RESPONSE TO THE

CONSULTATION PAPER

THE PENSION BENEFITS ACT REVIEW

February 2018

RETIRED TEACHERS' ASSOCIATION OF MANITOBA

The Manitoba Teachers' Society

The following is a joint submission from The Manitoba Teachers' Society (MTS), as a collective bargaining and professional development organization for all of Manitoba's over 15,000 public school teachers; and the Retired Teachers' Association of Manitoba (RTAM), as a strong advocacy voice for retired teachers serving its membership of over 9,700 retired individuals across Manitoba and Canada.

Teachers' pensions are administered by The Teachers' Retirement Allowances Fund (TRAF), established in 1925, for public school teachers and other eligible employees in the Province of Manitoba.

TRAF collects contributions from members, manages the investments of the pension plan and provides retirement, termination and death benefits to members and their beneficiaries as outlined in *The Teachers' Pensions Act*. TRAF must also comply with the applicable sections of *The Pension Benefits Act* and the *Income Tax Act* (Canada).

The TRAF pension is a defined benefit pension plan determined by a formula based on average salary and years of pensionable service.

This submission addresses concerns on the part of both The MTS and RTAM members in relation to the considered reforms presently being entertained as part of the review to the *Pensions Benefit Act*. Both groups are well aware that the TRAF pension is primarily governed by *The Teachers' Pensions Act*. However, proposed changes to pensions within the province have a societal impact that touches every Manitoban.

The first part of this submission is to identify the positive attributes and societal benefits of defined benefit pension plans. The latter half of this submission will address the proposed changes to the *Pensions Benefits Act* and how pensions are treated within the province.

DEFINED BENEFIT PENSION PLANS

At the heart of defined benefit pension plans is the fulfillment of the pension promise to both active contributors and retirees. Defined benefit pensions are based on a formula usually using final average earnings and the Years of Pensionable Service (YOPS) accumulated by the plan participant. They provide a pension for life that provides income security to the plan participants. Because of the formulaic nature of defined benefit pension plans, no matter whether an individual is early, mid or late in their career, an accurate pension estimate may be gleaned prior to retirement.

It is this collectively bargained or legislated promise that is the vital portion of the pension for the participant, and for Manitoba's economy. As most of TRAF's beneficiaries remain in Manitoba, (86% of the retirees reside in Manitoba in each of the past 5 years) and they also have longer average life spans than the average Canadian Mortality tables indicate (TRAF age 89 - Canadian Mortality tables age 88 - both assuming pension access at age 60) then that promised, known, pension value becomes a fundamental portion of that pensioner's retirement income. Therefore, due to the frequency of residency in Manitoba and the longevity of these pensions, they also account for a significant portion of Manitoba's GDP which then flows back into the economy in the form of consumer spending and government revenue.
"In 2016, the five largest DB pension in Manitoba, paid out more than $1.31 billion (approximately 2% of Manitoba's GDP)" [2]

Defined benefit pension plans also provide a degree of indexing relative to increases in cost of living. This mitigates purchasing power erosion through inflation. The TRAF defined benefit pension plan here in Manitoba is backstopped by the province of Manitoba. Regardless of which political party has held the balance of power in government, the pension promise has been honoured by government and it is the expressed desire of both The MTS and RTAM that this continue.

Participants in defined benefit pension plans, like the TRAF pension plan, enjoy the pooling of assets; which provides greater investment opportunities with lower administration costs. By so doing, the investment returns of TRAF, relative to many other pension plans, is greater.

According to a recent study by the Boston Consulting Group (BCG), the bulk of pension payments paid out from the four-defined benefit plans they studied came from returns on investment of the pooled resources in the plans. BCG also found that retirees with defined benefit pension plans are far less likely to rely on the federal government's Guaranteed Income Supplement (GIS) and that they provide important stimulus to the economy, with spending by pension recipients between $56 – $63 billion/year. Defined benefit pensioners annually pay between $14 - $16 billion in taxes.[1]

Unlike defined contribution, target benefit or shared risk pension plans, the defined benefit pension plan provides income security for life upon retirement. This is not only good for the economy in terms of maintained purchasing power that continues to inject money into the economy, but it is a societal imperative to ensure that the aging populations of workers are economically taken care of.

PROPOSED NEW PLAN DESIGNS – TARGE BENEFIT/SHARED RISK PENSION PLANS

The proposed amendments being considered to *The Pension Benefits Act* to permit target benefit or shared risk plans allows employers to transfer the pension risk to the employees and to alter that pension promise. Entraining a target benefit or shared risk approach to pension plan design is a radical departure within the province of Manitoba.

What is being contemplated that "benefits can be reduced with the Superintendent's approval to the degree necessary to meet solvency funding requirements" within *The Pension Benefit Act* Review document produced by the province of Manitoba is cause for grave concern.

Under these plans the benefit is usually still formulaic based but is no longer a definitive or known value; thereby, injecting uncertainty and stress into workers' lives.

The benefit would now become a target value or value that is subject to future change dependent on the funded status of the plan. This means that if the plan experiences a shortfall, both future and accrued benefits, can be reduced. This then creates uncertainty and insecurity for the plan beneficiary, the economy, and government revenues where those beneficiaries reside.

The possible adjustments to accrued benefits is, to put it bluntly, frightening. Individuals throughout their working careers plan for retirement through a variety of means, based on their expected retirement income relative to their pension. To adjust accrued pension benefits would be patently unfair and undemocratic, as well as a gross disrespect for the inherent pension promise.

Shared risk plans have existed in New Brunswick since December 2013 when the Public Service Superannuation Plan was changed from a Defined Benefit Plan to a Shared Risk plan. This resulted in several court challenges being filed regarding this change, three of which are still before the courts. In one of the plaintiff's statements, filed by Ari Kaplan, a Toronto Lawyer, Lorne Sossin, Dean of Osgoode Law School at York University said the case "raises issues not just related to vested pension rights, but also, importantly, to the health and related harms which may flow from unilaterally altering those rights, or shrouding those rights in uncertainty"[3]

The concerns raised by Ari Kaplan may be transferred here to Manitoba if amendments, permitting target benefit or shared risk pension plans, to *The Pension Benefits Act.* This uncertainty will undoubtedly create morale and financial issues for the teachers, and retired teachers, of Manitoba, along with potential legal challenges.

If government were to amend *The Pension Benefits Act* to reflect an allowance for defined benefit pension plans to be changed to target benefit or shared risk plans, it is the Society's position that any present unfunded liabilities on the Government's or employer's side be made whole prior to any change to the existing registered pension plan status.

For all the aforementioned reasons identified, The Manitoba Teachers' Society and the Retired Teachers' Association of Manitoba unequivocally opposes creating the allowance of target benefit or shared risk pension plans in *The Pension Benefits Act*.

It is the position of The Manitoba Teachers' Society and the Retired Teachers' Association of Manitoba that many options should be explored, exclusive of the elimination of the defined benefit, in relation to the funded status of the TRAF pension plan; and further, that the plan sponsors to the plan, government and active teachers, exhaust all options, including but not limited to, contribution rates, core benefits or ancillary benefits. We feel the long-standing collaborative relationship between the government and The Manitoba Teachers' Society would ameliorate concerns while maintaining the integrity of the defined benefit pension plan and the historical commitment to fulfill the pension promise dating as far back as 1925.

The Manitoba Teachers' Society and the Retired Teachers' Association of Manitoba would welcome such discussions.

Respectfully submitted,

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1 Lynne Fernandez, "Work Life: Take the Politics out of Pensions", OCTOBER 25, 2017

2 Hugh McKenzie, "Pension in Manitoba: What's Working, What's Not, What's a Solution and What's Not" Canadian Center for Policy Alternatives, September 2017, p. 19

3 Julius Melnitzer, "New Brunswick's Shared Risk conversion faces a flurry of legal attacks" Benefits Canada, November 15, 2016