

BCTF requests to government for pension plan amendments

A. Agreement-in-Committee

During the fall of 1977 the following items were discussed with government representatives and agreement-in-committee was reached. The Provincial Secretary, Mrs. Grace McCarthy, has advised that she would have to discuss these items with Treasury Board prior to making any further commitment but she did not foresee any problems.

- (i) Improvements to the provisions for reinstatement in the pension plan where a teacher has left contributions in the plan and returns after a period of absence.
- (ii) Part-time teachers would be eligible for a pension after 100 months of contributions; the pension would be based on the number of months of contributory service prorated to full-time months, i.e., a teacher working half-time for 10 calendar years would be eligible after 10 years of such work but the pension would be based on the equivalent of full-time or five years.
- (iii) Teachers would receive pensionable service credit while in receipt of Salary Indemnity benefits through a single contribution to the pension plan.
- (iv) Teachers would be permitted to make a double contribution for up to six months while on leave of absence for maternity purposes.
- (v) The interest rate on contributions made by teachers

over and above the required statutory contributions would be set at 6% subject to periodic review.

- (vi) The Minister of Finance would reimburse school boards for the employer costs of Canada Pension Plan contributions.
- (vii) The portability arrangement for persons transferring from certain public sector employment to the Teacher Pension Plan would be clarified.

B. No Agreement

The following requests are still outstanding and are the subject of continuing discussion.

- (i) Adjustments to existing pensions as recommended in 1975 by Mr. A. B. Wiggins and the Representative Assembly, i.e., the use of the actual salaries earned to determine the average salary to be used in calculating the pension; an adjustment for those retiring between 1961 and 1973 to compensate for the change in the salary averaging period for benefit calculation purposes from 10 years to seven years to the present five years; and, an adjustment to pensions granted before July 1, 1974 to give the equivalent of a 2% per year of service if the retiree were 60 years or older. (Since 1974 the 2% per year of service formula has applied to all persons retiring at age 60 to 65.
- (ii) Retirement with the benefit based on 2% per year of service at an age earlier than age 60.
- (iii) Continuation of the right to apply for purchase of pensionable service credits for teaching service performed in other Canadian provinces.
- (iv) Improvements in the inter-provincial reciprocal pension agreements to permit pension rights attained elsewhere in Canada to be transferred to B.C.

GOVERNMENT REQUESTS TO THE BCTF FOR PENSION PLAN AMENDMENTS

The Provincial Secretary, through the Commissioner of Teachers' Pensions, Mr. W. H. Forrest, has been discussing with federation representatives the need for changes in the financing of the basic benefits in the pension plan and in the financing of the indexed supplements, i.e., the adjustments which are made quarterly to pensions to increase them as the cost of living increases.

Some current issues

The receipt last year by government of the actuarial valuation of the Teachers' Pension Plan i.e., the actuary's report on the costs and the benefits of the pension plan, caused the government to take a close look at the level of assets in the pension fund, the benefits promised to teachers at retirement, and the contribution rates by employer and employees.

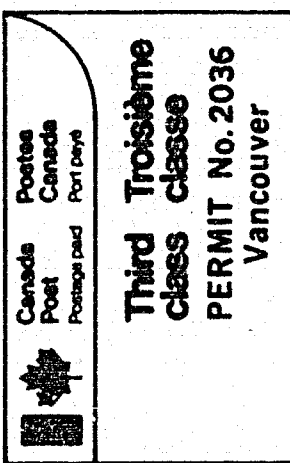
This special bulletin on pensions has been prepared as background material to the current discussions to assist all members in understanding the issues. Pages 16-17 of the Members' Guide give an explanation of the present pension plan.



Bruce Watson, BCTF staff officer responsible for teachers' pension plan.

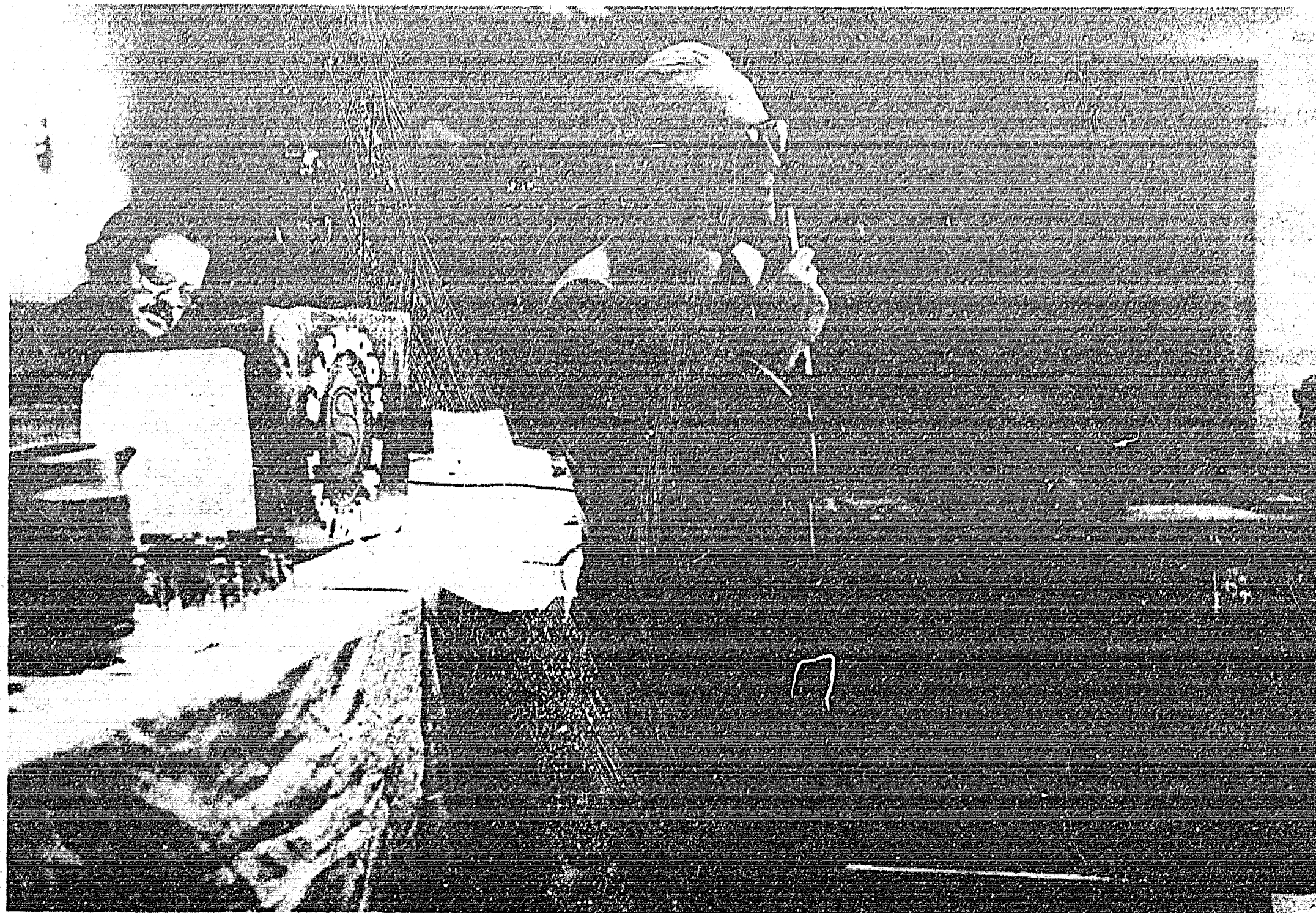


Members of the BCTF Pension Committee at January Representative Assembly session. From foreground are Bill Topping, chairperson, Ella Clarke and Bert Wales.



IF UNDELIVERED, return to 2235 Burrard St., Vancouver, B.C. V6J 3H9

Highlights of Actuary's Report



Reporting to delegates to January Representative Assembly on his valuation of the pension plan is Sam Eckler, actuary to the fund.

Timetable of meetings

The Pensions Committee met twice last May with the Commissioner of Teachers' Pensions and the pensions plan actuary, Mr. S. Eckler.

The Executive Committee and the Representative Assembly met with the Commissioner in September

and October respectively in order to hear and discuss the viewpoints of government on the level of assets and benefits of the pension plan.

Throughout the fall, federation representatives met on numerous occasions with the Commissioner and on December 2 with the Pro-

vincial Secretary. Since the 1978 legislature does not meet until March 30, pension legislation is not expected until the fall. However the following timetable of meetings on the pension issues was agreed to in January by the Executive Committee:

January 6-7	Pensions Committee	— discussions with Commissioner
January 27-28	Pensions Committee and RA	— Mr. S. Eckler, actuary for the plan, addressed the RA and met with the committee
		— special BCTF report on the plan was discussed by the committee
February 10	Pensions Committee	— prepare preliminary recommendations for Executive Committee
February 11	Executive Committee	— preliminary recommendations
February 13		— special news bulletin to all members
		— federation representatives meet with Commissioner (if required)
February 14		— further information to all members
February 20		federation representatives meet with Commissioner (if required)
March 3	Pensions Committee	— prepare further recommendations to Executive Committee
March 4	Executive Committee	— prepare recommendations for AGM
March 6		— further information to all members
March 27-29	AGM	— AGM decisions

The actuary came to the following conclusions and recommendations:

- (i) The indexed supplements should be considered a part of the basic pension plan and should be financed in such a way that sufficient money will be set aside when the supplement is granted to ensure payment of the supplement over the life of the pensioner.
- (ii) The amendments of 1973 and 1974 improving benefits and the general salary increases from 1970 to 1974 in excess of those anticipated in the earlier valuation resulted in an increase of \$273,000,000 in commitments over expected assets. This means that the excess of commitments made over present assets, future contributions and interest amounts to \$468,094,000, i.e., the unfunded liability.
- (iii) The level of funding (i.e., the accumulation of assets to meet future commitments) should be raised at least to the level where the required contribution rate is that constant percentage of future payrolls which would finance the value of pension benefits for new employees over their working lifetimes. In addition it would maintain the unfunded liability as a constant percentage of future payrolls.
- (iv) If the unfunded liability is to be paid off over the next 35 years, a higher contribution rate would be required for that period of time.
- (v) If the indexed supplements continue to be paid as at present, i.e., extra contributions are made by employer and employees as required, the total contribution level from teacher and employer should be 17.1% under (iii) above and 19.5% under (iv) above. However, the cost would continue to increase as the cost of the indexed supplements increase.
- (vi) For the cost of the indexed supplements to be financed in the same way as the basic benefits, the total contribution level under (iii) above should be 20.4% and under (iv) above, 24.7%.
- (vii) These recommendations were made to:
 - ensure stability of the contribution rates over an extended period of time;
 - ensure the benefit changes of 1973 and 1974 are financed adequately;
 - ensure a greater proportion of the pension costs are paid by those who will benefit and thereby reduce the likelihood that future generations and/or governments will refuse to make good on their promises;
 - secure the plan benefits for the pensioners and employees through the accumulation of pension fund assets which can be used for no purpose other than to provide benefits.

INDEPENDENT REVIEW OF THE ACTUARY'S REPORT

In December, the Executive Committee requested an independent report be prepared on the assumptions used by the actuary in arriving at his conclusions and on the pros and cons of various levels of funding (assets) in the Teachers' Pension Plan.

Mr. J. G. Paterson of Paterson Cook Ltd., Vancouver, an actuary with wide experience in private and public sector pension plans and currently a consultant to the federal task force looking into retirement incomes in Canada was retained by the federation.

The Pensions Committee received and reviewed Mr. Paterson's report on January 28, 1978. Copies have been sent to the Executive Committee, geographical representatives and local association presidents.

The highlights of this report are as follows:

- (i) Mr. Paterson is in general agreement with both the technical and editorial findings of the actuary to the pension plan and states, 'We would be remiss if we did not acknowledge the high professional standards employed in the actuarial report, both in its technical and editorial aspects. While there are areas in which we have technical and editorial differences with the consulting actuaries, these are largely differences of degree or differences of emphasis or differences intended to present a perspective which may be useful for analysis by the federation.'
- (ii) The Teachers' Pension Plan should be funded at least at the level indicated by the plan actuary and preferably at the level which would pay off the unfunded liability over 35 years.
- (iii) The indexed supplements should be a part of the basic pension plan and should be financed as an integral part of the basic plan. Therefore the total contribution rates as a percentage of payroll should be 20.4% to 24.7%.
- (iv) The estimates of the unfunded liability do not include the provision for the advance funding of the indexed supplements and therefore probably understate the likely true liability and should not be used as the basis for public discussion of the cost of teachers' pensions.
- (v) The cost estimates relating to possible changes in early retirement provisions appear reasonable.
- (vi) Consideration should be given to the creation of an independent trust fund, professionally managed with investments both in equity and debt securities both in public and private sectors and with significant teacher representation. This should result in an increase in the rate of return, over a 20- to 40-year period, in the order of 1½% per annum and thereby reduce pension costs by approximately 25%.

- (vii) Changes should be made in the actuarial and administrative procedures relating to data collection and frequency of actuarial valuations.
- (viii) Teacher contributions should be a specified percentage of salary with the balance of the cost being borne by the employer. In this way the employer bears the cost of experience deficits and receives the benefit of experience surpluses. However, the level of the teacher contribution requires more study.

In arriving at his general recommendations on funding, Mr. Paterson considered the following:

Security of Benefits

In the private sector there is always a very real possibility that an employer, no matter how large and prosperous, may in the future go through serious financial setbacks and perhaps even eventually go out of business. In the public sector, there is no threat of the employer going out of business and therefore the notion of security of benefits is not a serious argument in favor of funding of public sector employee pension plans. However, the discussion of enforceability of contract provisions applies to the public sector, perhaps more so than to the private sector, because of the prevalence of large unfunded liabilities in the public sector.'

Enforceability of Contract Provisions

'Where the full value of benefit accruals of a generation of employees has been funded on a full actuarial basis year by year, that generation of employees is in a very strong position to insist on receiving all the benefits promised under the pension plan and, as a practical matter, the employer or the legislature as the case may be is highly unlikely to request a renegotiation of the pension "contract" to reduce benefits or require additional employee contributions after the benefits have accrued. On the other hand, where the benefits have not been fully funded as they have accrued, it is not beyond the realm of possibility that at some future date the legislature may feel the growing burden of cost was not properly understood or consciously agreed to in the past and since the extra money would have to come out of the revenues of the later legislature, it may not feel bound by an agreement made by the earlier legislature and which was not properly funded by its predecessors. In fact, an argument can be raised by the subsequent generation of legislators that their predecessors did not seriously agree to all the terms of the contract since they did not put up their share of the funds to ensure that the terms of the contract would be honoured.

'It should be noted that this argument takes on different shades of meaning depending on whether the pension commitment is funded partly or fully and whether the funding is accomplished by:

- contributions deposited in a trust which engages solely in

arm's-length market transactions

- contributions deposited in a trust which invests in non-marketable securities issued by or guaranteed by the government, or
- by a simple current charge against current revenues which increases and is fully accounted for in the public debt.

'These three alternatives have been listed in decreasing order of "enforceability of contract provisions.'

Accounting for and Allocation of Costs

'Whether or not a public sector employee pension plan is funded and, if funded, regardless of the nature of the fund, it is essential that a proper and full accounting be made each year for the value of all benefits accrued under the Plan and that an appropriate charge be made also in respect of unfunded liabilities. This serves many purposes, the most important of which is the honest and appropriate accounting by government to the electorate. Each government should be accountable fully for the cost impact of changes in benefits which it grants. In other words, the burden of pension costs should be allocated fairly between successive governments and between successive generations of contributors. Furthermore, to the extent that it is appropriate to include the value of pensions within the definition of total compensation for the purposes of determining fair comparisons of compensation between employee groups, it is essential that account be taken of all benefit accruals in determining the pension costs.'

Impact on the Economy

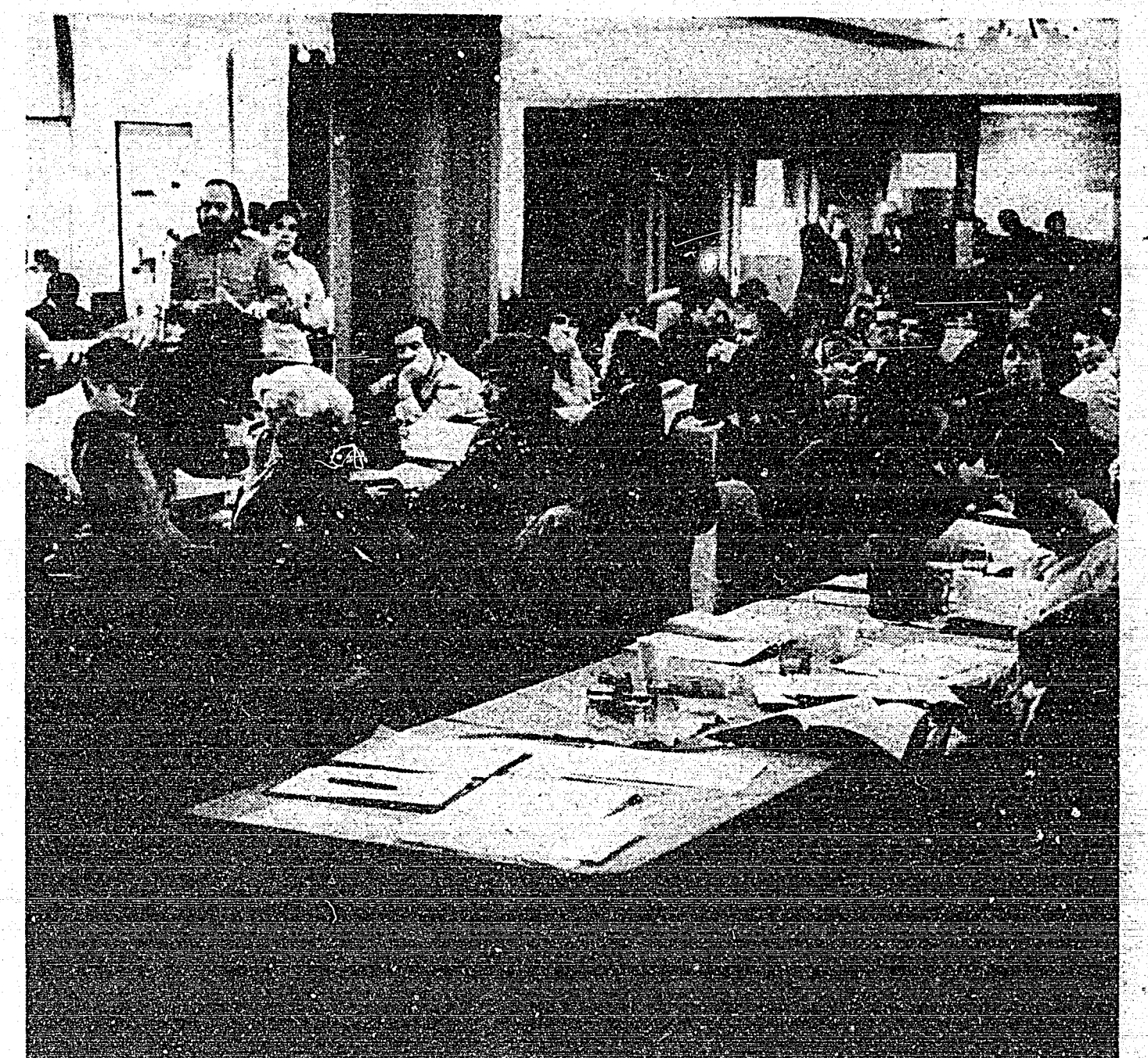
'There is little doubt that full pre-funding of the public sector employee pension plans would in-

crease the aggregate level of domestic savings and capital formation in the economy. While this may have a negative impact on consumption patterns in the short-term, it is likely to be of real benefit in the long term. However, full funding of all public sector employee pension plans would raise a serious question of whether it is appropriate and to the best advantage of the province to have all of the additional assets generated from the full funding channelled into one large pool which is controlled solely by the government.

'This raises social and political questions relating to the control of the economy which go far beyond the scope of any report on pension funding. The Government of Ontario has already recognized this problem and has started to develop procedures to distribute the control over some of their public sector employee pension plans and, further, to provide for the investment of such funds in both equity and debt securities through arm's-length transactions in the market place. This procedure will tend to channel a growing portion of pension fund monies into the financing of private sector endeavors.

'Some observers argue that present dollars shouldn't be set aside for future benefits because inflation will virtually eliminate their value. This conclusion is valid only in the case of hyper-inflation during which the inflation rate dwarfs the rate of return on the funds. If this condition were to exist for a prolonged period, not only our pension funds but our entire monetary system would be in jeopardy.

'A more likely prospect is that increased funding will increase aggregate savings and by properly matching benefit expectations with benefit costs help to create a more disciplined and less inflationary environment.'



Delegates to the January Representative Assembly listen to reports on the state of their pension plan.

PROGRESS ON OUTSTANDING ITEMS

(i) Adjustment to existing pensions — Based on the current teacher payroll and the life-time value of the pensions being paid, it is estimated that the cost of implementing the main features of the Wiggins report would be 0.3% of payroll over a five-year period. The Provincial Secretary has advised she considers the teachers should share in this cost on the basis that this would be a benefit to teacher retirees which could not be applied in the same way to other public sector retirees; therefore the cost should be shared.

No recommendation has yet been made to the Executive Committee.

(ii) Retirement with benefit based on 2% per year of service at age 55. At present a teacher may receive a benefit of 2% per year of service at age 55 with 35 years' service. With less than 35 years of service and at age 55 to 60 the pension is reduced by 5% for each year the teacher is under 60.

The actuary has provided cost estimates for alternate methods of reducing the service requirement to receive a benefit of 2% per year of service. These cost estimates range from 0.5% to 2.75% of payroll.

Discussions with government at this time have focused on a change whereby the benefit for a teacher with 10-30 years of service and

age 55 to 60 would not be changed but the benefit would be improved for teachers with 31-35 years and ages 55 to 60. This change would remove the present wide gulf between those with 35 years' service and those with less than 35 years and who wish to retire between ages 55 and 60. This change would cost little, would make early retirement more attractive and would not change the basic characteristics of the plan.

To move to a 2% benefit at age 55 with 30 years of service does have a significant cost implication (1.7% of payroll). Based on current data on the age and service of teachers retiring, this improvement would not be of value to the majority of teachers.

(iii) Continuation of the right to purchase — A full submission has been made to government on why teachers should be permitted to continue to apply to purchase some of their out-of-province Canadian teaching service as pensionable service in the B.C. Teachers' Pension Plan. As purchase is a cost factor within the plan, a decision is being held pending overall decisions on levels of funding, contributions, etc.

(iv) Reciprocal transfer agreements — Improvements in these agreements are the subject of ongoing discus-

sions within the province and among the other provincial teacher organizations and pension administrators.

(v) Financing of the basic pension benefits and indexed supplements — The government has received a recommendation from the actuary that the level of assets in the pension plan be higher and that the method of financing the indexed supplements, applied quarterly, be changed. The implementation of these recommendations would in-

volve increased contributions.

Although the government has made suggestions to the Pensions Committee on total contribution levels and on the teacher share, no recommendations have been made.

As any recommendation on future contribution levels must also take into account past contribution levels, the mixture of investments, interest rates, benefit levels, etc., much more discussion is required and will be ongoing this month.

Interest rates for last decade

The Teachers' Pensions Act restricts the investment of the contributions to debentures or other securities of, or guaranteed by, Canada or any province and to the capital stock of any corporation. In addition the approval of the Minister of Finance must be received before the trustees make any investment. The Act makes provision for up to three persons to act as trustees. At present the Commissioner of Teachers' Pensions acts in that capacity.

The following chart shows the overall net average earned interest rate on the Pensions Fund and the average rate of return of investments during each year.

Year	Overall Average	Average for Investments
1967	5.33	6.491
1968	5.59	7.13
1969	5.87	7.797
1970	6.105	7.934
1971	6.263	7.052
1972	6.359	7.432
1973	6.544	7.927
1974	6.848	9.557
1975	7.108	10.161
1976	7.688	9.475

A pay-as-you-go pension plan

A pay-as-you-go pension plan means that the plan is financed by the appropriations necessary to meet the plan's current expenditures (benefits, refunds, expenses). The appropriations may be through employee or employer contributions only or through a combination of employee and employer contributions.

In a funded plan there are systematic contributions in excess of what is required for the plan's current expenditures in consideration of long-term needs.

Usually pay-as-you-go plans are defended on the following bases:

- a) they involve the lowest immediate contribution;
- b) increasing costs as the plan matures can be met more easily in the future when the tax base is larger;

c) reserves are not necessary because public authorities are bound to fulfill benefit commitments in that they are continuing institutions;

d) reserves tempt governments to enact benefit increases without consideration of cost.

In addition to the arguments for funding presented earlier by Mr. Paterson and Mr. Eckler, the proponents of funding pension plans argue that:

- a) a promise to pay a benefit should be backed up by assets;
- b) that each generation should pay its own pension costs;
- c) that each person should expect to contribute throughout a worklife to the eventual pension received.

CANADA PENSION PLAN CONTRIBUTORS

PLEASE TAKE NOTE:

Contributors to the Canada Pension Plan should check premiums paid and service credited under this plan — particularly those persons who have had name changes and social insurance number changes.

Printed below for your convenience is an application form requesting a statement of your earnings under the CPP for verification and to keep with your personal records.

Send form directly to:

The Director,
Canada Pension Plan,
Department of National Health and Welfare,
333 River Road, Ottawa, Canada
K1A 0L1

Pursuant to Section 98 of the Canada Pension Plan I hereby apply to be informed of the amount of my unadjusted pensionable earnings shown to my account in the Record of Earnings as of the date of last posting.

Miss

Mrs.

Mr.

(Print) Last Name, first or given name and initials

Address

.....

City

Province

Postal Code

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Date of Birth

Date:

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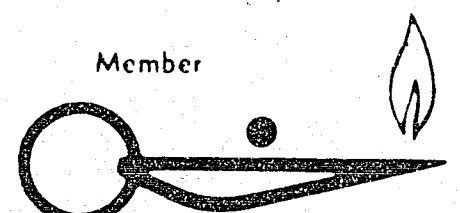
Editor

JOHN HARDY

Associate Editor

ARNIE MYERS

Member



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