

**RESPONSE BY THE COMMUNICATIONS, ENERGY AND
PAPERWORKERS UNION OF CANADA**

to the

**DEPARTMENT OF FINANCE CONSULTATION PAPER
(JANUARY 2009)**

**“Strengthening the Legislative and Regulatory
Framework for Private Pension Plans
subject to the *Pensions Benefits Standards Act, 1985*”**



The Ministry of Finances' consultations on workplace pension plans arrive at a very critical time. We are in an unprecedented financial crisis caused in great part by the cupidity and the incompetence of big business. However, they will not have to deal with the consequences. Companies are proceeding to major layoffs when they are not simply going bankrupt. Thousands of people lose their jobs and too many of them will see a large part of their retirement income disappear. Our members are worried and furious. Many of them will be retiring in the near future. They have worked hard all their life to be told that now, they cannot get the retirement benefits they are entitled to. We hope that you will be up their expectations and propose solutions that will protect their retirement income.

CEP members understand the importance of a good pension plan. It has been a priority at the bargaining table for decades. A good workplace pension plan assured them a decent retirement income after years of hard work. The majority of our members in the pulp and paper, telecommunications, media and energy sectors have defined benefit pension plans that guarantee specific benefits at retirement.

With the current economic crisis, many of our members are worried. The funds of many of the RRSPs and defined contribution (DC) plans, so enthusiastically promoted by companies in recent years, have lost some of their value. Equity fund indexes, held in most RRSPs and DC plans, have lost more than 20% of their value. The income that can be drawn from these pension plans depends not only upon the performance of the funds, but also upon the interest rates in effect at the time of retirement. It is therefore particularly vulnerable during periods of financial turbulence. For example, a worker who retired on May 15, 2008 will have close to twice as much income as someone who retired on February 15, 2009.

Table 1: The value of a defined contribution plan with a value of \$100,000 (TSX indexed funds)

Date of retirement	Annual Retirement Income
May 15, 2008	\$7,659.20 (or \$638.26 per month)
February 15, 2009	\$3,937.33 (or \$328.11 per month)

Defined benefit plans, which are supposed to guarantee a specific income in retirement, have also seen their funds diminish significantly. The retirement funds in the majority of these plans are now under-funded. Employers need to make significant contributions to replenish them, during an economic crisis nonetheless. The situation may be particularly dramatic in the case of a company in bankruptcy and whose plan is under-funded. As the funds of these

plans are not protected against bankruptcy, retirees and future retirees will see their benefits and other advantages diminish.

At least the banks and insurance companies have the decency not to continue to promote their Freedom 55 Plan! The great financiers of Bay Street and Wall Street, with their bonuses for incompetence, can count on a golden retirement, but this is definitely not the case for workers throughout the country. They may have to choose to work well beyond the age of 65 in order to make ends meet or forced into a situation of poverty because their retirement income has melted like snow under the sun.

The situation is critical and major changes are needed if we do not want to see a significant rise in the level of poverty among the elderly in coming years. This is a real social debate that all the stakeholders involved need to engage in, in order to rethink the overall directions that govern retirement income.

We regret that this debate cannot take place adequately within the framework proposed in your consultations. Beginning these consultations one week after announcing them would seem to limit the debate. The proposals put forth by the Department of Finance are entirely inadequate to deal with the crisis. Some of them would even worsen the situation. They represent rather the ideological vision of “fend for yourself” approach that characterizes the Conservative government.

We agree with the recommendations proposed by the Canadian Labour Congress on the points raised in your consultation document. We would, however, like to draw your attention to those relating to the defined benefit plans:

Rules of Financing and Solvency Test

The solvency test is essential to determine the financial health of a defined benefit pension plan. This test makes it possible to verify whether a plan is funded adequately if it had to be terminated on a given date. This is particularly important in the case of bankruptcy or closures of companies. If the test shows that the plan is under-funded, employers need to make contributions to the fund over a 5-year period. Different measures can be instituted to help the company replenish the fund, but the union needs to give its consent beforehand.

Voluntary Termination of a Plan

In these situations, plan sponsors need to ensure that it is fully funded before terminating it.

Disclosure of Information

We are in favour of disclosing more information to members of the plan, whether they are active workers, retirees or beneficiaries. This information is necessary to help them determine the security and funding of their pension plan. We also recommend that information be disclosed about the considerations of governance, the environment and social issues in the choice of investments. A funding policy should be mandatory, including information on the use of contribution holidays.

Contribution Holidays

The actuary of the plan should have the responsibility of verifying when a contribution holiday is required and specifying the reasons why it should be granted. The use of contribution holidays should be limited. It is important that the company be able to create a reserve for difficult times instead.

Federal Pension Insurance

The manufacturing and forestry sectors have suffered a great deal in recent years. The bankruptcy rate among Canadian companies has risen dramatically recently. The situation is particularly troubling for affected workers. They find themselves not only without work, but if they were also members of a defined benefit plan, there is a strong possibility that they have also lost some of their retirement income. This is an unfair situation. The Conservative government has done nothing to protect either their jobs or the retirement benefits promised by employers. More than ever, we need a federal insurance system for pension plans. This national pension insurance would be funded by employers, based on the model that is already in place in Ontario.

Improve the Canada Pension Plan and the Old Age Security Program

Improving the security of benefits under defined benefit pension plans will greatly help workers with that type of plan achieve financial security in retirement. On the other hand, those who have defined contribution plans or RRSPs will be left on their own.

It is obvious that adding a few minor reforms to the current rules governing workplace pension plans will not solve the problem of retirement income security for most people.

We are opposed to the principle of fending for yourself that is reflected in the reforms, and believe that solidarity is required to help us get out of the current crisis. The establishment of social programs such as medicare played an important part in improving the quality of life for all of the country's citizens.

Therefore, in collaboration with the Labour Congress, we are proposing placing a priority on the improvement of the following social programs:

Benefits received under the **Canada Pension Plan (CPP)** need to be increased so that they provide 50% of average industrial income. This plan covers 93% of Canadian workers, provides defined benefits, is indexed to inflation, and contributions to it accumulate independently of the employer. It is in good financial health and the plan will not go bankrupt.

It can be funded through an increase in the level of the yearly maximum pensionable earnings and/or through an increase in contributions to the CCP spread over a 7-year period.

Benefits paid by the **Old Age Security Program** need to be increased by 15% to ensure that, at the least, all elderly people can live above the poverty line.

We are at a crossroads. The ideology of fending for yourself has its limits. It may be profitable for the rich and powerful of the world. They will not be forced to choose between paying for their medication or paying their rent when they are retired. They have negotiated astronomical salaries for themselves, not to mention generous bonuses and golden parachutes when they leave. They were nevertheless the first to advise workers to abandon defined benefit pension plans, guaranteed by the employer, in favour of RRSPs or defined contribution plans, under which everyone could now manage their funds according to their needs. The result is disheartening. At a time of economic crisis, too many Canadian are seeing their retirement savings evaporate and are in danger of slipping under the poverty line. Thanks for the advice!

Workers understand that solidarity and mutual assistance are the very basis of a more just society. They are important values of the labour movement. Our social programs are important. It is by improving them that we will ensure that everyone will have adequate income to live with dignity in retirement. CEP members will be delivering this message loud and clear over the coming months.

