

“Move Forward Together, or Fend for Yourself?
The Future of Ontario’s DB Pension System”

Speech by Ken Georgetti, President

of the Canadian Labour Congress

to the Ontario Expert Commission on Pensions

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On behalf of the 3.2 million members of the Canadian Labour Congress (CLC), we thank you for the opportunity to present our views about Ontario's defined benefit (or DB) pension system.

The CLC brings together Canada's national and international unions, provincial and territorial federations of labour, and 137 district labour councils whose members work in virtually all sectors of the Canadian economy, in all occupations, in all parts of Canada. Not surprisingly, the largest portion of CLC affiliated workers live in Ontario.

The Ontario Expert Commission on Pensions has been given a challenging task. You've been asked to examine the health of Ontario's DB pension system, and suggest policy options to improve it.

Your terms of reference offer encouraging remarks around seeking to secure DB benefits in an affordable policy framework.

At issue is Ontario's *Pensions Benefit Act (PBA)*, and other government regulations that govern DB pensions in this province. As you know, adjustments to these rules haven't happened in decades.

As you also know, changes to DB pension rules in Ontario have major implications for Canada as a whole. 37.5% of Canadian workers with DB coverage (about 1.76 million plan members) live in Ontario, and many inter-provincial multi-employer DB plans are regulated in Ontario as well.

Your work also takes place at a key moment for working people and retirees.

Most Ontarians (and Canadians elsewhere) are worried about their pension security, and concerned for their retirement prospects.

The reasons why aren't hard to find – today's research on pension trends offers an unsettling picture.

On the one hand, only 38.5% of Canadian workers, the vast majority of them union members, have workplace pensions. Most of them are members of DB plans.

On the other hand, a third of today's working population have no retirement savings at all.

Also, despite some improvement in recent decades, many retired workers still live in poverty, or slightly above the poverty line.

In this grim scenario, the “haves” with DB pensions are told by employers that their benefits are no longer affordable. They fear losing them through corporate bankruptcy or employer negligence.

The “have nots”, those without access to DB pensions, are either gouged by excessive RRSP fees, or forgotten altogether.

Meanwhile, the employer elite, the “have mores” of our society, tell workers to expect less while demanding gold-plated pensions for themselves.

To make matters worse, some of these “have mores” are now exploiting the funding challenges in DB plans.

They want access to the yearly (or “going-concern”) surplus currently building now in most DB pensions while plans are still short money on a solvency (or “wind-up”) basis.

The “have mores” say expanding their access to going-concern pension surplus will result in better funded DB plans, and more DB pension coverage.

The “have mores” also say relaxing funding rules for DB plans will produce the same results. Letters of credit are a preferred option to putting real dollars in pension plans.

Doing these things, the argument goes, will address the so-called “asymmetric risk” in DB pensions, where employers, they say, bear all the downside risk.

Mr. Arthurs, as our submission explains, recent pension history puts the lie to this argument.

If the last two decades has taught workers anything, it’s that plan sponsors can’t be trusted to put aside pension surplus in good times for the market downturns that inevitably come later. Expanding access to pension surplus or relaxing funding rules won’t offer workers more benefit security.

That’s the job of sound pension legislation, effective pension management (often with union involvement), and well-resourced pension regulators.

For all these reasons, the Commission should treat the “asymmetric risk” position with the skepticism it deserves.

At its core, it’s an arrogant position that doesn’t reflect the reality for working people, and the losses they suffer in Ontario’s existing DB system.

It ignores the pension risk workers bear in corporate bankruptcy, and the losses they suffer when pensions are consistently under-funded.

It pretends workers don't sacrifice when they prioritize pensions over other collective bargaining demands.

It obscures the risk borne by workers when their DB benefits aren't indexed to inflation, or portable across jobs.

No, none of these risks matter for those now fighting to dilute Ontario's DB pension system. For them, all that matters is access to going-concern surplus in DB pensions, and looser funding rules through letters of credit.

For that reason, Mr. Arthurs, the CLC thinks Ontario's DB pension system is at a crossroads between two broad ideas: move forward together, or fend for yourself.

Those attempting to shortchange DB pension promises are clear about where they stand.

Either we adopt their approach, or workers should expect conversions to riskier, individualized pension benefits. In other words: do what we say, or fend for yourself.

You won't be surprised to hear the CLC takes a different view.

We think Ontario is a rich province, one where workers should move forward together in retirement. We think your Commission's goal should involve greater benefit security for DB pensions, and expanding access to viable DB coverage.

Our brief sets out a few broad principles we think are important.

It offers you more research mettle to defend DB plans, to dispute those predicting a "demographic time bomb" for DB pensions, and to encourage pension decision-makers to consider responsible investment.

It complements the research and policy ideas expressed in other trade union submissions.

At the same time, we don't want the real issues here to be lost in a jumble of dense research. That happens all too often in pension discussions.

For that reason, Mr. Arthurs, I won't spend the rest of my time rehearsing facts and figures. Our submission does that, and our colleagues in the union movement have also submitted briefs that accomplish this.

Instead, for the next few minutes, I'll talk about the problems with Ontario's DB system through the eyes of two workers and their families.

Their stories, I believe, offer a powerful case for more benefit security in Ontario's DB system.

Ray Bekaris's story is the first one I'll mention today. His story was captured in a CBC documentary on pensions that aired November 15, 2004.

Ray and his wife Marilyn live in Hamilton, Ontario. For 27 years, Ray worked at Cold Metal Products, a company that rolled steel for clients like the Canadian Mint, and other major metal manufacturers.

It was hard, dirty work with 12 hour shifts. But Ray was told the payoff would be decent wages and a good pension upon retirement.

But in 2003, Cold Metal Products went bankrupt. All of a sudden, 200 well-paying jobs went up in smoke.

Soon after the plant closed, the Ray and his co-workers suffered another critical blow. They found out their pension was half-funded, and that their pension benefits would be slashed in corporate bankruptcy.

Many long-service workers expecting pensions of over \$2000 per month received half that amount. As a result, they were forced to find work elsewhere at reduced wages.

After 27 years of hard work, Ray, at age 61, went back to working 12 hour shifts, this time making egg cartons at a different factory.

Sadly, Ray's story isn't unique. Ontario has lost over 120,000 well-paid manufacturing and resource sector jobs to plant closures since 2002.

In many cases, workers and retirees in these closures faced reduced pension benefits because of employer under-funding. After company executives and deep-pocketed creditors picked the carcass of bankrupt employers, there wasn't enough left to fulfill pension promises.

Mr. Arthurs, when you hear employers and plan sponsors say they bear all the risk in DB pensions, I want you to remember Ray and Marylin Bekaris.

We're also giving you a copy of the CBC documentary that first told their story.

Later in your public consultations, I know you'll also be hearing from Leroy Pickett, someone with a story quite similar to Ray and Marilyn's. I won't steal Leroy's thunder today, he's best placed to explain those details on his own.

I'd like the Commission to consider how better oversight of DB pension funding and an expanded Pensions Benefit Guarantee Fund could help people like Ray, Marilyn, Leroy, and the thousands of people in their situation.

Mary Eady's story is the second one I'd like to share with you today.

Mary is one of this province's union retirees, and in that case she's quite fortunate. She's enjoyed decent wages, and used this security to fight for her fellow workers. Today she lives here in Ottawa.

Over the course of her working life, Mary's taken the concerns of her fellow workers to high levels of Canadian government. In fact, she was Deputy Minister of Labour in Manitoba under the Howard Pawley administration during the 1980s.

But even for Mary, the problems with Ontario's DB pension system have hurt.

Her DB pension benefits in Ontario were never indexed to inflation, and not portable across jobs. Worse still, Mary's status in her DB plan didn't meet the 10 year vesting requirements required at the time she moved to Manitoba.

As a result, when she left to Manitoba to commit herself to public service in the early 1980s, she sacrificed the DB pension benefits she had accumulated.

Now, Mary was fortunate to earn a good salary in Manitoba for her public service, and put aside some money for retirement. She's also had the support of her two sons, who also live here in the Ottawa area.

But as Mary would be the first to tell you, she is one of the lucky ones.

Sure, vesting rights for Ontario DB pensions were improved in the mid 1980s. In that respect, many workers didn't have to make the gut-wrenching decision Mary made.

But there has been absolutely no movement on portability rights and inflation protection in Ontario's DB pension system.

Without these rights, workers still face tremendous risk in the value of their DB benefits. Millions of dollars in DB benefits get lost every year while inflation eats away at the value of workers' pensions. Workers seeking to transfer pensions to new jobs still rely on the good intentions of employers.

Mr. Arthurs, the next time you hear employers and plan sponsors complain about bearing all the pension risk, remember Mary's story.

After all these years, Mary's still fighting. In her spare time now as a retiree, she still helps friends, particularly retired women, to access their public and workplace pension rights.

I hope this Commission can offer that kind of commitment to pension security for today's workers. In my opinion, the workers of this province deserve no less.

To sum up, I want to thank the Commission for inviting us here today. I also want to acknowledge you've got some challenging decisions to make.

Ontario's DB system needs reform, and we hope you offer the kind of leadership that can ensure the system becomes more secure, and available to more workers.

In doing so, you'll help workers move forward together in retirement, and tell the "fend for yourself" crowd that Ontario respects the contributions of working families.

That's the kind of vision we need in the 21st Century on pension issues, and I encourage you to embrace it.

Thanks again for your attention today. I look forward to answering any questions you might have.