Unifor Submission to the Department of Finance on Target-Benefit Pension Plans in the Federal Sector

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Introduction

Unifor represents 305,000 members across the country in industries ranging from manufacturing to transportation, energy and retail. Over 30,000 of our members are employed in federally regulated sectors including transportation, communications, and financial services. They work at Air Canada, Canadian National Railway, Marine Atlantic Inc., Bell Telecommunications, and G4S Cash Services among many other workplaces.

Unifor was formed as a new union in 2013, bringing together the former Communication, Energy and Paperworkers' Union and the Canadian Auto Workers' Union. Both founding unions have a proud history of bargaining good pensions for our members. It is our commitment to a secure and dignified retirement for *all* Canadians that informs our submission to the Department of Finance. Unifor would also like to express its support for the Canadian Labour Congress in its submission to the Department of Finance.

Federal Framework on Target Benefit Plans

In April, the federal government released a consultation paper entitled 'Pension Innovation for Canadians: The Target Benefit Plan'. The consultation paper proposes a framework (The Federal Framework) that would allow federally regulated employers to offer target benefit pension plans. According to the consultation paper, the goal of this initiative is to promote pension plan sustainability and to continue to improve overall pension coverage and adequacy for Canadians.

Canadians face serious concerns for retirement income – 12 million workers have no workplace pension plan and many have inadequate individual savings plans. The fact is that the federal framework would do nothing to enhance coverage or adequacy. Actually, it will erode good defined benefit (DB) plans by allowing employers to convert them into target benefit plans (TBPs). Most troubling, the federal framework would allow <u>accrued</u> DB pensions to be converted to TBPs. Active workers and retirees would see their promised DB pension put at risk for cuts when the pension funds go through a downturn during a market swing.

Target benefit plans are similar to defined benefit plans except that where there is a funding shortfall, target benefit pensions can be cut. Unifor does not oppose target benefit plans – they are better than defined contribution (DC) or Registered Retirement Savings Plans (RRSP). Unifor does, however, have a number of concerns as to how the federal framework will play out:

1) Pension coverage and adequacy are in serious decline for Canadians and the federal framework will, in fact, worsen the situation.

2) The framework allows accrued DB pensions to be converted to TBPs, which can be cut. The government completely ignores the fact that many DB plans were negotiated between the employer and the union during collective bargaining. In some years, union members agreed to wage freezes in order to maintain their pension benefits. The conversion of DB plans to TBPs undermines collective bargaining and overlooks many of the sacrifices made to secure and maintain DB plans.

3) Employers in financial difficulty with pension plans in a deficit position will be keen to convert DB plans to TBPs. This would be short-sighted. If we consider Air Canada as an example, in the last round of talks, Unifor fought hard to hold on to the DB plan for our members. There was tremendous pressure to convert to a DC plan. Today our members and retirees at Air Canada have a DB plan that is currently in a modest surplus position.

4) Even though the federal government has stated that the public sector is excluded from the framework, Unifor is concerned that public sector DB plans will soon face pressure to convert to TBPs.

Impact of the Federal Framework

Despite the rhetoric, the federal framework will not achieve the government's objectives of improving overall pension coverage and adequacy for Canadians. Employers with DC plans will not go through the administrative work to convert to a TBP. Employers without a workplace pension plan are unlikely to introduce a TBP – they would have at least offered a DC plan if they wanted a pension for their employees.

Rather, it is the employers with good defined benefit plans that will want to convert to a TBP. Even more troubling, the framework would allow employers to convert accrued defined benefit pensions to target benefits that could and likely would be reduced in the future.

What employer could resist the opportunity to reduce the accrued pension liabilities on their balance sheet? While employers would benefit, such a move would put the pension of plan members, including retirees at risk. Even if employers value a DB plan to recruit and retain employees, investors will demand conversions from DB to TBPs. This is clearly an attack on what little pension coverage Canadian workers actually have.

Sustainability

The government has stated that a key objective of the framework is to ensure pension sustainability. If this is indeed the case, the government is working with a very narrow definition of pension sustainability. The proposed pension reforms focus entirely on the interests of pension sponsors wanting to reduce their pension costs. The interests of plan sponsors for immediate cost containment must be responsibly balanced with the interests of workers and pensioners for adequate and predictable pensions after years of work.

Much has been noted about the fact that TBPs are generally able to adapt to market conditions because of the ability to adjust benefits in certain circumstances. Much has **not** been noted about the ability of retirees and workers to adapt to the volatile market conditions that have been too burdensome for large corporations to bear. It is short-sighted for the government to absolve corporations of the funding requirements that protect DB benefits, rather than working within the defined benefit model to find solutions.

Alternatives

Enhancing pension plan coverage and increasing benefit security can be accomplished through a number of alternatives.

The government, being well aware of the importance of workplace pensions to our retirement income system, would better accomplish its objectives by supporting an increase in pension coverage through existing multi-employer pension plans (MEPPs).

Rather than offer single employer TBPs as proposed in the framework, the government should foster incentives for employers without workplace pension plans or inadequate DC plans to join MEPPs. Legislation already exists under the Pensions Benefit Standards Act (PBSA) and could be amended to ensure clarity for TBPs under MEPPs.

The government should also reconsider its reluctance to expanding the Canada Pension Plan (CPP). Canadians and premiers in Ontario, Manitoba and Prince Edward Island continue to demonstrate their support for an expanded CPP.

The Canadian Labour Congress (CLC) has recommended a modest and gradual approach to increasing CPP contributions, which would allow for a doubling of future CPP benefits. The government's own finance department has acknowledged that with a notice period and an adequate phase-in of the increased contributions, an expanded CPP would, over the long term, have a positive impact on the national economy.

Recognizing the value of defined benefit pension plans

It is important for the government to study the true value of defined benefit pension plans. Recently, the sponsors of several large Canadian public sector defined benefit pension plans commissioned the Boston Consulting Group (BCG) to assess the impact of the defined benefit pension plans on the broader public interest.

The study's results are instructive and encourage further reflection on the government's framing of pension sustainability. Here are two key points that are relevant to the federal framework[1]:

- Retirees with defined benefit plans actually spent more than retirees with savings plans. The BCG believes that when retirees have a predictable income, they spend accordingly. If retirees are concerned that their pension may be cut, they are more cautious in their spending.
- Retirees with defined benefit plans were less likely to rely on the Guaranteed Income Supplement (GIS) than retirees with other types of workplace pension schemes. Only 10 percent of defined benefit pensioners collected GIS compared to 40 to 50 percent of non-defined benefit pensioners.

Conclusion

The federal framework on TBPs offers nothing to the 12 million Canadian workers without a workplace pension plan. Even worse, the framework will be an incentive for employers to convert good DB plans to the more risky TB plans; effectively worsening the retirement security of Canadian workers and pensioners.

We call on the government to:

[1] The Boston Consulting Group. Measuring the Impact of Canadian Pension Funds: Canada's Top Ten. July, 2013.

1) Withdraw the federal framework for target benefit plans.
2) Foster incentives for employers without workplace pension plans or inadequate DC plans to join MEPPs.
3) Expand the Canada Pension Plan as the CLC has proposed by doubling CPP benefits with an increase in contributions of 3% over 7 years. An enhanced CPP is the best approach to improving coverage and adequacy.

Thank you for your attention.