

Submission by the International Association of Machinists and Aerospace Workers on the federal consultation paper - Pension Innovation for Canadians: The Target Benefit Plan

June, 2014

The International Association of Machinists and Aerospace Workers represents over 50,000 Canadian workers. About half of our Canadian membership is employed in the federal jurisdiction, primarily working for airlines and air transport related companies.

Most of our membership participates in registered pension plans, both single employer and multi-employer. We have sponsored target benefit multi-employer pension plans in Canada for over 40 years and we currently sponsor two jointly-trusted multi-employer plans, one of which is exclusively for our members in the federal private sector.

To start with, we take issue with the notion put forward in the federal consultation paper that target benefit plans operating on a negotiated contribution/defined benefit basis are new to the federal jurisdiction. Union –sponsored multi-employer target benefit plans have been an important and successful part of the pension landscape in this country for many decades, providing pensions to many hundreds of thousands of Canadian workers.

Unfortunately, the proposals in this paper represent a step backwards in providing retirement income security for Canadians.

First, the framework proposed will do nothing to bring about an increase in workplace pension coverage. It is not a remedy for the failure of most Canadian employers to sponsor a workplace plan for their employees. The proposals are certainly not an alternative to the needed improvements in public benefits, which the federal government is currently obstructing.

Second, many of the proposals in the discussion paper would undermine the principles that form the basis for successful target benefit plans.

Target benefit plans have provided a positive pension alternative for workers whose employers have been unwilling or unable to sponsor a defined benefit plan. Multi-employer plans have allowed for risk-sharing and administrative economies that have benefited plan members, while removing the burden of open-ended liabilities from employers. In exchange for a fixed funding obligation, employers give up control of the pension plan (typically, to a Board of Trustees representing the interests of plan members and beneficiaries), as well as access to contribution holidays and refunds of funding surpluses.

The proposals in the discussion paper would allow employers to retain effective control of their pension plans, and continued access to fund surpluses, while shifting all risks to plan members and beneficiaries.

The most egregious part of the discussion paper is that it would allow employers, in conversions from Defined Benefit plans, to cut earned and accrued benefits, even to current retirees, and walk away from their legal, contractual and moral obligations to fully-fund earned and accrued benefits to their current and former employees.

While the discussion paper refers in several places to plan governance based on agreement by all parties, the proposed target benefit plans will inevitably be dominated by employers.

There is no basis for meaningful negotiations and agreement among parties in a non-union setting, either in a single or multi-employer context. Even in a unionized setting, it will be one-sided bargaining, with the employers in a dominant position – and the ability mislead, threaten and intimidate plan members and beneficiaries. The only thing guaranteed is that employer contributions will be capped.

Frankly, if the proposals in the discussion paper are enacted, they will discredit and undermine existing target benefit plans, by putting forward a model that allows employers to maintain full control of the pension plan while walking away from their financial responsibilities.

The purported twin objectives laid out in the discussion paper are Pension Sustainability and Benefit Security.

Unfortunately, the paper treats pension sustainability as simply a matter of reducing cost and risk to employers. It takes no account of other elements, such as benefit adequacy and fairness. A reduction in the already-earned benefits of members and retirees is not an increase in “sustainability”. The only risk management involved in these proposals is the transfer of all risks from employers to plan members and retirees.

In reducing employer obligations to fund plan shortfalls, the proposals would reduce benefit security. “An integrated package of benefits, contributions, investments and funding policy developed and agreed upon by all relevant parties” is meaningless cant when employers are in a position to dominate decision-making.

The paper’s Guiding Principles – Transparency and Equity - are similarly empty rhetoric.

The paper proposes a “probabilistic approach” to pension plan funding (the so-called New Brunswick model), which is both expensive and opaque, even to professionals in the pension field. Decisions contracted-out to obscure statistical models are the opposite of transparent.

Such an approach creates an unjustified and misleading sense of the kind of benefit “guarantee” that is provided. No actuary can, or should present his/herself as a forecaster. A supposedly random set of scenarios for an unpredictable future does not offer 90% or 75% assurance of anything, and the federal pension regulator lacks the capacity to even effectively monitor such a complex system.

Equity is not simply a matter of inter-generational fairness, as the paper suggests. Intergenerational equity alone can be difficult to define, let alone legislate, but there are many other elements of equity that need to be considered in a pension plan. There can be significant transfers of costs, benefits and risk between the various actors at all stages of a pension plan, which change over time, and which are not easily reconciled, so there needs to be some flexibility for pension trustees to operate within their broad fiduciary duty.

There is no magic formula for equity, but the entire discussion paper is based upon a fundamental inequity, providing employers with an unprecedented opportunity to walk away from their obligations and responsibilities at the expense of their current and former employees.

The discussion paper asks a great number of other questions on a variety of technical issues. We will not comment. We believe that the proposal put forward in this discussion paper is fundamentally unfair and should be withdrawn.

Respectfully Submitted,

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