



THE BRITISH COLUMBIA COAST PILOTS LTD.

1450 - 1130 WEST PENDER STREET, VANCOUVER, B.C. V6E 4A4

TEL: (604) 688-0291 FAX: (604) 688-5250

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PRIVATE AND CONFIDENTIAL

Diane Lafleur
Financial Sector Policy Branch
Department of Finance
L'Esplanade Laurier
20th Floor, East Tower
140 O'Connor Street
Ottawa, Canada K1A 0G5

Dear Ms. Lafleur:

The British Columbia Coast Pilots is pleased to have the opportunity to comment on the recent consultation paper on improving the framework for federally regulated private pension plans.

The British Columbia Coast Pilots is a private company consisting of licensed marine Pilots who contract their services to the Pacific Pilotage Authority, a crown corporation charged with ensuring that a safe and efficient pilotage system is provided on the British Columbia coast.

We believe that defined benefit ("DB") pension plans deliver the most cost-effective pensions to retirees. DB pension plans pool both longevity and investment risk, and address inflation risk if indexed. We remain committed to offering a strong pension plan to our retirees and to our current and future employees.

The following are our responses to selected questions posed in the consultation paper that are directly relevant to the British Columbia Coast Pilots.

Sincerely,

for Captain Mike Roman
President

Solvency Measurement and Funding Rules

The Government of Canada is interested in stakeholders' views regarding the rules for funding solvency deficiencies and the solvency calculation itself.

Minimum funding requirements

In the current low interest rate environment, funding levels are driven almost exclusively by solvency funding requirements. These solvency funding requirements effectively force plan sponsors to fund their pension plan as if they were to cease operations and terminate their plans as at the valuation date. The volatility of pension contributions resulting from this hypothetical plan termination scenario puts unnecessary financial pressure on our company and our Pilots.

We believe that the current five-year amortization period for funding solvency deficits is too short for financially strong companies in stable industries like the British Columbia Coast Pilots. As our Pilots will be required on all ships entering the BC coast for the foreseeable future, our company is not at risk of failure and has a very low risk of terminating with an insolvent pension plan and therefore, should be allowed to fund solvency deficits over a longer period. We suggest that the amortization period for financially strong companies, like ours, be extended to fifteen years.

In addition, we believe that the extension to the solvency amortization period should be allowed without any constraints such as plan member consent or letters of credit. The requirement to obtain plan member agreement involves a complicated and difficult communication process that will be impractical for most plan sponsors to implement. Also, the ability and cost to obtain letters of credit (LoCs) has been impacted by the difficult state of the credit market and will not be a realistic option for many plan sponsors. LoCs are expensive and, because the costs are not refundable, they are a direct significant cost to the plan sponsor. Finally, LoCs are not available to all plan sponsors.

We also believe that smoothing of assets for solvency valuations should be permitted for financially strong companies up to 120% of the market value of assets. Finally, we believe that smoothing of the solvency discount rate should be permissible.

Contingency Reserve Accounts

We believe that a complementary funding approach involves the use of contingency reserve accounts. The contingency reserve account referred to above would be a new form of rainy day cushion. Contributions required under the going concern valuation would be paid to the pension fund. Further contributions required under the solvency valuation would be paid to a special purpose trust. This contingency reserve would be tax-sheltered, held separate from the sponsor's assets and protected from non-pension creditors. Contingency reserve assets not required to meet benefit obligations on plan windup

would revert to the sponsor. For an ongoing plan, the sponsor would be allowed access to the contingency reserve if the total assets of the pension fund and this reserve exceed a reasonable margin of safety.

The reserve could also hold voluntary contributions that would better enable sponsors to match funding to their business cycles and thereby decrease contribution volatility.

In the event of a full windup, obligations would first be charged to the pension fund and then, as required, to the contingency reserve account. If money remains in the pension fund after all obligations are met, it would be distributed as under the current regime. Contingency reserve account assets not required to meet obligations would be returned to the sponsor.

Maximum Funding Limit

The Department should implement tax changes raising allowable funding limits for DB plans from the current maximum of the greater of 110% of going concern liabilities and 100% of windup liabilities. We believe that the funding maximum should be eliminated or, at the very least, raised to at least 125% of the greater of the going concern liabilities and windup liabilities.

Contribution Holidays

The Government of Canada is seeking views on whether:

- *Plan sponsors be required to develop a formal policy on contribution holidays for inclusion in a Statement of Funding Policy; and*
- *To the extent that employer contributions are permitted under the tax rules, plan sponsors only be permitted to take a contribution holiday in the year in which a valuation report, filed with OSFI, shows a surplus in the plan on a solvency basis.*

We do not see the need to require a formal policy on contribution holidays as circumstances affecting our plan and our company may change. In certain situations, such policy could unnecessarily remove some flexibility in determining our funding requirement.

We would support a requirement to file an updated financial position of the plan, with OSFI, rather than a requirement to file a full valuation report to justify a contribution holiday in a given year between interim valuation years. Such update would certify and disclose any surplus in the plan on a solvency basis in order to justify a contribution holiday in the given year. In order to minimize the additional administrative burden this requirement would place on plan sponsors like us, we believe the update should not require the same level of analysis as a full actuarial funding valuation.