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April 16, 1999

Mr. B. Christophe, Chairman
Board of Trustees
Canadian Commercial Workers Industry Pension Plan
Suite 110, 61 International Blvd.
Rexdale, Ontario
M9W 6K4

Dear Mr. Christophe:

RE: Canadian Commercial Workers Industry Pension Fund
Plan Examination
Revenue Canada Registration Number: 0580431
Alberta File Number 42504

During the week of March 15, 1999, an on-site examination of the Canadian Commercial Workers Industry Pension Plan was conducted at the head office of the plan administrator in Toronto, Ontario. The primary purpose of the examination was to review the plan for compliance with pension legislation applicable to it. There were five key areas of examination: administration, general compliance with legislation, funding, investment and governance.

A closing meeting was held with the Board Chair and the plan administrator to outline the findings of the examination. The attached report presents to the Board the summary of those findings and the recommendations and actions required as a result of the findings.

We would be most pleased to meet with the Board or their appointed representatives to discuss the issues identified.

Yours truly,

S. Holmes

S. Holmes
Lead Examiner

Report to the Board of Director of
The Canadian Commercial Workers Industry Pension Plan
On the Plan Examination Conducted by Alberta Employment Pensions
March 15 - 19, 1999

Introduction

The Examination was lead by Shauna Holmes from Alberta Labour - Employment Pensions. Other members of the examination team included Harry Arjoon from the Office of the Superintendent of Financial Institutions, George Ma from the Financial Services Commission of Ontario - Pension Plans Branch, Ghislain Nadeau from the Regie des Rentes du Quebec and Gail Armitage from Alberta Labour - Employment Pensions.

As part of the examination process, meetings were held with the plan administrator, plan actuary, the auditor, and the plan's investment advisor. Records and files of the administrator were also reviewed as were policy/procedure manuals, Board and Committee minutes and reports from the auditor and the plan actuary. The co-operation of all noted parties was most appreciated.

Administration

Findings

The plan is well administered. There is a sophisticated computer system in place and checks on data show that data in the system is consistent with that on paper files. There is a good system of peer review and several built in control systems. Contributions are remitted on time and there is an established procedure for collecting delinquent contributions. Benefit calculations are consistent with plan provisions and Act requirements and statements to members contain all the required information. It was also noted that the administrator has recently been audited by Revenue Canada and a contracted auditor.

Recommendations

There were no concerns or recommendations related to plan administration.

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Findings

In most areas the plan complies with legislative requirements. Filings are done on time, disclosure statements include all required information. There is however, a problem with funding on the solvency side and in an effort to resolve this issue the plan has been amended in a manner that does not comply with legislative standards.

There are three areas of concern with respect to the recently filed amendment.

1. The retro-active reduction of ancillary benefits does not comply with the Quebec Pension Benefits Act. As a result, this provision cannot be applied to Quebec members.

2. The treatment of benefits related to initial unfunded liabilities in situations where the employer leaves before the liability is fully paid is not acceptable under Quebec legislation. As a result, this provision cannot be applied to Quebec members.

3. The change to the plan which eliminates all early retirement subsidies if the plan terminates is not acceptable under any pension legislation in Canada.

Recommendations

1. The amendment in question should be rescinded and an amendment which presents an alternative way to reduce costs, at least for Quebec members, should be made.

2. An alternative method for dealing with unpaid initial unfunded liabilities must be found for Quebec members and the appropriate plan amendment made. This may also require the reinstatement of certain previously reduced benefits.

3. The amendment in question must be rescinded. Further discussion with regulatory authorities will be needed to find a solution to the issue this amendment attempted to address.

Funding

Findings

The 1997 actuarial valuation submitted for review does not meet the requirements of pension legislation largely because it is based on a plan text which, for previously noted reasons, cannot be registered. Aside from this there were some additional issues raised which need to be addressed. These included:

1. The basis used for determining the amount of liability related to initial past service and previous service unfunded liabilities should be disclosed.

2. The going concern liability for active members is higher than the solvency liability by approximately 3%, whereas the difference in respect of deferred vested members is approximately 30%. Explanation as to the much higher difference for deferreds should be provided.

3. Support for assumptions related to retirement rates and interest rates should be included given past experience and current economic trends. This should include information on the annual fund returns for the past 10 years and distribution of active members by age and service.

4. The present value of allowable special payments as shown in the solvency balance sheet in Section 4 of the Valuation was calculated by taking account of more than 5 years of special payments. This is not permitted by the Alberta Act and should be revised.

5. The term "Private Placements" used to describe that part of the fund invested directly by the trustees is misleading. A different term should be used.

6. Expenses should be properly recognized in the going concern valuation

7. Assumptions related to "grow in" rights for Ontario and Nova Scotia members are missing.

Recommendations

A revised valuation must be done based on acceptable plan provisions and addressing items 1 through 7 as noted in the "Findings".

Investments

Findings

A review of the most recent audit showed that much work had been done to ensure the accuracy of asset values.

Problems were identified with the Statement of Investment Policies and Guidelines (SIP & G) as follows:

1. The SIP & G must be reviewed at least annually. There is no written documentation to show that this is done, although the administrator did indicate that the review is done.

2. The asset mix (page 9) of the SIP & G allows for a broad range (10% - 100%) of investments in bonds, debentures and other debt investments of 12 months or greater in term to maturity. The guidelines also allow for equity investments of all types from 0% to 55%. These ranges are too broad and do not set any limits on certain types of debt instruments like mortgages, or equity investments like real estate.

3. The SIP & G indicate that the Fund is subject to an annual review by the actuary. The last review, however, was done in March 1997 to cover the period ending June 30, 1996.

4. The SIP & G (Page 10 item 5) indicates that separate appendices to the SIP & G are to be established for mortgages, real estate and private placements. There was no documentation to show that this has been done, yet the fund has investments in these investment categories.

The review of the investments themselves identified the following issues.

1. Investments in Securities, Bonds, Debentures and Shares met requirements.

2. The value of investments in real estate are questionable based on their illiquidity. The rate of return is calculated in totality for all investments managed by Mr. Kurki. This is misleading in that, once market value adjustments are taken into consideration, it does not show that the real estate portion has very low yields and negative returns. There were no written policies in place regarding investments in real estate.

3. There were no written policies in place regarding investments in mortgages. Also, the underwriting and due diligence requirements were not clearly documented.

Recommendations

The following items related to the SIP & G must be addressed.

1. The review of the SIP & G should be clearly documented in the minutes of the reviewing committee and the notice of any changes should be reflected in Board minutes. All changes must be clearly documented and dated.

2. The asset mix should be reviewed to clearly indicate the maximum percentage of the investment portfolio that can be invested in bonds, mortgages and other debt investments, such as mortgage-backed securities. For investments in bonds, the policy should clearly establish the maximum investment in corporate issues as well as foreign currency holdings. An overall quality for the bond portfolio should be established (eg., no bonds below investment grade, overall portfolio at least an A rating). Limits should clearly be set for investments in real estate and foreign equities. The actuary should be involved in determining the asset mix to ensure that the mix is appropriate for the plan's demographics and cash flow requirements.

3. All investment managers should be given a copy of the SIP & G and should be required to provide annual written confirmation of their conformance with the document.

4. The fund should be valued annually, as is required by the SIP & G. The valuation should be reviewed by the Investment Committee to determine if the fund objectives are being met and appropriate action should be taken to correct under-performance and deviations from the SIP & G. The Board should be kept apprised of any such actions.

5. Policies for investments in mortgages, real estate and private placements should be established immediately and attached to the SIP & G.

Investments in Real Estate should reflect the following:

1. The rate of return for each type of investment should be calculated individually using net income as well as market value adjustments before the rate of return is calculated on the total investment portfolio. This type of disclosure will give the Board information on all aspects of the portfolio.

2. Policies should be established for investment in real estate. The policies should state the types of real estate investments, the maximum investments in each type, limits on single properties, geographic concentration, and rate of return expected. The policy should also address the approval procedures, valuation cycle and due diligence to be conducted.

Policies for investments in mortgages should be established immediately. The policies should clearly specify the types of properties on which monies will be lent, maximum loan to value, maximum size of loan, debt service ratios and exposure to single or related borrowers. The policy should also establish approval and reporting procedures as well as guidelines for dealing with defaults. Loans in default and actions taken to recover these investments should be reported to the Investment Committee monthly and the Board should be updated at each meeting.

Governance

Findings

The Board has established appropriate levels of delegation of authority and corresponding procedures. Board members are engaged with active committees which report to the Board as needed. Decisions appear to be consistent and the Board takes action as issues arise. Efforts have been made to improve expert advice given (for example, engagement of additional actuarial services for cross checks on funding issues).

Recommendations

There were no new concerns or recommendations.

Additional Testing

As a result of the findings, and due to the fact that some serious funding issues must still be addressed, the following additional testing should be done to aid in finding solutions to the solvency problem.

1. **Pension Projection**

   Perform projections over a period of 15 years of assets, liabilities, funded and solvency ratios, and legislated minimum contribution rates on at least the following three scenarios:

   1. Optimistic
   2. Most likely
   3. Pessimistic

   Assumptions used for the projection should include:

   i) realistic actuarial basis for going concern valuation
   ii) realistic actuarial basis for solvency valuation
   iii) asset mix of pension fund
   iv) projected rates of inflation
   v) projected rates of return for various asset classes and the fund as a whole
   vi) projected membership growth or decline
   vii) projected benefit pay-outs, et cetra.

   Detailed assumptions should be submitted to Alberta Labour for review and comments before the actual projection is performed.
   Where the contribution rates under the current collective agreements are not sufficient to provide all benefits under the plan, the Trustees should propose options that would bring the plan back to a solvent position within the 15 years.

2. **Termination of a Significant Employer**

   An assessment should be done (on both a going concern and solvency basis) on the impact of one of the largest employers ceasing to participate in the plan.

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The results of the examination show that the plan is well administered and that the Board is actively involved in the relevant activities related to governance to the plan.

A resolution rescinding the unacceptable amendment and making appropriate changes with respect to going concern issues should be filed with Employment Pensions as soon as possible. Filing of the revised valuation noted in the Funding recommendations and documentation noted in the Investment recommendations should also be filed as soon as it is completed.

The one problem area that remains plan solvency. The additional testing reports should be completed as soon as possible and filed with Employment Pensions and the Board. Further meetings will then be needed to find a solution to the solvency problem.