

Pension Standards

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A Submission to the

Alberta/British Columbia Pension Standards Review

from the

British Columbia Teachers' Federation

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President

Executive Director

Introduction

The British Columbia Teachers' Federation is pleased to have this opportunity to present this submission to the Alberta/British Columbia Pension Standards Review.

The BC Teachers' Federation (BCTF) was formed as an organization in 1917 and incorporated as a benevolent society in 1919. The BCTF achieved full collective bargaining rights in 1987 and has steadfastly worked for the rights of teachers and students in promoting public education in British Columbia. As a member of the BC Federation of Labour and the Canadian Labour Congress, the BCTF also co-operates with labour and community groups on labour affair issues.

One of the purposes of the BCTF outlined in its constitution states: *To safeguard teachers' pensions and act as joint trust plan member partner with respect to teacher pension funds.*

During its 90-year history the BCTF has paid significant attention to the needs of its current and retired members. As such, we are pleased that the provincial governments of British Columbia and Alberta have chosen to review the pension standards in both provinces and make recommendations for sustaining and improving the pension system for its citizens.

Universal workplace pension coverage

All workers deserve adequate pension coverage to ensure that they are able to live in dignity during their retirement years. Further, employers have an obligation to provide adequate workplace pensions to their employees over and above the requirements of the public system (Canada Pension Plan, Old Age Security).

The BCTF believes that employer-sponsored and jointly trustee pension plans play an important role in the economic security of plan members and their beneficiaries, improve the economic reality for seniors, and help to generate growth in the provincial economies. The combination of public (CPP, OAS) and workplace pension plans must replace enough pre-retirement income to allow every worker to retire comfortably in dignity and security.

The percentage of Canadians who belong to a registered retirement plan has been declining since 1977, particularly for those who work in the private sector. In June of 1982, the Government of British Columbia published a document entitled *Discussion Paper on Developing a Pension Policy for the Future*. The Discussion Paper stated that 53.2% of the paid workforce was covered by private pension plans in 1982. The most recent discussion paper developed for the Alberta/British Columbia Standards Review states that only 22% of British Columbians are covered by an occupational pension plan. Currently, the best assurance to belong to a workplace pension is to be a union member, as it is a known fact that far more unionized employees are covered by a workplace pension plan than non-union workers.

To best address this issue, governments should both encourage employers to unionize their workplaces and require all employers to provide defined benefit pension plans to their employees on a mandatory day-one enrolment basis.

There are clear recognized advantages to employers and to employees in having a jointly trustee defined benefit workplace pension plan:

1. The value of this pension can be predicted with a reasonable degree of certainty, allowing the worker to plan prudently for retirement.
2. The pension is a guaranteed income for life to the retired worker, paying benefits for as long as a retiree lives and, in most cases, benefits to a surviving spouse as long as she or he lives.
3. The plan can include other provisions such as a pre-retirement death benefit, disability benefit, early retirement benefit, survivor benefit, portability, inflation protection, and post-retirement group medical benefits.
4. There is less risk and more post-retirement financial security to the individual worker.
5. The employer and plan members (both active and retired) share equally in the administration and management of the pension plan, including sharing the surpluses and liability for deficiencies in the pension fund.
6. There are lower investment and administration costs due to central management.
7. The plan both attracts and retains workers in the workplace as a benefit arising from employment.

Universal workplace pension plans in British Columbia and Alberta would also provide impetus for small employers to pool together to achieve the economies of scale that are available to large public sector jointly trustee defined benefit pension plans. Such small employer multi-employer pension plans (MEPPs), would have the same advantages for defined benefit pension plans as outlined in the preceding paragraph, and provide for pension portability through transfer agreements with other small employer MEPPs within the two provinces.

Finally, studies have shown there are significant links between income and health status, not just during one's working life, but also during one's retirement life. For the most part, a defined benefit workplace pension combined with federal government benefits (CPP, OAS) most closely resembles a retiree's preretirement net income which enables her or him to live in dignity, in safe housing, and with the ability to purchase sufficient and nutritious food and affordable medication. No one wants to see our retired senior citizens living in poverty after a lifetime of contributing to the province's economy. From the perspective of long-term social policy, defined benefit workplace pensions help to ensure that workers are able to continue to contribute both socially and economically to their communities in their retirement years, and are therefore a benefit to all taxpayers, both corporate and individual.

Pension plan governance

Proper pension plan governance is a critical feature of delivering on the pension promise. The BCTF supports a joint trustee model, wherein the employer and the workplace employees share equally in the administration and management of the plan. Representation on the trustee board for the employee side must include at least one retired member of the plan. It is understood that all trustees selected to the joint board would be cognizant of their fiduciary obligations and best governance practices, including ongoing trustee education.

The BCTF also envisages a governance model that puts the needs of the plan members first, with a pension promise that is clear for all stakeholders to see and understand. Communication to all groups of plan members (active, retired, inactive) must be appropriate, timely, accurate, complete, consistent, cost-effective, and easily accessible to promote members' and beneficiaries' confidence in the governance process.

Pension plan funding policy

It is also of the utmost importance that pension standards are legislated and enforced to ensure current and future benefits will be paid to plan members. This is the prime concern of all stakeholders in the pension system and must be a priority for government.

Currently, the *Income Tax Act* permits contribution holidays on behalf of employers when the pension plan surplus is in excess of 10% of the going concern liabilities. These holidays, combined with decreasing investment returns, can result in a future deficit to be borne by the plan's sponsors (employers and employees) and current retirees. Therefore, we propose that any legislative changes should eliminate provisions that allow employers or employees to take contribution holidays.

All pension plans should have a funding policy as part of their plan governance. Such policy should require that funds be set aside in times of surplus to address any future years where there are shortfalls or deficits. This would adequately address the volatility issues that often arise in pension plans, and result in more stable contribution rates for employers and employees as well as stable benefits for retirees.

Postretirement group benefits

The BCTF supports a pension plan model wherein retired members of the plan have, at a minimum, access to postretirement group health benefits (EHB and dental). The preferred model would be a pension plan that includes premium coverage for retirees for EHB and dental benefits.

As for the provincial medicare plans, the Alberta government currently pays the provincial medicare premiums for its senior citizens. The BCTF believes that the British Columbia government should follow suit and cover the Medical Services Plan premiums

for its senior citizens. At \$54 a month per individual or \$648/year, this is a substantial expense for current retirees and especially those without a workplace pension. If the BC government picked up this cost that would mean retirees would have more income to use toward food and housing costs, and greater discretionary spending, which stimulates economic growth.

Both provincial governments could also pass legislation to make medications more affordable to its retired citizens. Again, anything that can be done to reduce these costs would mean retirees would have more money to use toward their other basic needs.

Conclusion

It is our belief that all employees should have access to a jointly trustee workplace defined benefit pension plan that offers both inflation protection and postretirement group health benefits to its members. The governance structure of these pension plans must incorporate representatives of the employer, the active members of the plan, as well as current retired members. These plans must also have a funding policy that will prohibit contribution holidays in times of surplus.

The following should be the guiding principles in strengthening the current pension legislation and/or developing any new pension legislation:

1. To require all employers to sponsor a workplace pension plan to their employees with participation in that plan a condition of employment.
2. To provide a pension plan governance structure such that all parties (employers, active employees and retired members) share in the decision-making process involved in providing financial security to plan members.
3. To provide a framework and structure that allows individuals to achieve financial independence throughout retirement.
4. To maximize the security of retirement investment so that active and retired plan members can make retirement plans for the future based on a clearly defined pension benefit.
5. To provide the ability to pool resources to minimize risk and provide long term financial security for the plan, and thereby its members.
6. To require sponsors of pension plans to provide regular communication to plan members (active, retired, and inactive) about the workings of the plan, the financial health of the plan, and preretirement planning under the plan provisions.

In short, the BCTF believes that the goal for each workplace in British Columbia should be the attainment of a pension plan that is fully funded, jointly trustee, service based, fully indexed, and that maintains the relative economic status of members of the pension

plan and/or designated beneficiaries following retirement, disability, or death. To attain this goal, the BCTF encourages the expert panel to strengthen the current defined benefit pension plan model and promote its expansion throughout the private sector.

Distribution: BCTF Executive Committee, Local Presidents, Local Representatives,
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