

mebco NEWS

THE VOICE OF MULTI-EMPLOYER PLAN INTERESTS IN CANADA

inside

GST rebates – an update

MEBCO has continued its lobbying efforts to obtain a GST rebate for multi-employer benefit plans similar to the GST rebate MEBCO obtained for multi-employer pension plans.

Full story on page 2

2

MEBCO – Where we've been

We look back at MEBCO's first 12 years and the successes it has achieved

Full story on page 2

Predicting the impact of the new commuted value standard

The new commuted value standard will affect the transfer value entitlements of members who terminate after February 1, 2005.

Full story on page 3

3

Five reasons to join MEBCO

If you're not already a MEBCO member, here are five reasons to consider joining.

Full story on page 3

Preparing for pre-budget submissions

As in past years, MEBCO will again be participating in the Federal Pre-budget Consultation Process. We are currently preparing our submissions to the House of Commons Standing Committee on Finance to ensure that the interests of MEBCO members are advanced and considered as the government sets its budgetary and legislative agenda.

Following the recent federal election, a new Finance Committee will be established in October when the House of Commons resumes sitting.

MEBCO's submissions will focus on the following issues:

- **Regulatory relief for the solvency crises** – We will recommend that multi-employer pension plans be permitted to address solvency deficiencies through special payments over a 15-year period. We are also in favour of a change to the Income Tax Act Regulations to eliminate pension adjustments for special negotiated payments designated to liquidate any solvency deficiency.

MEBCO is preparing submissions to ensure that the federal government considers the interests of MEBCO's members in its budget.

- **GST relief for multi-employer benefit plans** – This will support MEBCO's concerted lobbying efforts to secure a GST rebate for MEBPs.
- **Reducing tax on group life insurance benefits** – This would remedy the removal of the tax-free status on contributions for the first \$25,000 of coverage through group life insurance plans, which was eliminated in the 1993 Federal Budget. Consideration is being given to proposing a modified exemption to allow for tax free contributions to group life insurance plans with coverage capped at \$25,000.00.

continued on page 4

GST Rebates – an update

Life and health benefit programs pay Goods and Services Tax (“GST”) on their actuarial, administration, auditing, claim settlement, consulting and related expenses. Generally, a single-employer plan sponsor claims “input tax credits” on GST paid for most of these services (not including “finance” services, which might include investment management fees, asset custodial costs, and insurer’s ‘retention’ charges), and hence recover GST payments.

MEBCO successfully argued that it was inequitable that multi-employer pension plans (“MEPPs”) could not also claim an input tax credit. As a result of our efforts, we obtained a 1/3rd “rebate” for all MEPP GST payments.

The 1/3rd ratio represents the portion of non-exempt service fees to total service fees. It recognizes that on average, investment management and custodial services represent the majority of a MEPP’s costs. Using a 1/3 ratio also eliminates the necessity of MEPPs accurately allocating the proportion of non-exempt and exempt services.

Although it agreed to the rebate for MEPPs, Ottawa deferred

extending the rebate to life and health benefit programs until further analysis was completed. We have continued our lobbying efforts to obtain an equitable rebate for multi-employer benefit plans (“MEBPs”).

After a number of years and dozens of meetings and submissions, MEBCO believes that we have succeeded in convincing Ottawa that:

- MEBPs are disadvantaged compared to similar single-employer plans, and
- virtually all of the direct costs incurred by MEBPs are non-exempt, so the equitable rebate proportion should be a very high percentage.

MEBCO has projected that the annual financial impact of a GST rebate for MEBPs would be largely immaterial to overall federal revenues, with an annual cost of perhaps \$7 - \$10 million. The rebate would still be of assistance to MEBPs hard hit by continuing high levels of medical plan inflation and downshifting from ‘medicare’ programs.

The final step in obtaining a GST rebate for MEBPs is to ensure that the ‘political will’ exists to pass the necessary legislative changes. MEBCO will continue to lobby for this rebate and we will keep you advised of further developments. ∞

MEBCO – Where we’ve been and where we’re going

As MEBCO directors prepare their pre-budget submissions for a new government – and for the first new prime minister since Jean Chretien took office just one year after MEBCO was formed – it’s a good time to look back at MEBCO’s history, and what the organization has accomplished over the past 12 years.

MEBCO was established in 1992 as a federal non-share capital corporation to represent the interests of Canadian multi-employer benefit plans (“MEBPs”), and to advocate for the interests of multi-employer plans (“MEPs”) to the provincial and federal governments.

The Board of Directors of MEBCO is made up of representatives from all the disciplines involved in MEPS – and from all across Canada.

“At the beginning there was a heavy concentration of directors from central Canada”, says Bill Anderson, the President of MEBCO. “That was because many people mistakenly believed that the “O” in “MEBCO” stood for Ontario. As people realized this was false, more and more directors have come from outside of Ontario.”

All of the directors volunteer their time and are responsible for identifying issues that affect MEPS, developing strategies to respond to those issues, and implementing those strategies. The organization is also fortunate in being able to take advantage of the experience of some of the original directors who are still on the MEBCO Board.

Although the directors come from different disciplines and backgrounds, they work together to promote the interests of MEPS. For example, MEBCO’s by-laws are the result of lengthy negotiations between labour, employer and professional representatives to MEBCO. The process worked, because the by-laws have served MEBCO well for the last 12 years.

Passionate advocate for MEP issues

Shortly after MEBCO was incorporated, it had to deal with its first big issue, the introduction of Retail Sales Tax on employee benefit plans introduced by Floyd Laughren of Bob Rae’s New Democratic Party.

“We were too late to make any major impact on that legislation, but our aggressive opposition made many politicians stand up and take notice – and they certainly became aware of our existence” says Bill Anderson.

Since then, MEBCO has submitted dozens of reports to the provincial and federal levels of government and made written and oral submissions relating to a number of issues that affect benefit and pension plans. Its focus in particular has been the tax-free status of these plans.

The organization’s greatest success has been in convincing the federal government to allow GST rebates on administrative expenses of multi-employer pension plans. For more information on this issue, see “GST rebates – an update” on this page.

continued on page 4

Predicting the impact of the new commuted value standard

By J. M. ("Mel") Norton, FCLA, FSA
Senior Vice President, Aon Consulting Inc.

Members who terminate on and after February 1, 2005 will have their 'transfer value' entitlements calculated using updated actuarial assumptions as to life expectancy and interest rates. The new updated mortality table projects significantly longer life expectancies for males and slightly longer life expectancies for females. This will generally increase the transfer amount by approximately 9% for an all-male plan, and will have an immaterially higher impact on an all-female plan. The impact on plans covering members of both genders will vary based on the blend of male and female members.

The impact of the new, updated interest rate module is less predictable. Transfer values will diminish for virtually all fully indexed plans. Transfer values will vary for non-indexed plans. Typically, where the primary interest rate (currently the rate applicable for durations up to 15-years) is more than 6%, lower transfer values will result; on the other hand, where

the primary interest rate is less than 6%, higher transfer values will result.

Solvency valuations, as well as 'wind-up' or 'conversion' valuations, use the same assumptions as apply to 'transfer values'.

The impact of the new commuted value standard will exaggerate the solvency position of plans with a solvency deficiency.

The impact of the new commuted value standard will therefore exaggerate the solvency position of plans with a solvency deficiency. It will also reduce or eliminate the surplus of plans whose solvency assets would, prior to the change, exceed solvency liabilities. Trustees should consult with their actuary to project the likely impact on their plans, and make decisions accordingly.

MEBCO continues to oppose 'solvency funding' for Multi-Employer Pension Plans, and reflects this position in our submissions to all pension supervisory authorities and CAPSA. ∞



Mel Norton
AON Consulting Inc.

Five reasons to join MEBCO

Multi-employer plans are essential for workers in mobile, seasonal industries, because they provide continuous benefits coverage as workers move from one contributing employer to another. And although many of the benefits employees receive through MEPS are the same as those offered by single-employer plans, the legislative framework and the issues facing the plans are different.

That's where MEBCO comes in. MEBCO is the only organization representing the unique interests of multi-employer plans to ensure that their interests are protected.

If you're not already a MEBCO member, here are five reasons to consider joining – and encouraging others in our industry to join:

1

Multi-employer plans are continuously threatened by legislative and regulatory changes. MEBCO monitors and responds to those changes on behalf of their members.

2

Recent proposed legislative changes threaten to offload costs onto MEPS and restrict plan coverage. MEBCO takes an active role in opposing any such offloading.

3

Multi-employer plans play a vital role in providing health benefits and retirement plans to over 1 million workers and their families in industries characterized by small companies and a mobile work force. MEBCO works to protect those plans.

4

Multi-employer pension plans often have a low profile because the insurance coverage is spread over so many employers. MEBCO is the united lobby for these plans.

5

Governments frequently propose changes that will affect multi-employer pension plans. MEBCO is the single, clear voice at the table representing multi-employer pension plans.

For information on how to join MEBCO and to download a membership application form, go to www.mebco.org.

continued from page 1

- **Opposing new taxes on supplementary health, dental, and pension benefits** – We will continue to oppose the introduction of additional registration fees or indirect “taxes” that arise through the imposition of inappropriate limits, as was the case with the proposal to limit pension fund investment in publicly traded income trusts.
- **Adequate funding for Canada’s health care system** – Our submissions will set out MEBCO’s continued opposition to actions that merely download benefit costs that were historically provided by government to private plans and

individual programs. In particular, MEBCO’s submission will focus on the continually increasing costs of prescribed medications, and the government’s inaction in stemming such costs.

We encourage members to provide their feedback and input on the proposed issues to be covered in our submissions and MEBCO’s position on them.

Please contact MEBCO at 416-745-6466 or e-mail us at mail@mebco.org. You can also write to us at 135 Queen’s Plate Drive, Suite 200, Toronto ON M9W 6V1. ∞

continued from page 3

Some of MEBCO’s other accomplishments include:

- lobbying with the Canadian building trades regarding the underground employment in the construction industry. The prevalence of underground construction activity was putting pressure on the government’s ability to fund Canada’s social programs and at the same time was preventing money from flowing into the MEP and benefit plans of its members
- convincing the government that trust funds could govern themselves without government interference or professional trustees. MEBCO connected the government with the International Foundation of Employee Benefit Plans to devise educational programs for trustees. This resulted in the ATMS courses that the International Foundation is now offering
- taking an active role on the changes to the Canada Pension Plan and the proposed changes to the seniors’ benefits. MEBCO was instrumental in establishing the Board of Directors for the Canada Pension Plan and changing the funding and benefits to provide for a long-term social benefit for members.

Current activities

MEBCO is currently involved with a number of activities. Along with the GST rebate issue, the organization is devoting much of its time and budget sitting on committees with CAPSA and the provincial regulatory bodies in Ontario and Alberta to attempt to harmonize pension legislation and resolve the issues of pension solvency.

MEBCO is also planning to launch a campaign for new members.

“Even though our directors are all volunteers, lobbying is very expensive,” says Bill Anderson. “In order for MEBCO to represent our members’ interests properly, we need to increase our membership to ensure that we have adequate funding for our activities. We’re asking all members of MEBCO to help increase our membership by spreading the word about our activities to other people who are involved with MEPs and MEBPs.”

For more information on why your membership in MEBCO is so important, see the article on page 3. ∞

MEBCO Board of Directors

EXECUTIVE COMMITTEE

President

William D. Anderson
BPA Consulting Group Ltd.
Professional
Ontario

Vice President

Greg Zaba
Ironworkers (Sask), Local 771
Union Trustee
Saskatchewan

Secretary

Joan S. Tanaka
Prudent Benefits
Administration Services Inc.
Professional
Ontario

Treasurer

Brian Foote
Toronto Construction Assoc.
General Contractors Section
Employer Trustee
Ontario

COMMITTEE MEMBERS

Andrew Hatnay

Koskie Minsky
Professional
Ontario

Harvey Mason

D.A. Townley & Associates
Professional
British Columbia

Mel Norton

AON Consulting Inc.
Professional
Ontario

Dr. Peter Martini LLD

Ontario Masonry Council
Employer Trustee
Ontario

Patrick D. Darrah

Saint John Construction
Associate Inc.
Employer Trustee
New Brunswick

Fern Tardif

Chairman, IBEW Local 625
Union Trustee
Nova Scotia

Bob Blakely

Building & Construction
Trades Department AFL-CIO
Union Trustee
Alberta

Fred Reeve

Graphic Industries
Employer Trustee
Ontario

Edgar Doull

International Union of
Operating Engineers
Union Trustee
Nova Scotia

Cameron Hunter

c/o Eckler Partners Ltd.
Professional
Ontario

Sid Matthews

Construction Industry
Employer Trustee
Saskatchewan

Alex McKinnon

Steelworkers Trusteed
Benefit Plan
Union Trustee
Ontario

Gary Dean

Construction Industry
Employer Trustee
Nova Scotia

ADVISORS

Tom Levy

Senior VP and Chief Actuary
The Segal Company, Ltd.
Advisor
Ontario



MULTI-EMPLOYER BENEFIT PLAN COUNCIL OF CANADA

135 Queen’s Plate Drive, Suite 200, Toronto, ON M9W 6V1 | T 416 745 6466 | F 416 745 5163 | mail@mebco.org | www.mebco.org