

Submission from
Ontario Secondary School Teachers' Federation
to the
Expert Commission on Pensions

October 2007

The **Ontario Secondary School Teachers' Federation (OSSTF)** represents 60 000 educational workers across Ontario including public high school teachers, occasional teachers, educational assistants, continuing education teachers and instructors, psychologists, secretaries, speech-language pathologists, social workers, plant support personnel, attendance counsellors, and many others in education. Most of our members participate in the Ontario Teachers' Pension Plan (OTPP) or the Ontario Municipal Employees Retirement System (OMERS) pension plans, but some of our members belong to private university pension plans.

OSSTF is pleased to respond to the Ontario Expert Commission on Pensions (OECPC). We are looking forward to the results of the many research programs that have been commissioned by the OECPC. These results will help Ontarians to have more informed discussions on the topic of pension plans, and retirement planning.

The commission paper states that the review will focus on the following:

- the importance of maintaining and encouraging the system of defined benefit pension plans in Ontario;
- the importance of maintaining the affordability of defined benefit pension plans for both members and sponsors;
- the importance of pension plans in supporting a competitive economy;
- the need to safeguard the security of pension benefits;
- the need to balance the rights and obligations of employers, plan members and pensioners; and

- the impact of demographics and the changing nature of the workforce on the provision of employment pensions.

The effects of a changing social and economic environment:

Public pensions (OAS and GIS) were established to give all Canadians some retirement income from age 65. CPP also gives working Canadians some additional retirement income based on length of pensionable service and level of income. The public pension system is essential to the security of our growing senior population. There is universality of coverage, portability, full indexing, security and efficiency (lower cost) of administration in these plans. Survivor and disability pensions are also available and a “drop out” clause compensating for some years out of the workforce makes the CPP plan equitable. Public pensions are affordable and fair.

Individuals may supplement this income with personal savings in allowable tax-deferred Registered Retirement Savings Plans. Private investment alternatives require investing efficiently during their whole working lives with a strong commitment of time and money.

Volatile markets and fees can lower the value of private retirement income and the individuals face all the risks and dangers.

We must defend public pensions and work for improvements in the system, since many seniors are still living on very low incomes. We must also defend and promote the expansion of defined benefit pension plans or the number of Ontarians depending only on public pensions may grow significantly.

Public pensions ensure that, with their workplace pension plans and personal savings, retired Ontarians will be better able to provide for their own necessities and continue to contribute to Ontario's economy in a positive manner. Workplace pension plans should also be affordable and fair. They should allow portability, full indexing and security.

Defined contribution plans have levels of payout that are not guaranteed, and which depend on market performance and the interest rates on the date of retirement. The financial risk is borne by the individual workers rather than a shared risk with the employer/sponsors.

Demographics show that increases in the ratio of retired persons to working persons will be significant over the next number of years. It is imperative that we consider how best to have the retirees sustain themselves financially, and continue to assist in the goal of fostering a more dynamic and competitive economy.

Defined Benefit Multi-employer Pension Plans:

Ontarians will have more economic security in retirement if they participate in a defined benefit pension plan, especially one with indexation, when compared to private investments. Those depending on private retirement savings may have lower retirement income than those who contributed the same monies, over their whole working career, into a defined benefit pension plan. This means that those in a well-run defined benefit plan will be better able to contribute more to the economy in retirement and be less reliant on other social programs for retired Ontarians. Employers may also use the pension plan as a tool for recruiting and retaining employees.

For those smaller employers who do not have the numbers of employees, or the funds to create their own defined benefit pension plans, there should be easier access to multi-employer pension plans and/or multi-sector pension plans. Pooling of resources and risks enables efficiencies that small employers can not match alone. These plans or a single plan should be set up to encourage the shared pooling of contributions, and facilitate carrying individual accrual and entitlement to a single plan. Standards should be set regarding the value of pension accrual and commuted value that could be transferred. The largest sources of institutional capital in Ontario, outside of the banking sector, are pension plan investments. If invested as in larger plans, this would enable the employees in the shared pooling plans to have the stability in their retirement income as do others employed where defined benefit plans exist.

Portability of Pensions:

Portability between plans should be encouraged. Present day workers, based on statistics, will have many careers and employers in their working lives, and if enabled to pool their retirement pension benefits would be able to plan on a stable retirement income. Public pensions (CPP, OAS, and GIS) are portable and universal in coverage of retirees from the workforce, other pension plans should accommodate these principles as well.

Vesting of pensions, which ensures that pensions become an employee entitlement to the portion of the employer-contributions, should be ensured once the employee joins the pension plan. This would help recognize the reality that labour is much more mobile than it was in the past. This service, entitlement and accrual should then be portable to another pension plan.

Indexation of Pensions:

Indexing pensions to inflation ensures security of purchasing power for retired members in our society. Without indexing, inflation will erode retiree pension benefits. Retired workers and their survivors will shoulder the costs of inflation while low inflation and high investment returns may allow employers to reduce pension contributions. Inflation protection should be mandated to correct this injustice. There will be a higher cost to the plans, but again, the benefits to the security of the retiree and to Ontario's economy will ensure a better Ontario. A survey of members within the education sector of Ontario concludes that members are willing to have slightly higher contributions to ensure this security in their benefits. All pension plans should ensure this security for retirees.

Governance:

Shared Trusteeship of pension plans allows for more accountability and often better plan administration. This should be encouraged or even mandated. Joint control of risks, surpluses, deficits and administration make strong pension plans more achievable. The sponsors in a jointly-sponsored plan set benefit levels and contribution levels, negotiate any changes to the plan, how actuarial gains will be spent, and how deficits will be made up. Independent advice must be available to both sponsors, and the independent contractors should not be "guided" by the employer only. Actuaries, as an example, may feel pressured to produce the valuation that meets the needs of the sponsor. They must be accountable for the impartiality of their findings.

Clear expectations should be set with federal or provincial standards. This will allow the joint sponsors to make good governance decisions.

Pension Plan governance must be joint to ensure accountability and input from all stakeholders. Pension administrators have a fiduciary duty to plan members, and sponsors must make sure that administrators are held accountable for the choices that are made. Policies must be developed to ensure accountability of the investors and that factual information is shared with both sponsors. Members of the Sponsors committees must be educated about legislation, duties and plan operations. Regular communication with all stakeholders is essential to the positive operation of pension plans, and should be mandated. Dispute resolution processes must be put in place. There must be an appeals process. There must be consultation with the plan members, which could be done through their representatives. Regular reporting to members, stakeholders and FSCO must be required also. Regulations must be clear, communicated to the stakeholders and then enforced.

Pension Plan Funding and Surplus:

Contribution holidays created by the Income Tax Act eliminating the ability to contribute to a RPP that has a surplus of more than 10% can undermine a pension plan in times of volatility, and should not be allowed. The Act should be changed to reduce the requirement and opportunity for employers to take contribution holidays. Joint sponsors can negotiate what will be put in place, since they share the surplus and/or the deficit. Where there is no joint sponsorship, a mandated earmarked contingency reserve depending on the size of the plan assets and/or liabilities should be required. This would allow the plans to be solvent over the longer term with stabilized contribution rates and benefits.

Many large public sector defined pension plans have very little possibility of ever winding up. Since they are jointly-sponsored, the issue of solvency will be dealt through negotiated changes to the plan as necessary. Requirements regarding solvency valuations for these large public sector plans may destabilize contributions and/or benefits unnecessarily. For large private sector employer sponsored plans, there should be a range of options regarding “attending to the problems” as they arise, or an adjustment to the period for remedy. The regulations regarding solvency valuations should be reviewed and liberalized.

Pension Benefits Guarantee Fund:

The Ontario Pension Benefits Guarantee Fund is important within our province to ensure that retirees from groups that had income lost due to plan underfunding or employer insolvency have access to some of the benefits that were promised to them. Ontarians participate in pension plans with the expectation that they will receive the pension they have been promised. The benefit is capped from this fund, but the cap should be increased and then indexed to inflation to ensure a better level of security.

OSSTF thanks you for the opportunity to make recommendations to the OECP.

Summary of OSSTF Recommendations:

- Promote the expansion of defined benefit pension plans.
- Promote inflation protection through indexation of pension benefits.
- Promote multi-employer pension plans.
- Promote portability of pension entitlements, service and accruals.
- Promote immediate vesting of pensions.
- Promote joint sponsorship/shared trusteeship of pension plans.
- Promote communication with all stakeholders about their pension plan.
- Promote clear regulations and their enforcement.
- Promote the elimination of the contribution holiday requirement.
- Promote review and liberalization of regulations regarding solvency valuations.
- Promote the retention of the OPBGF with an increased cap, indexed to inflation.