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Ms. Priscilla H. Healy
Chair, Advocacy & Government Relations Committee
Association of Canadian Pension Management
60 Bloor Street West, Suite 1103
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MAY 27 2003

Dear Ms. Healy,

Thank you for your letter dated April 22, 2003, and your previous letters regarding the status of the Pension Benefits Guarantee Fund (PBGF) and Algoma restructuring. I apologize for not responding to your letters sooner.

You have asked why the process contemplated by the *Pension Benefits Act* (PBA) was not followed regarding the PBGF. By this I assume that you refer to the fact that a PBGF declaration was issued without the bankruptcy of the plan sponsor. In our view this is not a requirement of the Act. The Algoma declaration was made as a result of the Superintendent of Financial Services (the Superintendent) being a party to the CCAA proceedings as a result of the potential claims against the PBGF. The PBA requires that a pension plan be wound up in circumstances where the funding requirements of the Act can not be satisfied.

Arising from the CCAA process, the Superintendent entered into an agreement with Algoma Steel to restructure Algoma's original pension plans. Under the terms of the agreement, Algoma's two original plans (one for hourly, and another for salaried employees) were each split into Active and Retiree Plans effective September 17, 2001, and Algoma took the necessary steps under the PBA to terminate the Retiree Plans effective September 17, 2001, and apply for a declaration that the PBGF applies to the Retiree Plans.

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The provisions of Regulation 202/02 largely relate to the Active Plans that provide benefits to remaining Algoma employees. As part of the pension restructuring, the PBGF will not apply to these plans until they are fully funded. Some provisions do relate to the Retiree Plans and facilitated the implementation of the CCAA agreement, such as the non-applicability of the lien against Algoma's assets. This amendment was necessary to enable Algoma to continue operations. Had the lien not been waived, Algoma's creditors would not have agreed to the restructuring of the Company and the liabilities assumed by the PBGF would have been greater. Recognizing that the application of the PBGF to the Retiree Plans would result in benefit reductions for the pensioners and, further, that Algoma required the support of the pensioners who were a voting class under the CCAA proceedings, Algoma set up an additional new plan (the WRAP plan) which would top up the pensioners to their full entitlements, excluding indexation.

As a result of the pension restructuring, the PBGF application in respect of the Retiree Plans met the conditions set out in the PBA and the Superintendent issued the PBGF declaration on August 28, 2002. Algoma subsequently advised the Superintendent that they would not be able to continue administering the Retiree plans and, as a result, following a tender process, the Superintendent appointed Morneau Sobeco as the administrator of the Algoma Retiree Plans.

Algoma remains the sponsor and administrator of the pension plans for continuing employees, and these plans will not be covered by the PBGF until they are fully funded on a solvency basis for 5 years. Algoma also remains responsible for the WRAP plan which is permanently exempted from PBGF coverage.

As of September 17, 2001, the aggregate unfunded PBGF liability for the Retiree Plans was estimated at \$305 million. This amount was less than the estimated claim of \$393 million that would have been made against the PBGF had Algoma failed. It was clear during Algoma's insolvency that without the pension restructuring Algoma would fail and the PBGF would have been liable for the full \$393 million guaranteed unfunded liability.

As of March 13, 2003, the solvency deficiency in the retiree plans had increased to about \$426 million, largely as a result of a decline in long-term interest rates and lower than expected investment returns. An allocation of \$88 million was made from the PBGF to the Algoma Retiree Plans on May 20, 2003.

On September 17, 2001, the balance in the PBGF was about \$200 million. Instead of immediately winding up the retiree plans, it was decided that the plans would continue to operate until annuitization is possible. Periodic allocations would be made from the PBGF to improve the funded status of the retiree plans, but such allocations would leave sufficient funds in the PBGF to meet other claims.

Financial statements regarding the PBGF are prepared annually as of March 31 and audited. I have attached copies of the latest audited financial statements dated March 31, 2002. Audited statements are currently being prepared for the year ending March 31, 2003, although FSCO has informed me that the balance in the PBGF as of May 20, 2003 was approximately \$302 million. Following the allocation of \$88 million to the Algoma Retiree Plans, this balance is now \$214 million.

You have also asked about the impact of the Algoma deal on PBGF assessments. There are no plans at this time to increase PBGF assessments. It is anticipated that periodic allocations of PBGF funds (such that the PBGF remains with sufficient assets to meet other claims) should result in the retiree plans becoming fully funded over time. If claims against the PBGF increase significantly, or if investment returns in the retiree plans are very poor, the Government may have to consider taking steps to improve the funded status of the PBGF (e.g. assessment increases, changes to the guarantee levels, etc.).

You also asked whether the statement in the press release dated August 31, 2001 that "the PBGF currently has an estimated \$200 million available to pay new claims" takes into account the liability of the fund in respect of the Algoma plans. The figure did not include the liability arising from the Algoma pension plans.

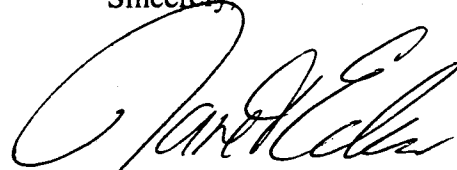
You question the need for the PBGF and ask whether the Government has any plans for the future of the Fund. The Government has no plans to discontinue or fundamentally alter the PBGF. We believe that the PBGF provides an important protection for Ontario pensioners and plan members. As I indicated above, if it appears that the PBGF is insufficiently funded, the Government would consider changes to improve its funding.

I recognize that the PBGF faces challenges given today's uncertain investment climate. I believe that the response to the Algoma insolvency was an innovative approach that limited the liability of the Fund to guarantee benefits arising from the Algoma pension plans. The Government believes that there is a good likelihood, given strong PBGF revenues, that the Fund can meet its future obligations without the need to increase assessments. If future claims against the PBGF increase significantly, we will of course review the structure of the Fund.

The Government has implemented regulatory changes preventing any new pensions plans from becoming qualifying pension plans, and is considering whether any other steps are required to secure the funding of pension benefits. If the ACPM has views on this matter, I would be pleased to hear them.

Thank you again for writing.

Sincerely,

A handwritten signature in black ink, appearing to read 'Janet Ecker', written in a cursive style. The signature is positioned above the printed name and title.

Janet Ecker
Minister