

Canada Post Corporation's Submission to Department of Finance on

Consultation Paper – Pension Innovation for Canadians: The Target Benefit Plan

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Submission to Department of Finance on Consultation Paper – Pension Innovation for Canadians: The Target Benefit Plan

Introduction

Canada Post Corporation (Canada Post) thanks the Department of Finance for this opportunity to provide comments on the Consultation Paper (the Paper) issued April 24, 2014 entitled “Pension Innovation for Canadians: The Target Benefit Plan”. We are in full support of the Paper’s stated objectives and principles, namely “pension sustainability, benefit security, transparency and equity”.

Canada Post, one of Canada’s largest employers, welcomes any dialogue or potential solutions that may help address funding volatility while balancing plan sustainability with benefit security. However, in the interim, Canada Post continues to struggle with a lack of viable structural options to deal with its current pension crisis. The proposed TBP framework, while a step in the right direction, is unlikely to result in changes to all legacy issues faced by plans similar to Canada Post’s.

The existing Defined Benefit (DB) and Defined Contribution (DC) models each have their advantages and challenges. The existence of a third option creates an opportunity for new productive dialogue. We welcome having a negotiable and meaningful option that will make plans adaptable to changing environments. A Target Benefit Plan (TBP) retains the benefits of risk pooling (longevity, investments, etc.) among plan members, while providing funding certainty.

Accordingly, we believe that the option of a TBP, whose components are to be the subject of agreement between the employer and plan members, should be made available to federally-regulated plans. As part of our submission preparation, Canada Post invited members of its plan’s Pension Advisory Council (PAC) for their comments on the Paper. We note with interest that these do not all correspond with Canada Post’s submissions. As we believe members of the PAC have a valid and valuable point of view, we have included in Annex 1 those comments that we have been asked to forward. We understand that other comments were provided directly to the Department of Finance.

We note that TBPs as a potential solution to the pension challenge is a complex, situation driven issue. Accordingly, a form of TBP that is responsive to the needs of a particular employer and its employees will not have the same desired effect for another employer and its employees. Consequently, we believe that it is important to have a flexible, rather than prescriptive, legislative framework that has reasonable parameters within which employers and plan members can agree on a solution that meets their particular needs.

The legislative framework should allow for a balanced equation between benefits level, probability of payment and contributions. All three levers are linked and influence the outcomes depending on how they are moved. Target benefit level is directly linked to the contribution levels (affordability factor) and the probability of payment level (security factor) and their interplay must be carefully considered.

By way of example, if strict parameters are prescribed in the legislation, required contributions could become unaffordable or benefits would need to be reduced to levels that are no longer meeting the members' needs. The level of certainty (probability of payment) is dependent on the plan members' risk tolerance and should therefore be determined by them, along with the benefits they need and value, and the cost they are ready to pay for this.

Target Benefit Plan Elements

4.1 Administration and Governance

- 1. Is this governance framework appropriate for federally-regulated private sector and Crown corporation pension plans wishing to convert to a target benefit plan?*

Yes. The governance of the plan should be shared between the employer, who has ongoing funding obligations, and the plan members, who have contribution obligations and whose benefits may be affected.

- 2. Should the federal legislation or regulations be prescriptive regarding the composition of the governance body (e.g., proportion of plan members and retirees, presence of independent trustees)?*

No, it should not be prescribed. We do support, however, the Consultation Paper's position that all affected persons be represented on the Board of Trustees. At a minimum, this would include the employer, active unionized members, active non-unionized members and retirees. We agree that the inclusion of other trustees and the level of representation of all members be agreed to when establishing a plan.

Canada Post strongly believes that the Board of Trustees should act in the best interests of the plan members as a whole, free from undue influence from any one interest group. As such, consideration should be given to a requirement that the Board of Trustees contain a sufficient number of independent members to counteract the influence of any one represented group of members. In addition, all trustees should have a certain level of experience in a relevant area including actuarial, accounting, governance and investment. We also recommend that trustees be afforded the same protections from liability as are afforded to administrators under the *PBSA*.

- 3. Should the Board of Trustees have powers to amend plan documents?*

No. While the Board of Trustees should be able to make decisions within the parameters established in the plan, it should only have the ability to make recommendations for changes to plan documents but not have the power to make such amendments. Amendments to plan documents would need to be agreed to by the employer and plan members.

4. *What should be the plan member support level requirement for making substantial amendments to the plan text?*

The support of unionized plan members should be obtained through negotiation with the relevant bargaining agent in accordance with the collective agreement in place at the relevant time.

The support of non-unionized members for substantial amendments to the plan text should be the majority of members, but less than unanimous consent. Additionally, we recommend that the required level of support be determined in light of the issue being considered, for example, conversion of an existing plan into a TBP and amendments to a TBP and the nature of such amendments.

We acknowledge that support levels from non-unionized members, both active members and retirees, will pose a challenge. This challenge exists primarily at the time of conversion of an existing plan into a TBP.

An employer is free to create a new TBP for its non-unionized employees, which plan would have, at its inception, terms and conditions the employer believes would allow it to attract and retain the employee base required for the fulfillment of its business objectives. Such terms and conditions would by necessity contain support levels for changes to the plan. Plan members would be aware of these upon their enrollment in the plan and their participation in the plan would constitute acceptance of such terms and conditions.

The conversion of an existing defined benefit plan into a TBP presents a different set of considerations. Active non-unionized members and retirees would likely be asked to give up a promised level of benefits in exchange for a potentially lesser level of benefits but within a more sustainable plan. In such circumstances, it is unlikely that the consent of all affected members would be obtained. Accordingly, we recommend that less than unanimous consent be the required support level. We note that current and proposed legislation, in the context of benefit reductions, contain a no more than one-third objection criterion. We believe that this may be the appropriate level. Please see our comments on question 6 below.

5. *Should there be different governance framework provisions applicable to federally-regulated pension plans in unionized and non-unionized environments?*

Yes. While we believe that the overall governance framework should be the same for both unionized and non-unionized environments the required support levels should be addressed differently. Consistent with labour legislation, we believe that the support of active unionized members should be obtained from the relevant bargaining agent in accordance with the collective agreement in place at the relevant time.

6. *What type of process could be used for negotiating provisions of the plan with employees in federally-regulated non-unionized environments?*

As non-unionized members do not benefit from having an agent to act on their collective behalf, a robust consultation model should be established within the plan for those provisions requiring the agreement of plan members. We do not believe that this consultation framework be prescribed. Rather, the legislation should establish a number of principles the goal of which would be meaningful consultation. We do recommend that each affected group be provided with independent legal and financial representation.

4.2 Funding Policy

1. *Which approach should be adopted under the federal legislation and regulatory framework: the margin or the probability test?*

The Consultation Paper proposes two different approaches to funding policy formulas, margin or the probability test. Canada Post believes both options, each of which has its own merits and challenges as described below, should be permitted for federally regulated TBPs. The decision to use a specific funding formula should be left to the agreement of the employer and plan members and be clearly communicated to all interested parties. This will allow the employer and plan members to choose a funding formula which will best meet the objectives of a particular plan.

The margin approach provides a measure of the plan's health at a specific point in time. It is consistent with the current requirements of the *Pension Benefits and Standards Act* (the "PBSA") which may provide for a smooth transition to a TBP. The primary disadvantage of the margin approach is that it is limited in scope and does not take into account future changes and how they may impact the probability of benefits being paid. If this method is used there should be a requirement for stress testing the plan.

The probabilistic (stochastic) approach provides a broader picture of a pension plan's health and as such is more suitable for evaluating the appropriate trigger points for adjusting the contribution rates and benefits of a plan. In a TBP there will be a number of levers that can be used to adjust and stabilize a pension plan (employee and employer contributions, ancillary and base benefit rates). The probabilistic method allows for a better understanding of which lever should be adjusted. While this approach provides more information about a plan, a downside is that the results can be more difficult to communicate to members with limited pension literacy.

2. *Is the going concern valuation sufficient to measure and fund target benefits?*

Yes. Canada Post agrees that the going-concern valuation is sufficient to measure and fund TBPs as long as the margin used provides sufficient certainty for the payment of benefits for a particular plan. The solvency calculation, while useful in some past circumstances, has generated negative impacts which outweigh any usefulness. This method is not recommended for federally regulated TBPs based on these plans' structure (i.e. benefits are not promised through a guaranteed lifetime annuity).

3. *Is the PfAD approach appropriate as a funding margin or should a different margin calculation be provided for or allowed? Should some of the specifics of the funding policy (e.g. PfAD rates) rely on guidance from sources such as the Canadian Institute of Actuaries (CIA) or should they be more fully prescribed in legislation or regulations?*

Canada Post believes that the Canadian Institute of Actuaries (CIA) should provide guidance on the margin to be used for adverse deviation. The guidance should allow the employer and plan members to agree on a margin that best meets a plan's objectives. The use of guidance from the CIA will also help to provide consistency between provincially and federally regulated pension regimes.

We believe that the legislation should require that a minimum margin be established within a plan that ensures a reasonable probability of paying benefits to plan members. We caution, however, against the rate for such a minimum being established in the legislation as this could compromise the ability of employers and plan members to design a plan that reflects their actual and situation specific requirements.

4. *Should going concern valuations be required on a closed group or open group basis? What is the appropriate time horizon for the purposes of calculating the PfAD?*

Canada Post believes that the going-concern valuation should be performed on an open group basis. This method can take into account expected changes in workforce and therefore reflects a more accurate level of contribution in the future. This is important as contributions (and the embedded margin) are key to ensuring the stability of the plan and benefit payments.

Guidance concerning the assumptions that can be used for open group computations should be provided by the CIA or included in the legislation or regulations (e.g. size of workforce over time, and long-term wage increase). Canada Post agrees with the Paper's suggested fifteen year time horizon for calculating the PfAD. Further, there should be additional obligations concerning the disclosure to members of assumptions used in the open group computations.

5. *How frequently should valuations be required?*

Canada Post believes the funding valuation should be filed with the Office of the Superintendent of Financial Institutions (OSFI) on an annual basis in order to allow for timely adjustments to benefits and/or contribution levels and to help preserve equity between members leaving the plan (if portable) and employees staying within the plan. Since funding valuations provide members with a view of a plan's financial situation at a specific point in time, it is prudent to provide the information on a regular basis.

4.3 Contributions

1. Is this approach to contributions for federally-regulated plans appropriate?

Yes. Canada Post agrees that the type of contribution model (fixed or variable) should be established in the pension plan text as agreed between the employer and plan members. Canada Post believes that variable contributions with a cap is an important lever and would limit volatility while providing reasonable assurance that benefits would be paid to plan members. The specific contribution levels and range for variation should not be prescribed by the legislator; they should be the subject of agreement between the employer and plan members.

2. Should some of the specifics concerning contributions be determined by plan members or more fully prescribed in legislation or regulations?

The legislation should allow for contribution caps to ensure that the Board of Trustees takes appropriate action in difficult times without relying solely on contribution increases to resolve deficits. Those limits would need to be pre-established between all parties to ensure that the intergenerational equity principle is met. The triggers for adjusting contribution rates should also be determined in the pension plan text when it is created and not mandated in the legislation.

The range of contributions should be agreed to at the plan's inception and not changed, other than by way of plan amendment.

Canada Post agrees with the concept that an employer should not be able to convert to a TBP to be able to wind-up the plan under more favourable conditions. If the plan is closed within five years then the current legislation governing DB plans should apply. We also agree that the plan should be fully funded on a going concern basis (Please also see our comments in section 4.8 "Proposed Approach"). We do not believe, however, that solvency payments should be made into the plan during the transition period as it will significantly impact the positive attributes of a TBP plan for employers. If temporary solvency contributions during a transition period following conversion are imposed by the legislation, a mechanism (holding contributions in a "reserve account") to allow for these contributions to be returned to the employer if the plan is not terminated at the end of the five year transition period should also be part of the legislation. Please also see our comments on the second question in section 4.11.

4.4 Benefit Structure

1. Is the approach of categorizing benefit in two classes appropriate?

Yes. Canada Post agrees with having two classes of benefits (base and ancillary). This division will assist with the prioritization and communication of the risks and benefits of the plan and increase the probability of delivering on the core promise of lifetime pensions to members.

2. *Should base and ancillary benefits be determined by pension plans or more fully prescribed in federal legislation or regulations?*

Federal legislation should not prescribe what benefits should be considered base or ancillary. Expected benefits are driven by the contributions that employers and members are willing to make (affordability factor) and by the level of certainty of payments and should be agreed to by employers and plan members. Accordingly, benefits (base and ancillary) should not be legislated. Rather, they should be agreed to at the plan's inception and not changed other than by way of plan amendment. As an example, Canada Post's view is that indexation, among others, would be an ancillary benefit.

4.5 Funding Deficit Recovery Plan

1. *Should the deficit recovery measures and their prioritization be determined by plan members or more fully prescribed in federal legislation or regulations? If the latter, what measures should be prescribed and what should be their order of priority?*

Deficit recovery measures and prioritization need to be flexible. It is important that critical components of funding, benefit levels and benefit certainty, which will differ from plan to plan, be considered and reflected in the deficit recovery measures and prioritization. Accordingly, both the employer and plan members must agree with deficit recovery measures and their prioritization.

As such, a deficit recovery plan should be established jointly by the employer and plan members but within a prescribed framework. Federal legislation should specify what should be included in the deficit recovery plan and set minimum standards but there should be flexibility to allow the employer and plan member to define a strategy that meets the needs of the particular plan. If the deficit recovery measures are prescribed by legislation there is a risk that they could be too rigid and that they will not be able accommodate the different characteristics of individual plans.

It is also important that the rules for changing contributions and benefits be clearly defined, approved by the employer and plan members and documented in the funding policy and the plan text. The funding policy needs to include automatic triggers at which benefits and contributions are adjusted, both up and down, and maximum timelines to take action. Approved triggers, while not subject to change by the Board of Trustees, would be reviewed periodically by the Board of Trustees for relevancy. The Board of Trustees could then recommend appropriate changes, which would be subject to the agreement of the employer and plan members.

Canada Post agrees that deficit recovery actions could include increased contributions, reversing past increases in ancillary and base benefits or reductions of past and future ancillary and base benefits.

- 2. Should deficit recovery measures be triggered as soon as the PfAD starts to be depleted or the probability test is not met?*

No. It is Canada Post's opinion that deficit recovery measures may be triggered when the funded ratio or probability is within a certain agreed to range. At this time the Board of Trustees should take action to address the deficit. There should be an additional trigger, however, that requires action when the funded ratio falls below an agreed to level. This gives the Board of Trustees both a range where they may and should take action and a specific point where it must take action to address a deficit.

4.6 Funding Surplus Utilization Plan

- 1. Should the surplus utilization measures and their prioritization be determined by plan members or more fully prescribed in legislation or regulations? If the latter, what measures should be prescribed and what should their order of priority be?*

For the same reason that the funding deficit recovery plan be as agreed to between the employer and plan members, surplus utilisation measures as described in the Paper, their applicability and operation and their prioritization should also be determined by the employer and plan members, consistent with overall plan objectives and described in plan documents. By way of example, Canada Post believes it is important to bring contributions back to lower levels if they have been increased before improving benefits beyond the original levels.

- 2. What would be an appropriate margin (over the fully-funded level) to allow surplus utilization? What would be an appropriate cap on the utilization of surplus?*

When setting the margin to allow surplus utilisation consideration needs to be given to the security of future benefits, the probability of meeting the target and the intergenerational equity. There is also a need to set minimum and maximum thresholds which set out when a surplus may be used and when it must be used. Canada Post believes that these thresholds should be agreed to by the employer and plan members and documented in plan documents.

4.7. Disclosure and Communications

- 1. What are your views on the proposed additional disclosure requirements listed above?*

Canada Post agrees that disclosure to members should be fulsome and reflective of the risks and opportunities of the TBP. Disclosure requirements in the legislation should be as similar as possible to current disclosure rules in the *PBSA* to provide consistency, however, additional disclosure should be required in respect of:

- the risk of reduction of benefits and increase in contributions if the TBP investments underperform, changes in interest rates, inflation and other economic and demographic factors;
- the role of the Board of Trustees, its obligations to plan members and the limits on its liability to plan members; and
- any special portability options offered on retirement or any additional restriction on portability compared to traditional DB plans.

Generally, we believe that disclosure requirements not be overly prescriptive. Plan members would benefit most from a principle-based disclosure system properly administered by the Board of Trustees.

2. What are your views on the timing, frequency, and sequence for communicating these additional disclosure items?

As it relates to advising plan members of changes to contribution levels or changes in benefits in accordance with plan documents, the timeframe for providing notice should be reflective of the situation generating such a change. Accordingly, the Board of Trustees should be tasked with determining the appropriate notice period.

3. What are your views on requiring the plan administrator to report the solvency funding ratio of the plan in its annual reports for informational purposes only?

We believe that plan members should be provided with information as to what they would receive on an individual basis should the plan be terminated at the then current plan year end.

4.8 Conversion to TBP

Proposed Approach

Canada Post believes that a plan should be fully funded on a going-concern basis at the time of conversion to a TBP. This will help ensure that the new plan would have a fair chance of succeeding in paying both base and ancillary benefits to plan members. If a plan converting to a TBP cannot achieve a fully funded status at the time of the transition, the federal legislation should allow an amortization period (e.g. five years) for going-concern special payments.

Canada Post agrees that the existing termination rules for defined benefit plans should apply to any plan governed by the PBSA that is terminated within five years of converting to a TBP.

1. What are your views on how benefits are treated upon conversion?

The decision to include retirees, past service of active employees or only future services in the TBP should be agreed to by the employer and plan members. If a certain portion of the past service costs are not transferred into a TBP then the plan should be accounted for separately to ensure all groups are treated fairly and in accordance with their agreement.

Plan assets could be grouped together to ensure reduced management fees and benefits from pooled investment returns.

2. *Do you have any other views on how accrued benefits should be calculated at the time of conversion?*

The choice to include all past service costs as base benefits or allow for an allocation of past service costs between base and ancillary benefits should be left to the discretion of the employer and plan members as agreed to by them, as this will have an impact on the contribution levels and/or benefit certainty levels. As discussed, agreement of non-unionized members should not require unanimous consent but instead rely on a formula that would allow change to be implemented in cases where no more than a certain percentage (thirty three percent) objects to the proposed changes.

3. *What views, if any, do you have on converting federally-regulated DC plans to TBPs?*

Canada Post believes that this option be available, subject to obtaining the agreement of the bargaining agents for unionized members and the consent of non-unionized members.

4.9 Portability and Locking-In Rules

1. *Are there any TBP-specific issues in relation to locking-in and portability that should be addressed in the federal legislative and regulatory framework?*

Portability requirements and restrictions should be agreed to between the employer and the plan members. Consideration should be given to making portability rights more restrictive for TBP than under the traditional DB model in order to preserve the collective approach and pooling of risks that are fundamentals to the TBP model. Portability rights could be restricted (based on age and service) or penalties could be introduced for early withdrawals.

Locking-in rules should remain, however, to preserve an adequate retirement income for plan members. Canada Post recommends that income tax rules be adjusted to align with the current economic environment to avoid forced unlocking of pension funds.

4.10 Individual Termination

1. *What are your views on the methodology used to calculate the individual termination value?*

Under the TBP model, benefits should always be equal to the available assets at the time of termination. The question is how to allocate these assets to each member, as benefits are based on pooled targets, and not on individual accounts. For portable benefits (if any), termination values should be calculated based on going-concern liabilities of target benefits prorated by the funded ratio at time of the individual's termination.

The following are important issues raised in the Paper that Canada Post believes needs additional clarification:

- Do target benefits in the formula above only include base benefits or are ancillary benefits also included? If ancillary benefits are included, can they or should they be prorated with their probability of payment?
- Is the funded ratio in the formula above using open group (projected) calculations?

Canada Post agrees with using the most recent funded ratio to calculate individual termination value. The Board of Trustees, however, should also be allowed to delay payment until a more recent ratio is available if it is estimated that the current ratio has changed materially (more than a ten percent variation as outlined in the Paper).

Depending on the portability rules for a plan (more or less restrictive, as described in section 4.9), the funded ratio could be more than one or be limited to one. Since plan members, upon individual termination, could see their target benefits being reduced if the funded ratio is less than one, it may be equitable if the reverse was also true. Limiting the ratio to one, however, would maintain the TBP concept of collective risk and rewards sharing, and avoid anti-selection. If members want a share of the surplus, they need to leave their money in the collective fund. If they want to leave with their termination value, they agree to forfeit their rights to the surplus. Accordingly, this rule should be as agreed upon between the employer and plan members.

In case of complete plan termination, the funded ratio could exceed one as assets (net of termination/administration fees) are completely distributed to plan members.

4.11 Plan Termination and Wind-Up

- 1. What are your views on the formula used for calculating the termination value? Would it be more appropriate to use the solvency funding ratio?*

No. Canada Post believes that on termination, all net assets should be distributed to plan members proportionally based on all benefits accrued to the date of termination using the going-concern basis.

- 2. What are your views on applying solvency requirements in the case of plan termination within 5 years of conversion from a federally regulated DB plan?*

Canada Post agrees in concept to solvency requirements of the *PBSA* applying to converted TBPs that are terminated within five years of conversion. Further clarification is required about whether and when funds would be required to be paid, as mentioned in our response to the second question in section 4.3.

4.12 Application to Multi-Employer Plans

- 1. To what extent could the proposed elements of the federal TBP framework apply in a multi-employer context?*
- 2. What elements of the plan design would need to be different from the single employer environment?*

Canada Post takes no position on these issues.

Conclusion

We would like to thank the Department of Finance for the opportunity to provide comments and be part of the establishment of a new pension framework. We believe that TBP would provide a meaningful option to address pension plan challenges experienced globally by employers and plan members. We recognize, though, that the PBSA and other laws and regulations will need to be amended to allow this option.

Annex 1

Pension Advisory Council Member Comments

1. The following is CUPW's position which we [CUPW] would like to have included in the CPC submission paper:

“CUPW is concerned that CPC will use the Federal target benefit plan consultation process as a means for forward an agenda that will allow CPC and the Federal Government to avoid their obligations to members and beneficiaries of the Canada Post Corporation Registered Pension Plan (the "Plan").

The Federal Government provided CPC with the ability to reduce its solvency payments by an amount equal to 15 percent of Plan assets in 2012. This allowed CPC to reduce its required solvency special payments in 2012 to zero and resulted in a saving of about \$1.3 billion for CPC.

In addition, the Federal Government enacted a regulation in February 2014, that exempted CPC from having to make any solvency or going concern special payments for a period of four years.

As a result of these actions, the Plan is less well funded than it would otherwise have been. In the absence of the Federal Government as shareholder being responsible for any funding shortfall, members and beneficiaries alone would bear the risk if the Plan were wound up and the value of benefits exceeded the value of Plan assets.

A target benefit plan will shift the risk from CPC and the Federal Government to Plan members and beneficiaries. Under a target benefit plan, members and beneficiaries are solely responsible for bearing the risk of an underfunded plan because their benefits will be reduced if the Plan has a funding shortfall. CUPW notes that members and beneficiaries will bear this risk even though members and beneficiaries were never consulted and had no opportunity to comment upon the funding relief granted to CPC.

CUPW unequivocally opposes the reduction of accrued benefits. Members and retirees have earned their benefits and CPC should not be permitted to rewrite the agreement on an after the fact basis.

CUPW believes that the Plan should not be required to be funded on a solvency basis and that the Plan should be jointly governed. CUPW is willing to discuss how such a system will be implemented.”

2. To: Minister Sorenson and Department of Finance Regarding Pensions

From: Mike Moeller—Canada Post Employee

“Topic: Target Benefit Plans Announced by The Conservative Government Regarding Existing Crown And Federal Private Employer Defined Benefit Pension Plan members-Workers and Retirees

May 15Th, 2014

To whom it may concern:

Firstly, I have attached my opposition to the 4 year solvency deficiency relief for the Canada Post Pension Plan that was introduced by the Finance Department on December 10th, 2014. Attachment titled “**Relief of Canada Post Pension Plan**”

This presentation was sent to Mr. David Murchison back in early January. I have done so to emphasize the already mounting risks being placed on Canada Post Pension Plan Members.

Secondly, Canada Post employees are being slammed once again. I now would like to express my consternation, disappointment, and literal outrage at what the present Conservative Government is proposing regarding new Target Benefit Plans to *replace* defined benefit pension plans in Crown Corporations such as Canada Post, as well as Federal private sector plan members for over 3 million members. This does not even include the Public Service Superannuation Plan (the PSSAA)-yet!

Is the Federal Public Service Pension Plan the next “target”?

Submission of Comments

Written comments and an indication of your interest in TBPs as an option for federally-regulated employers and employees should be sent by June 23 via email to: pensions@fin.gc.ca.

<http://www.cbc.ca/news/politics/the-value-of-a-target-benefit-pension-plan-1.2621137>

<http://www.cbc.ca/news/politics/voluntary-target-benefit-pension-scheme-proposed-by-ottawa-1.2620601>

[60 days to go online](#)

Target benefit plan—what does this mean?

A **target benefit plan** is a type of [pension plan](#) that is similar to a [defined contribution plan](#) in that it involves fixed contributions, or a fixed range of contributions, which are set independently of a plan’s funded position. Benefits are based on affordability projections. *Plan members share plan risk through adjustments to their benefits.*

A key element of the target benefit model is the existence of pre-determined guidelines linking benefits to funds available in the plan. Benefits and contributions are linked in a way that does not exist with traditional defined benefit or defined contribution plans.

It is similar to a defined contribution plan in that the plan *does not guarantee any benefit will be paid*. The plan's only obligation is to pay whatever benefit can be provided *by the amount in the contributor's account*. The actual earnings on the individual accounts may differ from the estimated earnings used in the assumptions and the investment performance of that account through the years. How can this be even remotely acceptable for workers and retirees for any security for retirement? It isn't. It is about creating an ideological option that can and will reduce the risk and obligation of the employer almost entirely. Releasing employers from obligations as providers is shameless with the proposed targeted benefit plans replacing DB plans, and could result in increased poverty, health issues, more unemployment, and definitely more insecurity for pension plan members.

“Targeted Plans provide

- for the reduction of pension benefits for both contributing employees and pensioners
- there is no guarantee that the promised benefit will be maintained in retirement.
- Risk is completely shifted from governments and corporations to vulnerable employees and retirees with limited financial capacity to absorb reductions in income.” *(Extract from the PSAC Bulletin in April 2014)*

This is asinine and a truly ideological draconian piece of legislation. This could actually lead to a full social implosion for one, and perhaps two present generations within Canada for their future and current plan members. This is the basic replacement of existing secure defined benefit pension plans.

The only ones who will advantage are the Plan sponsors. Not the Plan members.

Only the province of New Brunswick has the full legislative structure required to operate target benefit plans, which in that province are called shared-risk pension plans. *And even this was negotiated, not legislated.*

“Proposed solution to a problem that doesn't exist”

- Current federal pension legislation and regulations provide sufficient protection against the reduction of accrued pension benefit entitlements of existing pension plan participants and retirees.
- With the improving investment returns and gradual increases in long-term interest rates, the funding status of defined benefit pension plans is improving significantly.
- For example, the defined benefit pension plan for Air Canada reported for 2013 a solvency deficiency of \$3.7 billion. However, in January of 2014, Air Canada had announced the complete elimination of the pension solvency deficiency.”*(Extract from the PSAC Bulletin in April 2014)*

The DB plans at Canada Post and all other employers that are regulated by the Pension Benefit Standards Act (**PBSA**), are not in the dire straits that employers, government, and the media has everyone believing The government is proposing and telling all Canadians that any deficiencies

in DB plans will require these astronomical and devastating changes to employees AND retirees. By replacing *DB plans with insecure and volatile Targeted benefit Plans* it could be the single largest economical change for people in the last thirty years that will actually result in the reduction of spending by consumers/retirees that could lead to another recession.

Defined benefit plans provide a high degree of benefit certainty for members, which in turn stabilize community and provincial economies. Remember, defined benefit pension plans have between 7.5 and 10% of employees salaries deducted each pay, and these plans are “negotiated deferred salaries”, as the employees chose these over wage increases.

I am imploring this government that in no way should Targeted Pension Plans be implemented to replace federal Crown Corporation or federal private defined benefit pension plans. These are *replacement plans that serve the employer*, not the employees and retirees. The employers are basically absolved of their fiduciary responsibility to have to pay any shortfalls to a pension plan deficiency when an actuarial valuation is performed. This will allow employers to keep their full profits and not have to make any special solvency payments to the plans, that they are currently obligated to do according to the PBSA when there are solvency deficiencies. Employers will concentrate far more on profits for the *profits sake*. This could certainly be perceived to interfere with the administration of the pension plans as trustees as well as employers. Having less liability and regulations to properly act as trustee, could leave less concentrated efforts on the actual administration of these plans by the employers regarding deficiencies. They are currently to follow regulations according to law and regulations in the PBSA when they are the plan administrators. Reducing these obligations will lead to less security of and for plan members.

DB Plans are under attack, and by replacing them with employer friendly Targeted Benefit Plans, it creates a future for all retirees and plan members of insecurity and financial instability as it will “fluctuate” as the markets dictate. That was not what retirees and plan members agreed to when negotiating their pension plans. People have determined their decisions to retire on DB plans, and retirees cannot now suddenly be expected to have anything negatively change their guaranteed and negotiated income that they depend to survive after retirement. Workers can negotiate new plans with the employer. But to “legislate” something to replace what already exists and was agreed to borders on criminal to those who have invested their monies in DB plans, in my opinion. To legislate this new type of plan to replace DB plans is just ethically and morally wrong, especially to those who have retired. There is room in the PBSA and under the implementation of Bill -78 (when the Canada Post portion of the superannuation pension plan monies of Canada Post was severed from the PSSA in 1998 and became the Canada Post Defined Benefit Pension Plan in 2000) that allows Bargaining Agents for Canada Post to negotiate changes, however not for retirees. Bargaining Agents do not represent retirees. But legislating this for current and future plan members as well as retirees? It is wrong on so many levels.

Defined Benefit plans were and are negotiated with Crown Corporations such as Canada Post, provincial, federal employees, and private employers. Not legislated. Workers of all ages who pay into a DB Plan should expect their plan to be secure. Current workers and those who have retired deserve better than this new option that is being offered from the Conservative government, *with the full backing of most employers*. This proposed legislation was not just created when Minister Sorenson announced these on April 25th, 2014. These changes have been in the works for years, and because of ideology from this government and with pressure from

lobbyists representing employers, we are now facing a drastic period of social change in society that could and probably will lead to negative results for our country.

Retirees at Canada Post do not have a voice or vote regarding their DB Plans, other than a *recommendatory* Pension Advisory Council that meets three times a year. The Council is not a body that makes decisions or negotiates. Bargaining Agents have that ability with the employer for workers. Retirees will be left to fend for themselves if this drastic legislation is implemented.

With full confidence, I can and will predict that if target benefit plans are used to replace defined benefit plans, the possibility is that there will be another economic crisis to contend with that is *not even being discussed* by employers, the government, or the media. In an economy that is so fragile and insecure, possibly millions of workers and plan DB members will NOT be retiring when and as early as they had planned if this is implemented. They will now stay at work *many years longer* than they anticipated because of this new legislated insecurity. And this is longer than anticipated by both economists and government. This will have an enormous impact on the young people seeking to fill retired job vacancies in all sectors that have DB plans. *There will no longer be these anticipated vacancies to be filled with youth and unemployed*, as plan members will decide not to retire to a risky pension plan for as long as possible. Therefore millions of youth and unemployed will not have the advantage to gain employment of decent jobs as has been past practice for generations. The outcome to the economy is obvious. More unemployment, poverty, societal issues increasing, and fewer retirees who depended on income security all of their working lives. Retirees contribute greatly to the whole of Canada, both economically and through various aspects such as volunteer and community activities, and many of these behaviours will cease with their continuation working, rather than having time to commit to these essential activities. There are over 1200 pension plans that will dramatically be affected and negatively.

Perhaps Canada should be first looking at Members of Parliament DB pension plans before attacking federal Crown and federal private workers DB pensions. There are over 1200 plans that will be dramatically affected negatively. The MP's are the ones that need reforming, *as the public servants, Crown employees and federal private workers DB plans are not gold plated as portrayed by the media, government, and employers*. MP's should not benefit at their current accumulation compared to federal workers. The double standard is unmistakably hypocritical, and if changes are to be made, leading by example should be considered before destroying hard earned DB plans for millions of workers, and Canada Post employees.

The Canada Post Pension Plan has provided Pre-retirement seminars for the last ten years. First and foremost, since their inception, participants have been outright guaranteed by the facilitators, that the plans finances and benefits were secure, and “could and would never be changed in any manner” after retirement. Many retired plan members based their retirement decision on the information provided at these seminars and they asked and received guarantees from these *trained professionals* who said that any changes could never happen to their life's future earnings, as per the PBSA and defined benefit plans. This was false information as the target now benefit plans being proposed to replace the DB plans of retirees takes all guarantees away. This proposed legislation would destroy people's retirements. More than one generation will be affected by these proposed changes. Up to three generations of paid plan contributions could be sacrificed if this ludicrous piece of legislation is allowed to proceed.

The Conservative government and Finance Department referred to Canada Post as “an Agent of the Government” several times. Canada Post falls under the Canada Post Act of 1981, and when there were profits, dividends of over 1 billion dollars were paid to government. The government cannot pretend that this service is a private business, and have it both ways, and not be the responsible party if there was ever a complete solvency.

To conclude, and secondary to my opposition to the proposed replacement target plans, please show support the Canadian Labour Congress (CLC) [“Retirement Security for Everyone”](#) campaign as the most effective means of securing the future retirement incomes of working Canadians. The CLC campaign consists of three basic components:

- The doubling of existing Canada Pension Plan benefit entitlements;
- Increases to the Guaranteed Income Supplement
- Establishment of a national pension plan insurance fund

Leave the DB plans alone. Have more employers provide pension plans where profits allow, and increase the Canada Pension Plan for all workers.

MikeMoeller
Antigonish,NS
902-863-6294”

3. Shifted Risk Pension Plans-compare to Target Benefit Plans-Professor of Law

From: Mike Moeller—Canada Post Employee

These concerns of Simon Archer are concerns of mine, and should be shared with CPC. I agree with how this shared risk plan in New Brunswick is very unnecessary and misleading, similar to the target benefit plan could be perceived. My submission is/was similar, however this op-ed is dealing with very troubling aspects.

New Brunswick at least *did negotiate*, rather than just legislate, and even that is worrisome.

This was an op-ed by Simon Archer about what government and employer ideology is doing with *our pension money*.

I am also requesting through this email, and I see no reason for restrictions, that all CPC *pension plan members also be given an opportunity to express their views by the deadline to CPC and the government, as they are stakeholders too. Very few plan members are even aware of what a Target Benefit Plan is*, and I would bet that they would be extremely nervous, to say the least, that CPC is engaging with the government about these types of plans.

Below it gives a deadline of June 23rd, however Canada Post should send a memo expressly informing all plan members (including retirees) that they have a right to submit concerns and send their information to below coordinates, for plan members concerns as we are doing and allowed as PAC members. This is pension plan member’s money, not some gift from the

employer or government. These are deferred salaries that we pay from our pay-cheques and have been negotiated in good faith.

“Pension legislation in Canada already prohibits reducing pensions or accrued benefits, barring extreme circumstances, such as a corporate insolvency.”

As an agent of the government and a Crown, Canada Post is not going bankrupt.

Thanks

Mike

“Shifted risk” pension plans

Simon Archer, Koskie Minsky LLP and Fellow, Centre for Law and Political Economy,
Osgoode Hall Law School

Yesterday the Federal government announced a public consultation with Canadians over a new type of pension plan. They call them “shared risk” plans – suggesting a sharing of risks and costs between employers and their employees. Whether this is an appropriate way to deliver pensions is a subject for the consultation. What should be made clear in order to have this conversation is that these plans do not actually share risk between employers and employees. When introduced as a substitute for the traditional defined benefit plan, they shift risks from employers to be shared among employees and pensioners. They are really risk shifting plans.

This hard fact has been overlooked and misreported since shared risk plans were first introduced in New Brunswick in 2012. In these plans employers and employees both pay contributions, but these contributions are subject to a ceiling, and if financial markets don’t perform as expected, employees and possibly pensioners can and will have their pension benefits reduced. The real way risks are “shared” in this plan is by sharing them among employees and retirees, not with employers. That, in a nutshell, is the fundamental motive behind a “shared risk” plan: to ensure employer contributions to a plan are capped at some level, and benefits become less secure.

A recent report from the New Brunswick Auditor General clearly exposes the distance between press release rhetoric and the accounting reality of these plans. The New Brunswick government repeatedly told plan members their pensions had become a shared risk and would – through a combination of increased contributions and reduced or reducible benefits, become more secure. However, the province’s Auditor General reported that “the Province’s position was that the shared risk plans should be accounted for as defined contribution plans given the risks inherent in the plans are largely borne by the employees.”

There is a second feature of these shared risk plans that is also widely misunderstood. Governments have sometimes claimed that existing pensions and accrued benefits –

benefits already earned – will not be affected by imposing a shared risk plan. Pension legislation in Canada already prohibits reducing pensions or accrued benefits, barring extreme circumstances, such as a corporate insolvency.

However, an unprecedented element of the New Brunswick shared risk model is the retroactive conversion of earned, supposedly irreducible defined benefits, to target benefits that can be reduced if financial markets do not perform as predicted. Current retirees who worked for years on the clear understanding that they would have a secure and dependable income in retirement are now being told that is no longer the deal. The specifics vary by case, but in general past pension promises are being opened up in various degrees. This is arguably the most extreme aspect of these conversions, but it is also the least reported and understood.

Governments, in their role as employers of public sector workers, will see significant benefits from this trend. They are giving themselves, and perhaps other employers, the right to simply walk away from their pension debts and call it innovation and risk sharing. None of this is to deny the need for a real dialogue about pensions in Canada today. For over 25 years private and public sector employers have pushed to eliminate traditional defined benefit plans. At the same time, experts have predicted a retirement savings crisis, particularly for middle class workers. Employees can expect their employers to take hard bargaining positions and seek to reduce labour costs – that is part of the normal process of collective bargaining. But it is quite another thing to misrepresent what is being proposed, and then impose it by legislation.

Who is best placed to bear the risks in providing pensions, employers or employees? Hopefully, the federal consultation will examine the question. Whatever the outcome, employees, employers, governments – and taxpayers – should have clear and realistic explanations of terms of the debate. What seems like sharing risk often isn't. What seems like ensuring sustainability following a financial crisis is also an attempt to renege on long-standing, largely workable pension plans at the expense of workers and retirees – the same workers and retirees who did nothing to cause the financial crisis or the government budget deficits created by it.

Mike Moeller
Antigonish, NS
902-863-6294"

4. Canada Post Registered Pension Plan Member Archibald N Huntley

19 Jun 2014

To : Whom it may concern

From : Canada Post Registered Pension Plan Member Archibald N Huntley

Re: Target Benefit Plan

This email is intended to voice my complete disagreement with any such proposal. Our defined benefit plan is a legally negotiated plan agreed to by Canada Post and all of its members.

Entire careers and lives have been planned around these promises. Any such changes will negatively impact CPC employees and their families. A drastic change will certainly mean I will have to work longer. This is going in the opposite direction of where Canada Post wants me to go. Last year all employees in our work centre were offered Buyouts. Last month I received an offer from Canada Post outlining the benefits of the Defined benefit plan for an unreduced pension if I were to leave now.

What game is Canada Post playing? Let's get him off the pay role now, into a pension plan and then change the rules after the fact. Does Canada Post fully understand the impact this will have not only on me but all of its employees. You would think after 30 years of service to CPC and 5 to the Military My service would be appreciated. Instead I am being treated as a liability. Shame on Canada Post and the Federal Government of Canada for shrugging off their responsibilities at the time I and all other plan members need it most. More and more communities across the country are losing their youth to the west and retiree's are a big part of the income base that remain. Any reductions in Retiree income will not only affect the individual but the municipality & province where they reside.

At no time should our benefits be reduced. If it were not for our Unions Canada Post and the Federal Government would have already slipped this proposal into reality without the consultation of the plan members. It was through the Union I found out about these discussions not Canada Post as the plan administrator.

Therefore I will argue that there is a great conflict of interest that exists having Canada Post as administrator of its own plan. It is adding up to be profits over responsibility to its members. Perhaps I'm wrong but based on my understanding drastic changes to a pension plan such as this should only happen at corporate insolvency. The last time I looked Canada Post was a crown corporation with the Federal Government as the chief shareholder. Does that mean Canada is now insolvent? This is worth fighting for as it's the only financial future I have. I shall answer the call.

Regards

Archie Huntley

RR2

Antigonish NS B2G 2K9"

5. Canada Post Registered Pension Plan Member Marina Lee Anstey

“From: Marina Anstey
Sent: Tuesday, June 03, 2014 8:18 PM
To: PENSIONS
Cc: kevin.sorenson@parl.gc.ca ; Thomas.mulcair@parl.gc.ca ; Joe.Oliver@parl.gc.ca ;
Trudeau.J@parl.gc.ca ; pm@pm.gc.ca
Subject: Defined Benefit Pensions

Dear Sir/Madam:

I am writing to you as a retired Canada Post Corporation employee. I am extremely concerned that my defined benefits pension may be in jeopardy.

When I took my job with Canada Post almost 30 years ago, one of my main considerations was the Pension plan. My husband was self employed for half of my working years at CPC, and having my pension for future retirement was very important to us. All of our future plans were made knowing that I had a decent pension. When I decided to retire at the end of 2012, I knew that I could retire comfortably because of the amount of my monthly pension.

Our pensions were part of negotiations. As employees we deferred pay, and took less in take home pay, so that we could have a DB pension. Now after working most of my adult life, and confident that my retirement years would be relatively stress and worry free, I now find myself wondering if that will be the case.

I understand that in the future pension plans may have to be altered. However, those of us who have already retired, or those who have been enrolled in the DB pension plan and will be retiring, should not have to deal with a detrimental change in our pensions, and ultimately, our lives.

We have all done what we were supposed to do. We paid our taxes, paid into CPP, and our company pensions. I always felt secure that I would not have to worry when I retired. What you are proposing to do to our DB pensions is absolutely unfair! I ask you to please look at this very seriously and reconsider. I await your reply.

Sincerely,

Marina Lee Anstey
Antigonish, NS”

6. Canada Post Registered Pension Plan Member Elizabeth Campbell

“From: Betty Campbell
To: pensions@fin.qc.ca
Sent: Thursday, May 22, 2014 2:55 PM
Subject: Defined Benefit Pensions

Dear Sir/Madam

I find myself dismayed at the possibility that my Defined Benefit pension could be modified.

In the past I have been employed by Atomic Energy Canada Ltd for approx. 5 years and 25+ years with Canada Post. Part of my decision to work for these crown corporations was based on the fact that there was a Defined Benefit Pension plan. My husband was self-employed and we knew that we would need the stability of a DB plan in our retirement. We are now both retired and need the stability of my DB plan.

I have worked my entire adult life, with the exception of taking approx. 5 years off, when my children were babies. I have played by the rules; paid my taxes; contributed to my DB pension plan and CPP. Now you are proposing to change my life around in a detrimental way. This is not fair and I have to wonder about the legality of doing such a thing. As far as I'm concerned we have had a contract for over 30 years. During which time all the Retirement seminars that the Government provided always stressed, that once we were retired, nothing short of our death could alter our pensions in a negative way.

I understand that there may be a need for future modifications to various pensions, however to those of us already retired, there should be no negative impact what so ever! Awaiting your reply.

Elizabeth Campbell
Antigonish NS”