Progress report on 2001

The Trustees knew that 2001 wouldn't be a year of dramatic improvement for the Plan's finances, with the economy and especially the construction industry stalled. And we knew that before we could improve the financial picture we had to get the fundamentals in place.

That's how we spent much of last year. We fully implemented half of the recommendations from the provincial Superintendent of Pensions, and partly implemented nearly all of the others. This year, we expect to finish that list.

We've also implemented a stronger investment policy, so the Plan gets a better, more reliable return on its investments. The Trustees hired specialized investment advisors, and formed a real estate committee to shift assets out of unproductive projects into more promising investments. With the help of an experienced real estate consultant, several stalled projects are now back on track – and many of them are well on their way to a final sale.

Trustees and staff worked together to ensure the Plan's office is as efficient and helpful as possible. We scrapped the automated voice-mail system, upgraded our computer hardware and software, and cleared the backlog of member inquiries.

Introducing Daphne Green… the new administrator!

After an extensive search, the Board of Trustees is pleased to introduce Daphne Green, our new administrator.

We were impressed by her energy, knowledge and determination to work with us and with the membership to put the Plan back on track.

Ms. Green brings 13 years of experience in the area, most recently as a pension administrator with Canadian Forest Products Ltd. She holds a certificate from Humber College's highly-respected pension administration program.

A report from the Board of Trustees

Spring 2002

Recovery Update

Attention all Plan members…

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…Recovery Update

A year and a half ago, the Trustees first told you about the serious trouble facing the Pension Plan. We told you about our strategy for getting the Plan back on track.

And we made a promise: to keep you informed at every step of the way.

Since then, we've held town hall meetings in every region of the province. Hundreds of plan members have asked questions, offered suggestions and made their voices heard.

We've been listening closely.

That's why we're sending you this update. The Trustees want you to know what we've heard from you, what we've done so far, and where we intend to go next.

What you've told us

In town hall meetings, at convention, on the phone and by e-mail – you've spoken out on the future of the Pension Plan. Along with specific suggestions for changes to the Plan, here are the messages we've heard most frequently from members across B.C.:

Security comes first: Members want to make sure the pensions they have earned are there when members need them. And they aren't interested in promises the Plan can't keep.

Fairness is crucial: Members want the Plan to treat everyone fairly. The Plan's provisions should balance the interests of all members.

Members affected by poor work conditions deserve protection: Given the state of the industry, members feel the Plan should do what it can to protect those who can't find enough work to earn a liveable pension or qualify for early retirement. And if they can't find union work for a long time, they don't want to be forced out of the Plan. Members in remote regions are especially concerned about this.

Answers to your questions

What is the financial state of the Plan?

Our most recent full actuarial valuation gives us a picture of the Plan's position as of June 30, 2000: a kind of financial snapshot. That valuation suggests that with the scheduled 30-per-cent benefit reduction taking place on June 30, 2003, the Plan's assets and future contributions would be enough to pay for members' pensions, with a small amount left over.

But in the year since that valuation was carried out, the Plan earned only a 2% return on its investments. That's better than most pension plans, but lower than the 7% rate of return the actuary assumed in the last valuation.

The good news is that our rate of return is improving again. The Plan's investments in equities and bonds produced a combined return of 6.7% (not annualized) in the nine months ending March 31, 2002. That puts the Plan's return in the top one-third of Canadian funds investing in a mix of stocks and bonds.* The next formal valuation will show us the state of the Plan as of June 30, 2002.

Why is the Plan spending so much more on administration?

Most of the increases have been one-time expenses. Over the last year and a half, we've overhauled everything from our computer systems to our investment policy. So you can expect to see administrative expenses fall again. But we'll probably spend somewhat more on administration than the Plan did before 2000.

That's because we're getting more professional advice, doing more to keep members informed, and conducting a higher quality of reporting and monitoring. It costs a little more, but it means you'll get more information – and you can count on a more secure pension plan.

Did the recent payouts of portability benefits hurt the Plan?

Only in the short term. The Pension Standards Branch required that we pay those benefits, and that they be based on the Plan's old rules – that is, before the benefit reductions. That has hurt the Plan's immediate financial position. But members who chose the portability options also gave up the early retirement subsidy. This will save the Plan money over the long term.

With investment markets performing poorly, how is the Plan doing?

Better than most similar plans. Other plans actually suffered an average loss of 2% in 2001; our Plan's assets increased by 2%.

Part of the reason is our investment policy. The Trustees have spent the past year reducing the Plan's investments in real estate – which were performing poorly – and moving that capital into equities and bonds. The result: less drag from our real estate holdings, and better returns for the Plan as a whole.

* Source: Fund returns reported in the PALTrak Pooled Fund database for Canadian Balanced Managers, produced by Morningstar Research Inc.

Will there still be a benefit reduction in 2003?

We're working on the assumption that there will be. The final decision will happen once we have a valuation of the Plan's financial position as at June 30, 2002. That valuation will allow us to project the Plan's position for a year into the future.

Once that projection is completed, we'll know what level of reduction will be necessary. **We expect to be able to make an announcement before the end of February 2003**.

Could it be more than 30%?

That depends mostly on how the Plan's investments perform. Better than expected returns could mean a lower benefit reduction; poor returns could mean we have to reduce benefits further.

Could there be another reduction down the road?

It's impossible to guarantee that another benefit reduction will never be needed. But when we decide on the reduction in 2003, we'll set it at a level that makes another reduction a remote possibility. Going forward, our focus will be on restoring the Plan's financial position and protecting it against setbacks.

What's happening to credits for hours worked before 1989?

Detailed records weren't available for hours worked before July 1989. We responded by granting one year of Pension Credit for every two years of Pension Service or Past Service during that period.

Now, with the restoration of those records from microfiche finally complete, we can examine the cost of using exact pre-1989 hours to determine Pension Credit. But if the data turns out to still be incomplete or unreliable, or if the cost to the Plan would be too great, we may not be able to change the eligibility rules.

How will you ensure the Plan stays on solid ground?

There are three key ways the Trustees are working to make the Pension Plan secure:

1. setting benefits at a level the Plan can sustain over the long term,
2. investing assets to get the best rate of return at an acceptable degree of risk, and
3. managing the Plan's finances prudently, and leaving enough margin to protect the Plan from difficulties in the future.

Is the Benefit Plan secure?

According to a review by an independent consulting firm in 2001, the Benefit Plan is currently able to meet its commitments to the plan members.

But costs are rising. Provincial government cutbacks mean the Plan must now pay for health services and medication that used to be covered by MSP and PharmaCare. MSP premiums increased by 50% as of May 1. And the provincial government has indicated the cuts so far are only the beginning – so health costs for our Plan have nowhere to go but up.

The Board of Trustees is taking action early to make sure the Benefit Plan continues to stay financially secure. We've launched a thorough review, including the Plan's structure, level and cost of benefits, who is eligible, how we deliver benefits, and our administrative costs, policies and procedures.

We'll keep you informed as our review progresses.

What's next

There's still a lot more to do to get the Plan back on a sound footing. That work is likely to last for the next several years – but it will be worthwhile, because it will mean a healthier, more secure Pension Plan for our members.

Here's what the Trustees are planning for the coming year:

1. We'll ask you for more input on possible changes to the Plan. You'll soon receive a mailing explaining what we heard at town hall meetings and Convention, and asking you for feedback on various options for the Plan's future. We'll summarize what we hear and pass it on to you.
2. We'll keep implementing our investment policy. Paying careful attention to market conditions, we'll continue to move assets from real estate and mortgages to more productive investments.
3. We'll complete and implement a new governance framework. That will mean clearer standards for governing the plan, and more effective ongoing management.
4. We'll continue regular communications with members, including town hall meetings and updates.
5. We'll complete the overhaul of the Plan's administration, making it more efficient and effective.
6. We'll reduce operating costs, with one-time expenses out of the way and less reliance on outside service providers.
7. We'll determine what benefit reduction is needed. The actuarial valuation as at June 30, 2002 will include a projection one year into the future. Based on that projection and the actuary's advice, Trustees will determine how much we need to reduce benefits as of June 30, 2003.

Watch your mailbox!

You can expect an update soon, along with a request for your feedback and advice.