Letters of Credit

Archived Content

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It is provided for historical reference.

Q. Can any pension plan that provides defined benefits make use of a letter of credit relating to a solvency deficiency?

A. No, the PBA prohibits jointly sponsored pension plans (JSPPs) or multi-employer pension plans (MEPPs) from using letters of credit for solvency deficiencies. The PBA also prohibits public sector pension plans from using letters of credit for solvency deficiencies, unless they are specified in a regulation made under the PBA. No public sector plans are currently specified in a regulation made under the PBA. In addition, Regulation 909 prohibits Abibow Canada Pension Plans, Algoma Steel Inc. Pension Plans, General Motors Pension Plans, and Stelco Inc. Pension Plans from using letters of credit for solvency deficiencies. -12/12

Q. Under what circumstances may a letter of credit be reduced?

A. A letter of credit may be reduced in any one of the following circumstances:
a) if the employer has paid into the pension fund the amount by which the letter of credit is to be reduced; or

b) if the most recently filed valuation report indicates that the solvency deficiency has fallen by at least the amount by which the letter of credit is to be reduced. -12/12