

## PENSION INNOVATION FOR CANADIANS: THE TARGET BENEFIT PENSION PLAN

SUBMISSION TO THE DEPARTMENT OF FINANCE, CANADA, FROM THE BC FEDERATION OF RETIRED UNION MEMBERS (BC FORUM), JUNE 23, 2014

BC FORUM represents thousands of retired and active workers from unions affiliated to the B.C. Federation of Labour. Since 1995 BC FORUM has strongly advocated for workers who are retired or who are nearing retirement. We are the recognized voice for senior trade unionists in British Columbia.

In this capacity, BC FORUM comes into regular contact with workers who are retiring with defined benefit pension plans, with defined contribution pension plans, and increasingly with people who have no pension plan whatsoever.

We are asking that the Federal Government immediately to halt any move Government to change the Pension Benefits Standards Act 1985 to allow for conversions of Defined Benefit Pension plans to Target Benefit Pension plans.

### Most Canadian workers do not have workplace pensions.

According to the Canadian Congress more than 60% of workers in Canada do not have workplace pension plans. Over 12 million working Canadians are not covered by workplace pension plans. This means they will be reliant on personal savings, the Canada Pension Plan and Old Age Security when they retire.

The reality is many seniors in Canada live in or near poverty. A January 2009 report from Statistics Canada titled "Seniors" found *"...The proportion of seniors with low income after taxes fell from 10% in 1996 to 5% in 2006. Despite the decline, the incidence of low income remains higher among elderly women living alone (16%). Quebec and British Columbia are the provinces with the highest levels of low income among seniors.*

*The extent to which seniors maintain their income after retirement varies with age and income level, according to data gathered from 1983 to 2004. For instance, among people with an average income, family income starts falling after age 60, declines until age 68, and then stabilizes at about 80% of what their income was at age 55.*

*In contrast, seniors with the lowest 20% of incomes saw little variation in their incomes after age 55 and during their retirement years. After retirement, they maintain almost 100% of their disposable income, since their earnings in the years before retirement are replaced with income from a public pension plan, Old Age Security or the Guaranteed Income Supplement.*

*Financially better off workers—those with the highest 20% of incomes—receive an average of 70% of their pre-retirement income after age 70. For a family of two, this group's average family income at age 75 was \$90,000 after taxes. Forty percent of that income comes from private pension plans and registered retirement savings plans, 28% stems from investment income and capital gains, and 18% is from a public pension plan or Old Age Security."*

- *The Ontario based Seniors in Need organization noted the following "Since the recession hit in 2008, new numbers are hard to source but anecdotally, we know the numbers are significantly higher..."*
- *We do know that the number of seniors living below Statistics Canada's low-income cut-off jumped nearly 25 per cent between 2007 and 2008, to 250,000 from 204,000, according to Campaign 2000.*
- *Economists say women make up as much as 80 per cent of the increase in seniors poverty (Globe and Mail, Nov 25, 2010)*
- *Roughly 40 per cent of seniors live in households with incomes below \$30,000 (Canadian Centre for Policy Alternatives)*
- *More than 150,000 eligible seniors across Canada do not currently receive the Guaranteed Income Supplement designed to help low-income seniors (Perspectives on Labour and Income, July 2009. Statistics Canada)*
- *6.3% of households assisted by food banks report that a pension is their primary source of income (HungerCount 2009. Food Banks Canada''*

There are a significant number of seniors living in poverty. They are vulnerable and do not have security in their retirement.

This information highlights that women seniors generally face a higher rate of poverty, than do their male counterparts. A Statistics Canada Table -Persons in Low income after tax 2007 -2011, clearly showed that in 2011 3.8% of males 65 and over were considered low income, while 6.4% of women 65 and over were considered low income.

When this is broken down further, it is clear that Aboriginal women, many racialized women, and women with disabilities make up a large percentage of senior women living in poverty.

BC FORUM wants all retired Canadians to have a secure retirement. This is one reason why we oppose the introduction of target benefit pension plans. We do not believe that converting defined benefit pension plans into target pension plans will improve the lives of current and future retirees.

BC FORUM is asking that the Federal Government immediately halt any move of the Government to incorporate into The Pension Benefits Standards Act 1985 provisions to convert Defined Benefit Pension Plans into Target Benefit Pension Plans for federally regulated pension plans.

BC FORUM wants improvement in the Canada Pension Plan (CPP), not the introduction of target benefit pension plans

Since over 60% of working Canadians do not have access to workplace pensions, and since well over 90% of working Canadians have access to the Canada Pension Plan, it makes far more sense for the Federal Government to work to improve the Canada Pension Plan, instead of introducing target benefit plans.

Specifically, BC FORUM is calling for:

- Doubling the CPP
- Increasing the OAS and GIS

These actions would improve the lives of all seniors, and would specifically benefit senior women.

The 2013 Statistics Canada "Women in Canada: A gender based statistical report", shows how senior women's lives are already enhanced by both the CPP and the OAS. The report notes " *The largest source of income for senior women continues to be government transfers, which include Old Age Security, the Guaranteed Income Supplement, the Spouse's Allowance, the Canada Pension Plan and the Quebec Pension Plan. Government transfers accounted for more than half (53%) of senior women's total income in 2008, while for senior men, the corresponding proportion was 38%. "*

These improvements are far more beneficial to working Canadians, than is the introduction of target benefit plans.

BC FORUM is recommending that rather than proposing and implementing legislation regarding target benefit pension plans in the federal sector, the Government take immediate steps to improve the Canada Pension Plan and the Old Age Security and Guaranteed Income Supplement programmes.

Pensions are deferred wages. Target benefit pension plans would put these wages at risk

Workplace pension plans are deferred wages. Instead of opting for higher salaries, workers pay into a pension plan to secure their retirement.

These deferred wages need to be handled in a safe and secure manner. Under a TBP plan benefit levels would be targeted and benefits could be adjusted according to the financial position of the plan. A retiree could see her/his income sharply decline in their Defined Benefit (DB) plan when converted into a Target Benefit Pension (TBP) plan. BC FORUM believes TBP's are not a secure way of handling our deferred wages.

BC FORUM is recommending that since pension plans are deferred wages, allowing a defined benefit pension plan to be converted to a target benefit pension plan is not a safe and secure way to handle these wages.

Target benefit pension plans do not provide benefit security

TBP's do not provide a reasonably secure benefit for plan members and retirees.

BC FORUM fundamentally believes that working Canadians deserve a secure retirement and opposes the introduction of legislation that would allow DB plans to be converted into target benefit pension plans as they cannot provide that retirement security.

The guiding principle of equity has the potential of putting retiree's income security at risk

The principle on equity in the Guiding Principles section of the "Pension Innovation for Canadians: The Target Benefit Plan Consultation paper" is extremely worrisome for BC FORUM.

The paper states *"The pension model should promote intergenerational equity. For example, if the costs for providing retiree benefits were not adequately valued, younger and future generations may be forced to bear this excess burden through higher contributions in order to pay for the retirees' ongoing pensions. In this regard, the following aspects are important in the design of TBPs:*

- The pension plan should be equitably designed so that no undue transfers are made to one generation at the expense of another. No generation should be unduly subsidizing another.*
- All generations of members should be treated consistently. "*

BC FORUM believes it is a false dichotomy to construct the issue in this manner. Current retirees contributed to the pensions of their foremothers and forefathers. Moreover, through their taxes seniors pay for services that they don't directly benefit

from. This includes early childhood education programs, schools, many services at community centres, and maternity wards. These are the costs of being a citizen in Canada.

Any reduction in income to seniors will more than likely result in younger and future generations paying higher costs. One clear example of this is that if a senior's retirement income declines, she or he will be less able to afford the costs of prescription drugs. A February 20, 2008 information sheet entitled "Seniors and rising prescription costs noted that "All Canadian seniors 65 and older are 'supposedly' covered by a provincial drug plan. However, new research shows that out of pocket costs paid by seniors for their prescriptions greatly varies between the provinces. Canadians in 2007 spent \$26.9 billion dollars on prescription medication; out of that amount over \$4 billion was directly out of pocket. This discrepancy in coverage means that some Canadian seniors are not able to afford much needed prescription medications"

Failing to take prescription drugs as recommended by physicians will result in more hospitalizations etc. This will place a greater financial burden on younger and future generations.

In an article Aging and Inter-Generational Fairness: A Canadian Analysis, authors Michael Wolfson and Geoff Rowe that appeared in Aging and Inter-Generational Fairness: A Canadian Analysis, in Peter J. Lambert (ed.) *Equity (Research on Economic Inequality, Volume 15)*, Emerald Group Publishing, the authors challenged the notion of intergenerational inequality. They concluded, that intergenerational differences are significantly smaller than intra-generational variations, and that the parents of the baby-boom generation are likely to benefit from the largest lifetime net transfers of any birth cohort from 1890 to 2010.

Increasingly seniors are participating in the labour force. One reason for this is that they do not have sufficient income for a secure retirement. Between 1996 and 2006, the employment rate for seniors age 65 and older increased from 12% to 15% for men and from 4% to 6% for women. The rising number of seniors in the work force reduces the jobs available to younger generations. If seniors take jobs because they have experienced downward adjustments in their pension income as a result of having a TBP, then younger people will have less access to that work. This has the real potential of forcing younger people into more precarious and marginal employment.

BC FORUM recommends that due to the uncertainty of TBP plans many seniors will have to remain in the workforce for a longer period of time, thereby affecting future generations ability to get those jobs, BC FORUM is asking that the Federal Government halt any move to incorporate into the Pension Benefits Standards Act

1985 provisions for conversions of Defined Benefit Pension Plans into Target Benefit Pension Plans for federally regulated pension plans.

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#### Target benefit pension plans will increase intra generational inequality

The previously mentioned Statistics Canada report showing that" *Financially better off workers—those with the highest 20% of incomes—receive an average of 70% of their pre-retirement income after age 70. For a family of two, this group's average family income at age 75 was \$90,000 after taxes. Forty percent of that income comes from private pension plans and registered retirement savings plans, 28% stems from investment income and capital gains, and 18% is from a public pension plan or Old Age Security.*" , is a strong statement that intra generational inequality exists among seniors.

The Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities, *Federal Poverty Reduction Plan: Working in Partnership Towards Reducing Poverty in Canada* (Ottawa: Standing Committee on

Human Resources, Skills and Social Development and the Status of Persons with Disabilities, November 2010). identified 10 groups that were most at risk of experiencing low income: children, lone-parent families (particularly female lone-parent families), women, unattached individuals, seniors, Aboriginal people, people with disabilities, recent immigrants, visible minorities, and low-wage workers.

According to the Conference Board of Canada's 2014 report Canadian Income Inequality In Canada is becoming more unequal? After 20 years of dramatic reductions, Canada's elderly poverty rate has been rising since the mid-1990s, a worrisome trend. Among the elderly, the biggest jump occurred in the group of elderly women. Between 2006 and 2009, nearly 128,000 more seniors were said to be living in low income. Of that amount, 70 per cent were women

Target benefit plans will increase inequality between seniors who have defined benefit pension plans and those who have TBP plans.

A change to a TBP plan from a DB Plan will increase this intra generational inequality, as seniors will not have a guaranteed income, and will be living with the fear that their benefits could be downwardly adjusted.

#### Target benefit pension plans could result in more costs for the Federal Government

BC FORUM is concerned that converting defined benefit pension plans into target benefit pension plans, will shift some of the financial onus to the Federal Government. In our opinion, we see this occurring in the following ways:

- Given that benefit levels in TBP plans are targeted rather than defined as they are in a defined benefit pension plan, retirees may have less income. As a result they will have to apply for the Guaranteed Income Supplement, under the OAS provisions
- Given that disability pensions may be seen as ancillary under a TBP plan, and therefore subject to reduction or elimination, people may be required to use the disability portions of the Canada Pension Plan.

- The uncertainty and stress caused by the possibility of income reduction under a TBP plan, will lead to negative health outcomes.

### Administration and Governance

BC FORUM is extremely concerned with the following comment in the Consultation paper "*Unionized environment: Given that some aspects of a federal TBP governance framework may be negotiated as part of a collective agreement, the interest of retirees and other plan beneficiaries who are not involved in the collective bargaining process would need to be adequately protected.*" We need clarification of this statement.

BC FORUM opposes any interference in the Collective Bargaining process, and we see this statement as a prelude for further federal government intrusion.

BC FORUM is requesting clarification as to exactly what this statement means. We are requesting the Department of Finance directly respond to us on this issue.

BC FORUM is unwavering in our insistence that TBP plans, and/or conversion of DB or DC plans to TBP plans must be subject to full and free collective bargaining.

### Benefit structure

The April 2014 discussion paper speaks about the possibility of establishing classes of benefits. Base benefits – the largest portion of benefits in monetary value would be subject to increased protection, while other components of the overall pension benefit including disability benefits and spousal benefits could be categorized as either base or ancillary.

The paper goes on to note that the proposed TBP framework would provide two classes of benefits with a varying level of benefit protection:

- Base benefits which would have the highest level of protection and would be only reduced as a last resort
- Ancillary benefits which would have a lower level of protection and would be reduced before base benefits were reduced.



This type of approach concerns BC FORUM. Our foremost concern is reducing base benefits which would seriously threaten the retirement security of seniors under this plan. BC FORUM unequivocally believes that all seniors should have retirement security and the proposed approach laid out in this plan does nothing to enhance this and is in fact a regressive step.

BC FORUM also disagrees with the approach re ancillary benefits. The kinds of jobs held by most women mean they have limited access to benefits such as employer sponsored pension plans. If they have a male spouse, they are often reliant on survivor benefits to keep them out of poverty after he dies. The approach outlined in the Consultation paper will have the unintended effect of keeping more senior women in poverty.

The suggestion in the Consultation Document that a career average of earnings could be used to determine a pension benefit has the potential of penalizing women who took time off due to maternity or child rearing leave. It is discriminatory.

The same suggestion could also discriminate against people who were unable to work due to serious illnesses and disabilities.

BC FORUM recommends the Federal Government should not be endorsing or supporting practices that may be contrary to the principles in the Canadian Human Rights Act.

BC FORUM recommends that since converting defined benefit pension plans to target benefit pension plan proposed approach will threaten the retirement security for seniors, that there should be no federal legislation or regulations allowing for the conversion of Defined Benefit pension plans to TBP plans.

### Deficit recovery measures

The Consultation paper outlines a series of actions a TBP plan could take in the case that measures need to be taken in relation to funding a deficit.

BC FORUM is particularly concerned that such actions could include reducing past increases in benefits, reductions of past ancillary benefits, and reductions of past base benefits.

While BC FORUM is opposed to any federal legislation re the conversion of Defined Benefit Pension plans to TBP plans, we are adamant that retirees should be exempt

from any claw back in the benefits they have already received. This would cause disastrous financial and personal consequences for retirees and their families.

BC FORUM is insisting that in the event conversion from a Defined Benefit to TBP plan legislation and/or regulations are enacted there is specific wording ensuring that there are no reductions in benefits already received by retirees. This includes past increases in benefits, past ancillary benefits, and past base benefits. BC FORUM is also insisting that there be specific wording guaranteeing no reductions in current and future benefits for all members who retired when the plan was a Defined Benefit Pension plan

### Surplus utilization actions

The actions outlined in the consultation paper, assume that a TBP plan could reduce the past benefits of retirees.

Rather than directing a possible surplus to reverse reductions, we want to ensure that there is no reduction in past benefits received by retirees, and no reductions in benefits to those who retired when the plan was a Defined Benefit Pension plan.

BC FORUM believes that improvement of benefits are always a possibility, but we insist that there is specific wording ensuring that there be no reductions in benefits already received by retirees. This includes past increases in benefits, past ancillary benefits, and past base benefits.

### Conversion of pension plans to target benefit plans

BC FORUM opposes the proposed approach that would allow for Defined Benefit Pension plans to be converted to TBP plans.

We share the approach outlined by Canadian Labour Congress President Emeritus Ken Georgetti in an April 2014 news release. He stated "The minister claims that he wants employers and workers to share the risks of pension plans but make no mistake about it," The goal here is to allow employers more opportunities to dump defined benefit pension plans and existing liabilities and shift the risk to workers."

BC FORUM is strongly opposed to any move to change defined benefit pension plans to target benefit pension plans. BC FORUM is asking that the Federal Government immediately halt any move of the Government to incorporate into The Pension Benefits Standards Act 1985 provisions for the conversion of Defined Benefit pension plans to Target Benefit Pension Plan's for federally regulated pension plans.

## Conclusion

Thank you for reading and taking heed of this submission.