Submission by the Professional Institute of the Public Service of Canada to the Department of Finance regarding the Federal Government's Proposal for a Target Benefit Plans (TBP) Framework

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The Professional Institute of the Public Service of Canada (PIPSC) was founded in 1920. With its 55,000 members, the Institute is the largest union in Canada representing scientists and professionals employed at the federal and some provincial and territorial levels of government. The Institute was founded to protect the interests of professional public employees and became a bargaining agent following the implementation of the *Public Service Staff Relations Act* (PSSRA) in 1967.

Issue

On April 24, 2014, the federal government announced the launch of consultations on a new federal framework for voluntary Target Benefit Plans (TBP). This proposed model would impact all federally registered employers and Crown corporations covered under *the Pension Benefits Standards Act, 1985*. The announced intention of the new framework is to give federally registered employers and Crown Corporations that currently sponsor a defined contribution (DC) or a defined benefit (DB) pension plan an opportunity to convert their plans into Target Benefit Plans (TBP). PIPSC, as the voice of professionals in the public service, is unequivocally opposed to converting existing DB plans into such TBPs for the following reasons.

TBP is Unfair to Retirees

Employers benefit unfairly from Target Benefit Plans, while the negative impacts are borne disproportionately by plan members. Employers gain by reducing and limiting their contributions while at the same time eliminating most of their pension-related risk. Employees (past, present and future) who are the plan members – including pensioners – take on most of the employer's risk and become subject to contribution rate increases and/or reductions in benefits.

This means that the level of accrued pension benefits, or pension amounts already in pay could be decreased, and/or future indexation of pensions could be fully or partially curtailed without adequate justification.

TBP is a Virus not a Cure

The proposed TBP would give DB plan sponsoring employers an opportunity to renege on their existing financial obligations if their DB plan has a deficit upon the conversion date, and to pass this obligation on to the existing active and pensioned members. By giving such a large group of employers a significant accommodation, the federal government is implicitly inviting similar requests from all Canadian employers, allowing them to renege on their obligations because it is less expensive for them in the short term.

TBP Avoids the Big Issue

Canadians are not saving enough for retirement. The proposed TBP framework will not enhance the pensions of Canadian workers. In fact, it could result in reduced benefits for a significant number of retirees without giving any guarantees that more Canadians will be covered by a workplace pension plan in the future. What Canadians need now is a fundamental shift in government policy which would encourage more employers to establish pension plans for their employees, not proposals aimed at reducing income at retirement for those that are fortunate enough to belong to a pension plan. Current figures show that 35% of Canadian retirees require the Guaranteed Income Supplement program (GIS) to avoid living under the poverty line. GIS represents one of the most expensive federal programs. Reducing the workplace benefits for large numbers of people will not help reduce the need for GIS, nor will it reduce the cost of providing it. To the contrary, the reduction of active members' and pensioners' benefits entailed by the conversion of a DB plan into a TB plan would unfairly and inappropriately exacerbate poverty among Canadian seniors.

Furthermore, it will ultimately shift the burden to the next generation, who will be required to fund their parent's retirement, while saving for a home and raising their families.

Defined Benefit Plans are Sound, TBP is Unnecessary

All DB plans will inevitably face deficits from time to time due to the inherent volatility of financial markets and the related impact on investment earnings. Despite these temporal fluctuations, short, medium and long-term experience shows that, on average, pension funds reap a positive return on their investments. In other words, extensive empirical evidence shows that, when DB plans are managed responsibly, occasional short-term financial woes generally self-correct over time.

According to the Mercer Pension Plan Index, Canadian pension plans continued to improve sharply in the fourth quarter of 2013 due to strong equity returns and rising long-term interest rates and almost 40% of pension plans are now fully funded, compared to 6% at the beginning of the year. Even more remarkably, only 6 per cent of pension plans entered 2014 less than 80 per cent funded, compared to 60 per cent being below 80% funded at the beginning of the year.

TBP Sidesteps Meaningful Pension Reform

There are better ways to address known weaknesses in Canada's pension landscape and to enhance the retirement security of all Canadians.

The easiest (and cheapest) way to address the weaknesses in our pension landscape is to enhance our CPP/QPP pillar, an internationally-recognized success story. No additional administrative burden would be imposed on employers. There would be no need to create new payroll features, as would be required with Pooled Registered Pension Plans (PRPPs). All that would be needed is a change in the percentage deducted. CPP/QPP are completely portable and allow for mobility between jobs, and between provinces. In addition, CPP/QPP provides incomes protections for workers who become disabled. There are no choices or decisions required, only a slight increase in payroll deductions going forward, which would help to ensure that Canadians can live independently and retire with dignity. Meaningful pension reform must be universal, low cost and impose little or no administrative costs on employers. TBP's do not meet these criteria.

Contrary to what the government has stated, increasing CPP/QPP benefits are unlikely to have a negative effect on either employment rates, or economic growth. In fact, in the early 90's when CPP/QPP premiums were significantly hiked, fear-mongering pundits predicted substantial job losses and a downturn in the economy, neither of which happened.

Finally, one needs only to look as far as other OECD countries around the world and their funding levels of government-sponsored pensions to support the fact that this government needs to significantly increase the CPP pillar.

PIPSC Recommendations

For the reasons mentioned above, PIPSC offers the following fair and sensible remedies as alternatives to the TBP framework.

1. Government Policy

- The government should launch an extensive consultation process to discuss comprehensive pension reform, instead of proposing a band-aid solution such as TBP's, a framework that would unduly and unfairly reduce retirement security.
- The government should implement policies aimed at encouraging employers' to establish pension plans, including multi-employer pension plans for small employers;

- The government should expand the Canada Pension Plan, which federal and provincial Finance Ministers agreed to do in June 2010.
- The government should prohibit contribution holidays. These are subject to very limited restrictions under federal and provincial pension legislation, and as such inevitably lead to financial disaster for any DB plan. Instead of prohibiting such holidays, the proposed TBP framework would compel existing DB plan members to fully assume the responsibility for their employer's prior short-sighted decisions such as taking contribution holidays.

2. Financial governance of DB plans

- The actuarial determination of the DB plan's normal cost (i.e. the contribution rate as a percentage of payroll) shall be made annually on a realistic basis, using conservative assumptions;
- Reliance on contingency funds should be avoided;
- Contributions should be shared equally by plan members and the plan sponsor;
- Contributions should be paid on a timely basis by both members and the plan sponsor;
- The surplus or deficit identified in any annual actuarial report should be automatically amortized over a reasonable period (e.g. 15 years) by adjusting the DB plan's normal contribution rate. Each such annual increase or decrease in the normal cost would also be shared equally by plan members and the plan sponsor. This automatic amortization process would implicitly prevent:
    - using any emerging surplus to increase accrued benefits and/or to take a contribution holiday;
    - using any emerging deficit to decrease accrued benefits and indexation;
- The age of entitlement to an unreduced pension should be tied to the calendar year of birth rather than arbitrarily increased from time to time.