay out in full the accrued benefit to the plan members. If the actuary finds that the plan falls short of being able to pay out the accrued benefit to plan members, it means that the plan has a solvency deficiency.

When a plan has a solvency deficiency, the actuary must calculate the amount needed for the plan to meet its obligations to pay out the accrued benefits in full. This is called solvency funding.

The solvency test is best suited for single employer pension plans, like Air Canada or Sears. If the employer falls into bankruptcy, the pension benefits in single employer plan may be in jeopardy if the pension plan is not fully funded because that employer is no longer contributing to the plan. In a multi-employer pension plan, a number of different employers are sustaining the plan so the loss of an employer does not affect the funded status of the plan.

Why is the permanent exemption from Solvency Funding important?

The 2007-2009 global financial crisis caused a downturn in the stock market that affected the solvency funded status of many pension plans, including ours. Economists were predicting a long period of low interest rates, which would make it difficult for pension plans to recover from the solvency deficit. In Newfoundland & Labrador, when a registered pension plan is found to have a solvency deficiency on their actuarial valuation report, the regulations require the plan to be fully funded over a period of 5 years. Since the contributions to the pension plan are limited by the rate negotiated in the collective agreement, the Trustees are not in a position to increase the pension rate paid by the employer to help fund the deficit. This limits the options available to the Trustees to fund the solvency deficiency to reducing the amount of monthly pension a plan member earns for each dollar of contribution the employer remits to the plan going forward; reducing the amount of monthly pension a plan member earned for past contributions; allocating a portion of the negotiated pension rate paid to the plan to fund the solvency deficit, which means there is no monthly pension benefit earned by the plan member for this portion; and/or reducing pensions that are being paid to retired members.

Immediately following the financial crisis, we recognized that solvency was not the appropriate funding measure for our pension plan and the regulations surrounding solvency funding threatened the pension benefits for our members. Recovering from the solvency deficit wasn't achievable without reducing pensions. We promptly began lobbying the provincial government to amend the Pension Benefit Act Regulations to provide a permanent exemption from the solvency funding requirement for MEPPS. Initially, our lobbying efforts resulted in temporary solvency funding relief, which meant we didn't need to reduce pensions at that time. Finally, after years of lobbying and continued pressure, they agreed to provide the permanent exemption!

How does this impact me as a Plan Member?

The permanent exemption from solvency funding means that we no longer have to fund for a solvency deficiency in the pension plan. This exemption removes the threat of possible reductions to your pension benefit in order to fund for a solvency deficiency and provides stability to the pension plan. It's a big deal!

Actuarial valuations are still required every 3 years and the pension plan will be held to the going-concern test. The going concern scenario assumes the plan will continue to operate well into the future and that regular contributions will continue to be paid into the plan and pensions will continue to be paid out of it. The pension plan is fully funded on the going-concern test.

Holdbacks for Death Benefit Payments and Terminations.

Individuals that were affected by the solvency holdback requirement for commuted value payouts will see their holdback payments released shortly. We are working with our providers to set up the process and we will be in touch once this has been finalized. Please be patient.

We would like to thank all of the individuals, Trustees, our Administrator Leslie Wells, our industry professionals, the Superintendent of Pensions, and the people involved at Service NL that had a hand in making this happen.

If you have any questions or concerns, please contact our Administrator, Leslie Wells, at 709-747-4429 ext. 308 or lwells@ualocal740.ca.

Respectfully,

Bob Fiander

Bob Fiander, Chairman
Board of Trustees
UA Local 740 Pension Plan