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June 11, 2003

**Letter to the members of Local 1598, Victoria.**

**Re: Carpenters' Benefit and Pension Plans of BC Changes**

Dear Victoria Members:

We are writing this letter in response to "A Special Letter to Members" sent to you by Wayne Cox. We have been contacted by a number of Victoria members with concerns arising from this letter, and we feel we must respond to clear up some factual errors and set the record straight. We attach a copy of Mr. Cox's letter for your reference.

Firstly, before we address the specific concerns raised by Mr. Cox, it should be understood that many of the problems which have been experienced in both the pension and benefits plans can be attributed to a previous era of pension and benefit administration within the Carpenters' organization. It was during these times in the 1980's and 1990's that decisions were made on investments and plan benefits and improvements which have had a dramatic negative impact on the ability of the plans to now deliver the previous level of benefits. This has resulted in benefit reductions. As an active trustee during this time, Mr. Cox will probably agree that many of the unsuccessful real estate investment projects undertaken by the pension plan on Vancouver Island have created losses which have been difficult to overcome with other plan investments. A heavily subsidized Rule of 80 benefit was also introduced in this period which granted unreduced pensions for retirement as early as 50 years of age. It is only a matter of time before poor investment performance combined with subsidized benefits will result in benefit reductions because the plans simply cannot afford to continue at that level.

The current Board of Trustees and Administration have inherited these problems, and have taken very seriously their responsibility to the members to put the plans on a solid footing and to provide full disclosure to the members without political motivation or bias. We cannot undo the benefit reductions, which affect us equally with other members, simply because we do not want to face them or would prefer that we push them off to younger members to absorb. We recognize that we do not receive any political credit for addressing the problems and delivering the bad news, but we are not accepting our responsibility of leadership if we think we can make it go away by voting against it, as is being advocated by Mr. Cox.

## **Benefit Plan Changes:**

There are three main issues raised with the Benefit Plan in Wayne Cox's letter; changes to the hour bank charge, allocation of the \$.50 hour increase, and the elimination of MSP premiums. We will address each of these points, but want to start with some background.

Yes. The Benefit Plan, like the Pension Plan, was in serious trouble. The employer contribution rate had been frozen since the mid 90's, during a time when the cost of benefit plans has increased sharply. The Plan, at that time, had a substantial surplus. At the time the freeze was introduced, a yearly review of actual benefit plan costs and the impact of these costs on the surplus should have been implemented. This was not done. Steps are now in place for annual financial reviews along with a full independent assessment every three years to ensure we keep a close eye on the Plan's financial health so we don't fall behind again.

How far behind did we fall? Prior to May 1<sup>st</sup> of 2003 we were receiving \$119.50 employer contribution for a month of benefits which cost us \$244.70 to deliver. Clearly, something had to change. A dollar will only buy a dollar's worth of benefits. Through a combination of benefit reductions and increased contributions, we have acted now to protect the Benefit Plan for the future.

## **Now to Wayne Cox's Concerns:**

1. He suggests an increase to 125 hours to provide a month of coverage. The Board of Trustees examined this option amongst many others. This option, in our opinion, would lead to hardship and in the end not serve the members well. Simply put, at 100 hours per month a member requires 1200 hours of work a year to maintain full coverage. This number reflects the hour model worked by members in BC. If 125 hours per month were required for coverage, a full 25% of our members would lose at least a month per year of employer paid coverage. After analyzing our member data, our benefits consultants determined that moving the hour bank cap to 1200 hours would achieve the same financial impact that increasing to 125 hours for coverage would have done. However, it meant only a one-time loss of coverage to the 13% of members who had a full hour bank instead of a recurring loss to those who are struggling to work enough hours to maintain their benefits.
2. He takes issue with the allocation of the fifty-cent wage increase. The additional money, thirty-five cents, recently put into the Benefit Plan was necessary to maintain the *reduced* benefit package, not enhance it. Without the additional money, we could not have maintained even the reduced level of benefits. Even with the increase, we still have one of the lowest employer contribution rates of all the B.C. building trades' benefit plans.
3. He questions the elimination of MSP premiums. MSP was the most expensive coverage provided under the Plan, and became even more expensive with a 50% increase last year. It is also the only coverage that we can be sure every member can replace. Members will pay no more than the Plan paid. Low-income members may well pay less than the Plan used to pay on their behalf. Many members won't have to pay anything at all, because they can be covered under their spouse's plan. Simply put, a coverage reduction of the magnitude of eliminating MSP premiums was required to protect the overall security of the Benefit Plan. Your Trustees thought carefully, considered all the alternatives, obtained qualified outside advice, and this was one of the tough decisions we had to make.

## **Pension Plan Changes:**

In Mr. Cox's letter, he correctly states that the Plan's financial problems were due in large part to the Plan's poor investment returns in the period 1994 to 2000. However, the foundation for a significant part of these poor investment results was laid prior to 1994. In the period from 1994 to 2000, the Plan had to recognize substantial losses on real estate investments that were purchased prior to 1994 during Mr. Cox's tenure as a Pension Trustee. Most of these losses were incurred on properties located on southern Vancouver Island, including the Bamberton, Christmas Hill, Cordova Bay and other projects. Cordova Bay was eventually sold out at a loss, Christmas Hill was sold as a project last year for a substantial loss to stop the bleeding, and the Bamberton project remains unsold and undeveloped with significant annual maintenance expenses. These investments date back to the late 1980's and if the dollars invested were earning an annual return over that period the pension plan would have been in much better financial condition.

If these projects had the median level of return of other pension plans, rather than no return and significant losses, the members would indeed not be facing these drastic cuts. As was indicated in the brochure sent to members in early April, the work done by the Trustees in the last three years to restructure the investment portfolio and address the real estate problems is beginning to pay off. Mr. Cox raises concerns that the recently announced pension reductions do not apply equally to all members and that this is not consistent with past practice. His letter includes a petition directing the Trustees to apply the same (percentage) reduction to all members and to reverse the changes to the early retirement provisions. We do not agree with his conclusions.

The petition is premised on the following statement, "...each and every time the Plan generated surpluses, the increases were applied to both active participants and pensioners equally". This statement is only partially correct and overlooks a very important issue.

It is true that when pension increases were granted, they were generally the same for active participants and pensioners. What is not mentioned, however, is that over time early retirement provisions were dramatically improved for active participants. When this happened, there was no corresponding improvement for pensioners.

Let's take the Plan improvements at July 1, 1992 as an example. At that time, there were no increases for pensioners, but early retirement provisions were improved for active participants in two ways:

- first, the age at which a member with 10 years of pension service could receive a pension without reduction for early retirement was reduced from age 61 to age 60; and
- second, the "Rule of 80" was introduced allowing a member to retire as early as age 50 with a full pension unreduced for early retirement.

These changes meant that active participants who retired early on or after July 1, 1992 effectively received a pension increase with no adjustment for pensioners who retired before that date, even those who retired just one month before that date. The increase was 32% for an active participant who retired under the Rule of 80 at age 55 and even higher if retirement occurred before age 55.

The recently announced changes reduce the pension subsidy on early retirement. This was necessary not only because the Plan cannot afford the high cost of the generous early retirement subsidies, but

also because large early retirement subsidies treat active participants unfairly since they are provided at the expense of those who start their pensions at a later age. In effect, the changes roll back some of the early retirement improvements made in the past and reverse the unequal treatment of active participants and pensioners. If we accepted Mr. Cox's suggestion to reinstate the early retirement subsidy we would be perpetuating the unfairness of the original subsidy on the backs of the members who have already retired at the normal retirement age or who will retire in the future.

The benefit reductions were developed following lengthy deliberations by the Trustees and were designed to address the interests of all Plan members in an even handed way. Similarly, future improvements will be applied in an equitable way to all – active participants and pensioners. However, the timing of the improvements will be allocated first to older retired members in recognition of the fact they have fewer years to live than younger members, and less opportunity to benefit as the Plan's financial position recovers.

It is our duty to continue to represent the best interests of both the active and the retired members in a fair and even handed manner. Difficult and in some cases unpopular decisions must be made to fulfill that duty.

We hope this letter has brought some of the issues in Mr. Cox's letter into proper focus. We look forward to attending a town hall meeting in Victoria in the not too distant future where we can personally answer any questions the members might have.

Yours truly,  
**Carpentry Workers' Pension & Benefit Plans of BC**

John Davies,  
Chair, Board of Trustees