national union

report

National Union Pension Conference

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Guest Speakers:	Peter Chapman, Executive Director, SHARE James Harnum, Associate, Koskie Minsky LLP Hugh O'Reilly, President and CEO, OPTrust Chris Roberts, Social & Economic Policy Director, Canadian Labour Congress Sheri Wright, VP Stakeholder Relations & Communications, Alberta Local Authorities Pension Plan Corp	

Introduction

Speaker: Larry Brown, President, NUPGE

The work pension activists do is fundamental to the work of the union. Most people retiring today will be receiving a pension for longer than the time they were in any one job. If unions ignored pensions, they'd be failing to represent members in retirement for more time than they'd represented them during the members' working years.

While we've made some progress in improving pension benefits for our members and for all retirees, we also face some growing threats.

One clear success is joint trusteeship of pension plans. NUPGE has been pushing joint trusteeship of pension plans for 20 to 25 years, and it has paid off in several ways. After the 2008 crash, the plans doing the best were those with joint trusteeship. Joint trusteeship has given us new allies, with those running our pension plans increasingly willing to join us in defending DB pension plans.

Improvements to the Canada Pension Plan (CPP) were also a major victory for the labour movement, which led the fight. While we didn't get everything we asked for, the changes we did get mean people relying on CPP will be a lot better off in a few years.

The bad news is that defined benefit (DB) pensions are under an incredible attack. 80% of the public sector has a DB plan, while only 10% of the private sector does, and that is being used by those attacking DB plans.

Undermining DB pension plans helps increase income inequality.

In Canada, just 2 individuals have as much money as the poorest 33% of the population. The CEOs of the 100-largest companies got an average pay increase of 12.6% in 2015/16. Many CEOs continued to receive bonuses even as their companies lost money. Yet they and the think tanks they fund are trying to portray workers with DB plans as the "elite."

To add insult to injury, many of the reports attacking DB pension plans by bodies like the Fraser Institute are funded by companies that public sector pension funds have money in.

Another problem is the plans of the federal government and the World Bank to make greater use of P3 privatization schemes. The headline for a Guardian article on the federal government's planned infrastructure bank was "Justin Trudeau's giant corporate giveaway." At the same time, our pension funds need places to invest, and we need to make sure those investments don't harm our members' job security.

Over the last couple of years, we've worked with Peter Chapman and SHARE. In addition to the conference, the work has included a NUPGE pension forum 2 years ago that resulted in last year's webinars.

Elisabeth Ballermann is taking over the pension file, and as it is transferred, she will be working with pension activists to figure out what needs to be done. At the last Convention, a resolution was passed to allow for new approaches. The goals remain protecting members, protecting pension plans, and expanding pension plan coverage, but how we reach those goals may change.

Emerging Trends in Public Sector Pension Reform

Speaker: James Harnum

4 legislative reforms provide good examples of the issues facing public sector pension plans. The 4 reforms are

- New Brunswick's shift from DB to target benefit (TB),
- federal government's TB legislation (C-27),
- Ontario's Broader Public Sector SEPP Conversions, and
- Ontario's solvency reform.

Research shows the cost of DB plans to the public isn't as high as opponents claim. Only 20 per cent of the cost of public sector plans is funded though taxes. 80 per cent of the cost is funded through employee contributions or investment returns.

A participant suggested that, when one recognizes pensions are deferred wages, employees are funding 100 per cent of their pensions.

While TB plans are not yet common, there is pressure for DB plans to be converted to TB. New Brunswick was the first place to convert DB public sector plans to TB. This followed a "financial crisis" and recommendations from the Task Force on Protecting Pensions.

When the New Brunswick plan was converted to TB, it allowed for the alteration of benefits for past service, as opposed to changing the plan on a go-forward basis. The justification was the financial crisis and intergenerational equity.

Federal legislation on TB plans, Bill C-27, is modeled on what was adopted in New Brunswick.

A participant raised the problem of private sector unions agreeing to move to TB plans as a trade-off for wage increases. Another participant suggested that we need to move away from the idea that DB plans are "solely employer risk," as in fact both workers and employers share the responsibility for funding the plan.

While TB can never be as secure as DB, even DB plans are not always secure. The experience of Nortel employees shows the potential problems. People need be realistic about the extent to which DB plans are guaranteed.

Not all benefits in DB plans are funded. Examples are consent benefits in the federal sector or wind-up expenses. There is also the risk of employer insolvency or government financial crisis.

In New Brunswick, there was agreement that the plan was in poor shape. The debate is over whether changes were needed.

An NBU participant reported that the plan in New Brunswick is now referred to as a TB plan, as opposed to shared risk. It was felt there was a risk factor with DB, so the difference in moving to TB was not as great as it first appeared. After 4 years there has been no reduction in benefits.

Challenges to the New Brunswick plan are:
- To the conversion of benefits from a retired group
- To limits on bargaining by CUPE (James Harnum said he is representing CUPE)
- To the whole plan by PIPSC

Because solvency costs put pressure on employers, and eventually unions, both have often been willing to see requirements lowered. Quebec has eliminated solvency funding and Ontario has a consultation paper on it.

Provincial governments have tried to give protection to pension plans when companies file for bankruptcy. The difficulty has been that bankruptcy legislation is federal, and federal laws don't provide the same protection for pension plans.

This means that, if an employer becomes insolvent, and there's a pension deficit, benefits will be reduced.

NUPGE Pension Roundtable

People from each Component responded to 5 questions and discussed related issues.

1. What were the most significant pension successes of the past 2 years in your fund(s) and union?

BCGEU's BC Target Benefit Pension Plan moved from Defined Contribution (DC) to TB. The plan covers child care, casino, and highway workers. It's hoped that it will be possible to move to DB if more people are in the plan. It was decided to move to TB as a first step, as the plan serves a precarious workforce who can only sustain low-contribution rates.

HSAA reported a growth in membership for the Local Authorities Pension Plan. The decision not to go ahead with the privatization of Edmonton Lab Services means members there will stay in the plan.

The MGEU reported that the Manitoba Home Care Pension Plan moved from Group RRSP to DC and is starting COLA payments in 2018.

OPSEU reported that the Colleges of Applied Arts & Technology Pension Plan is doing member education.

The NBU reported that full indexation has been possible for the Certain Bargaining Employees of NB Hospitals Shared Risk Pension Plan and the Public Service Shared Risk Plan over the last couple of years.

The NSGEU reported that there are plans to increase the size of the Public Superannuation Plan by adding universities or municipalities. Acadia University has joined. A conference of trustees from different plans is held every 6 months.

2. What are the most significant pension challenges you face in the coming year?

Training new trustees or board members and what course of action to take on infrastructure investment were identified as challenges by several Components. Linked to training were the questions of what skills people had who were serving as trustees , whether training should take place before or after people are appointed, and how trustees should be chosen.

The lack of a national pharmacare program was also identified as a challenge to plans that include post-retirement medical benefits, due to the cost of drugs and the rapidly rising prices.

Changes to benefits were a challenge for several plans. In BC, retirees disliked the changes to health and dental subsidies in the Municipal Pension Plan in BC. The BC Credit Union Employees' Pension Plan, which has no employee representatives, changed benefits without consultation, which resulted in legal action.

Both OPSEU and the NSGEU reported that proposed reductions in benefits for people retiring after a certain date resulted in a larger-than-expected number of people retiring.

The NBU reported that the New Brunswick Nursing Homes – Pension Plan is not healthy, and there may be a proposal to fold the plan into one of the TB plans.

NAPE raised the need to address details like how to deal with a large unfunded liability before moving to joint trusteeship.

Other challenges mentioned were

- new Canadian mortality tables
- low interest rates
- inflation
- changes to the CPP
- Bill C-27 (making it easier to pressure employees to switch to TB plans)
- climate change as an investment risk
- regulatory changes
- limited governance levers

3. What external partnerships are the greatest benefit to your union and your fund(s)?

For the Municipal Pension Plan in BC, being able to pool its resources with other pension plans as part of the British Columbia Investment Management Corporation (bcIMC), gives it access to a larger range of investments. The plan has found SHARE very helpful with training.

In Saskatchewan, the Public Employees Benefits Agency administers the Public Employees Pension Plan and does a good job.

The MGEU reported that they partnered with the Manitoba Federation of Labour and other unions to get the Canadian Centre for Policy Alternatives to do research on the advantages of DB plans.

PEI UPSE reported that the Civil Service Superannuation Fund uses AEON as an adviser on investment and Morneau Shepell as an actuarial advisor.

The Nova Scotia Health Employees' Pension Plan uses Mercer as a consultant. The plan is part-owner of a real estate company and use the company to push real estate investment.

4. Where there are other unions on trustee boards or pension committees that you belong to, how well are those relationships working?

OPSEU reported that, of its 4 larger plans, 2 plans are largely OPSEU's – OPSEU Pension Plan and Colleges of Applied Arts & Technology Pension Plan – and 2 are joint plans with other unions – Healthcare of Ontario Pension Plan and Ontario Municipal Employees Retirement System.

The NBU reported that they worked well with the International Brotherhood of Electrical Workers (IBEW) and the New Brunswick Nurses Union (NBNU), but the legal cases around the changes to the pension plan mean there are challenges with CUPE and PIPSC.

PEI UPSE reported that sometimes the employer will use different interests of unions to their advantage.

The NSGEU reported that Nova Scotia Health Employees' Pension Plan has 4 unions involved, with the others being Nova Scotia Nurses' Union (NSNU), CUPE, and Unifor. There are good relations with other unions. For the Public Superannuation Plan, the other employee-side representatives are from CUPE, the retirees, and non-union employees.

NAPE reported that for a motion to carry, a majority including 4 union votes is needed. This means NAPE and one other union can block motions, but more votes are needed to pass motions.

5. What new initiatives are you taking that would be of interest to other NUPGE members?

HSAA reported that Alberta Investment Management Corporation (AIMCo) is providing the Local Authorities Pension Plan with more information on its investments.

bcIMC, which manages investments for BC public pension plans, is becoming a full-service investment corporation by bringing functions in-house instead of using external managers.

The NBU reported that in 2016, the public service plan partnered with the teachers' plan to become the sole shareholders of Vestcor Corp, formerly New Brunswick Investment Management Corporation.

NAPE reported that to deal with the problem of the investment committee trying to make investment decisions unions didn't like, a sponsorship board was created. The sponsorship board has been able to restrict investments in P3s. Investments in Newfoundland and Labrador P3s are only allowed if approved by the board. No investments in P3s in Canada are permitted if jobs will be eliminated.

6. How can other NUPGE Components help you?

Communications between Components were seen as helpful in responding to changes to the Canada Pension Plan.

7. How can the National Union help you?

Bringing Components together through forums and other communications were mentioned several times. Help with education and training were also mentioned.

There was also a suggestion that the National Union could help on particular issues: CPP changes and the limitations of RRSPs were 2 that were mentioned.

Capital Stewardship: How Are We Investing Our Members' Deferred Wages?

Speakers: Peter Chapman, Executive Director, SHARE, and Elisabeth Ballermann, Secretary-Treasurer, NUPGE

The shift to segregated pension funds, as opposed to governments putting contributions into, and funding pensions directly from, general revenues, led to growing attention as to how funds are invested.

5 of the 10 largest pension plans in Canada involve NUPGE members. This means that if the funds work together on common issues, they will have considerable impact.

United Nations Principles for Responsible Investment (PRI) have encouraged the spread of responsible investment, including the fact most pension funds now have managers of responsible investment. What has also helped is a broader interpretation of fiduciary responsibility. With this approach, issues like climate change and, in the UK, members' interests can be considered.

What also helps is requiring that pension funds disclose how environmental, social and governance criteria (ESG) affect investment decisions. This is currently a requirement in Ontario, and similar requirements have been in place in the UK since 2000.

Income inequality is starting to be discussed as being a systemic risk, like climate change. An example of the growing awareness of how income inequality can affect investments is a request from a business school professor for a panel on income inequality at a conference.

Labour shareholder campaigns are also increasing the profile of issues related to income inequality, particularly forced labour and child labour. Examples of this are targeting Couche Tarde over the use of children to harvest tobacco and targeting Sports Direct for its refusal to pay a living wage or provide workers with stable hours.

At the same time, there is also concern that increased skill needs for pension fund trustees could be used to push unions away from the trustee table. Another concern is the atomization of pensions, where people are on their own and relying on companies like Sun Life or Black Rock to make investment decisions.

It’s possible to invest responsibly and get good returns. This is important because, while unions should look at where pension funds are invested, they can’t ignore the self-interest of members. Members will be reluctant to support an approach to investing that will reduce their income after retirement.

With infrastructure investment, an additional consideration is that many of the proposals involve privatizing public services. In addition to job losses, there is the impact on the commons. For example, when governments privatize things like schools and hospitals, they’re giving away democracy.

Elisabeth Ballermann argued that the financial crisis that led to neglect of infrastructure was largely created by governments that cut taxes drastically, and therefore reduced revenue for infrastructure. This affects our members as citizens and as people who are having to deliver services in facilities that are inadequate or in need of replacement.

That leads to the question of whether pension funds should invest in P3s—and when.

The National Union is working on principles for investment of pension funds. These will be brought to the NEB for discussion. The International Labour Organization (ILO) Committee on Workers’ Capital is also working on principles and likely to have a draft ready for November 2017.

In both cases, principles are an alternative to a blanket refusal to invest in P3s. These principles would be intended to be a starting point for discussion. At this stage, we want to get people thinking about the options and provide feedback.

It was acknowledged that NUPGE members’ pension plans are already invested in P3s. Among the issues raised were the following:

- Who controls the infrastructure?
- Can investment can be a way to reduce the negative impacts of P3s, like privatization of service delivery?
- Should principles apply to investments outside of Canada?
- How deeply should pension funds be digging to determine whether companies in their fund portfolios are investing in P3s?

In the case of the last point, the question is whether just checking if investments are going directly to P3s is sufficient, or whether pension funds should look at things like whether a company in which pension funds are invested is in turn investing in a company that owns P3s.

CPP Expansion: How Might CPP Expansion Affect Public Sector Plans? What Steps Are Plans Taking?

Speaker: Chris Roberts, Social and Economic Policy Director, Canadian Labour Congress

The CPP enhancement, An Act to amend the Canada Pension Plan, the Canada Pension Plan Investment Board Act and the Income Tax Act, became law in December, but will take a few years to come into force.

CPP enhancement is a clear example of why everyone benefits from the work of the labour movement. It was pressure from the labour movement that persuaded the federal and provincial governments to agree to expand the CPP. What made the labour movement's role remarkable is that unionized workers are the most likely to have pension plans. The work of the labour movement in getting improvements to the CPP is worth pointing to when responding to criticisms of public sector pensions.

Between 2019 and 2023, the benefit provided by the CPP will be increased from 25% of career average earnings to 33%. Over two years – 2024 and 2025 – the Year's Maximum Pensionable Earnings (YMPE), will increase by 14% beyond the normal increases for inflation. The necessary increases in contributions will be phased in over 5 years—from 9.9% to 11.9% (1% for employers, 1% for workers).

The legislation expanding the CPP said nothing about how workplace plans should respond. Whoever currently makes decisions about pension plans will be deciding how or whether pension benefits will be adjusted.

Options are for the CPP increase to be stacked on top of current pension earnings or integrated. Most DB plans are integrated with current CPP benefits.

The most common type of integration is the Step Rate where benefit rates are lower for earnings below the YMPE than for earnings above the YMPE. The other method of integration is offset, where pension payments are reduced by the amount of the CPP benefit.

Saskatchewan's defined contribution and other defined contribution plans are not integrated. Flat-rate plans are not integrated, but for those that are, the issue of integration may come up in bargaining.

Public sector unions trying to figure out how to adjust to the increase still need more information. The regulations accompanying the legislation to increase the CPP have yet to be put in place. Other considerations are benefit levels and how well funded plans are.

With defined contribution plans or DB plans with low-benefit levels, stacking the CPP enhancement may be the best option. Where benefits are already adequate, integration could improve funded status, or allow for restoration of lost benefits.

Quebec has not yet signed onto the CPP enhancement. Depending on what changes are made to the Quebec Pension Plan, there may be an impact on plans with members in both Quebec and other provinces.

Another consideration is employers will be trying to shift the increased premium costs onto workers.

Because of the complexity of the issues involved, education and communication with members is vital.

Communicating the Benefits of Good Pensions with Members, the Public, and Policy Makers

Speaker: Sheri Wright, VP, Stakeholder Relations and Communications, Alberta Local Authorities Pension Plan Corp

The job of pension plans should be helping members understand the need to plan for retirement instead of just providing them with a pension. Pension plans are not doing as well as they think at communicating with members. Examples are that people don't understand what happens to their contributions, or the difference between DB and other types of pension plans.

There is also a need to educate policy makers, whose understanding of pensions is very limited. Educating policy makers reduces the chance they will believe inaccurate information from groups that regular attack pension plans, like the Canadian Taxpayers Federation.

Effective communication requires knowing which audience you're communicating with, whether it's plan members, the public or policy makers. It also requires overcoming the fact that pensions are seen as complex and boring and that, when people are busy, thinking about their pension is something they will put off.

Funding research is also needed for effective communication, particularly in correcting myths and inaccuracies. Being able to provide statistics is a good tactic, because they generate headlines and don't get questioned.

The other new development is DB plans are starting to be defended. In the oil industry, DB plans are used as an incentive for long-time employees—i.e., over 10 years. Some plans are members of Canadian Public Pension Leadership Council (CPPLC).

Pension Challenges: A CEO Perspective

Speaker: Hugh O'Reilly, President and CEO, OPTrust

A jointly sponsored, DB plan is the highest form of pension plan. OPTrust is independent of both the province and the union—sometimes too independent.

For OPTrust, the priority is providing members with what we promised them. That means the goal is maintaining funded status as opposed to worrying about how the plan performs against other plans.

OPTrust has investments in a number of countries. Examples are Porterbrook in the UK, which was recently sold for a profit of over $13,000/member, and the 40% stake in Globalvia.

Except for companies producing landmines and cluster bombs, OPTrust does not screen investments. What it does do is engage with companies on ESG issues. OPTrust tries to be a responsible investor, because companies that are good at ESG are there for the long term and, therefore, a better investment.

To keep the pension funded at between 100% and 105%, the plan needs to earn between 5% and 5.75%.

Keeping member contributions stable is important, because if rates increase, much of the burden falls on younger workers. That undermines solidarity.

The positions of plan sponsors have allowed OPTrust to take a stance on Ontario Retirement Pension Plan (ORPP), CPP expansion and climate change. When OPTrust tried to show the impact climate change could have, it found it couldn't, because only property insurers have looked at financial impact. Mark Carney, Governor of the Bank of England and former Governor of the Bank England, has set up task force on climate led by Michael Bloomberg, and OPTrust has hired Mercer to run through scenarios.

A pension plan must follow the members when public services are privatized. When public services are privatized, workers are told their wages won't drop, but other compensation issues are left up in the air.

No details have been provided on the federal infrastructure bank, but what Hugh said in a meeting with the Prime Minister was that the fundamental issues would be whether investments would be for greenfield projects and whether investors would receive long-term concessions or leases. If the federal government wants pension funds to build greenfield projects, pension funds will want it to be as risk free as possible, which makes them more expensive.

The federal government needs to talk to public sector unions to make sure jobs, benefits, pensions, and wages are protected. There is a danger that the federal government is assuming that construction unions speak for the entire labour movement.

Next Steps

Speaker: Elisabeth Ballermann, Secretary-Treasurer, NUPGE

Thank you to all the speakers and facilitators for an excellent job. There is a need for more opportunities to discuss issues like infrastructure investment principles.

As a follow up, when the responses to the detailed questions on pension plans are received, the comparison spreadsheet will be updated and sent out to participants. We will also develop a way to share information with NUPGE pension activists.

For each Component, it would be helpful to have one person who is the key contact on pension issues.

NATIONAL UNION OF PUBLIC AND GENERAL EMPLOYEES

B. C. Government and Service Employees' Union
Health Sciences Association of British Columbia
Health Sciences Association of Alberta
Saskatchewan Government and General Employees' Union
Manitoba Government and General Employees' Union
Ontario Public Service Employees Union
Canadian Union of Brewery and General Workers
New Brunswick Union of Public and Private Employees
Nova Scotia Government and General Employees Union
PEI Union of Public Sector Employees
Newfoundland & Labrador Association
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