national
union

Future Considerations

Pensions Manual

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FOREWORD

We are pleased to present the fourth edition of the National Union Pensions Manual.

It was first published in 1995 and is one of the National Union's most popular publications. The manual is widely used by Components as a valuable tool to educate activists in the field of pensions.

This edition is much more extensive than the last three editions (1995, 1999 and 2003)which reflect both the increasing importance that our members place on pensions as well as the National Union's expanded pensions agenda.

Over a decade ago our education priorities were to have our members understand their rights to pension benefits when they retire, their entitlements to Canada's public pension system and how public pensions relate to workplace pensions. That has changed as our members now need a much stronger knowledge base of pensions not just on the technical aspects of their pension plan but on the broader perspective that we have around joint control and the investment policies of our pension plans. As you will see, the new and updated content of this manual reflects the broader agenda that the National Union has with respect to pensions.

Canadian trusteed pension fund assets have doubled in value over the last four years and are now worth over $800 billion and represent a critical source of capital for national and international markets. Components of the National Union participate in jointly trusteed pension plans that collectively have over $90 billion in assets. It's possible that we can achieve joint trusteeship of all our major pension plans right across the country in the next five years bringing the total assets of our jointly trusteed plans to over $120 billion.

This is a huge pool of capital and with joint trusteeship we now have influence over which we can use to advance the best long-term interests of our members both in terms of their financial security in retirement and the overall quality of life in their broader community.

The ***Pensions Manual*** is primarily designed for Component leadership activists and staff who serve on a union pensions committee or represent their union as a trustee of a pension plan.

The National Union is also producing several of the sections of the manual as stand-alone ***Pensions Backgrounders*** which we hope will appeal to many activists who are looking for pensions educational material to build their knowledge base. We will be releasing this series of backgrounders over the next year. If you would like to receive the backgrounders or know activists who might be interested in receiving the backgrounders please let us know by e-mailing national@nupge.ca.

The National Union also has devoted a section of our website to pensions which contains many publications as well as news stories on pension issues from across Canada and around the world. It can be found at http://www.nupge.ca/issues/pensions.htm. We also produce a regular ***Pensions E-Bulletin*** containing the top pensions news stories from our website which we send out on a regular basis. If you are interested in subscribing to our ***Pensions E-Bulletin*** please e-mail national@nupge.ca.

On a final note we would like to thank members of the National Union Pensions Advisory Committee who have spent a great deal of time and effort in the last year working with our national office to produce this manual. Each section of the manual was vetted by the Committee members and their valuable input has helped ensure that, from a union perspective, the final product is one of the most solid and comprehensive educational tools on pensions that exists in Canada today.

Just as with the original edition of the ***Pensions Manual*** we are confident that this fourth edition will prove to be a valuable tool for members of the National Union in this important area.

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CHAPTER 1

Pensions are Important to Workers and their Unions

••• A Pension Plan Can be an Important Financial Asset to Workers

For those workers who are fortunate enough to participate in a workplace pension plan during their working careers, their pension plan will likely be one of, if not, the biggest asset they acquire in their lives.

Traditionally, however, workers have not paid a lot of attention to pension funds and plans. Pensions were seen as a 'reward' to be paid to workers who retire from working 30 to 40 years at a job. Up until recent years, working people have often assumed their pensions were the responsibility of their employer, who had the sole prerogative to manage their pension plans as they saw fit in order to provide their workers with the pension promise – secure income during their retirement years.

Workers and their unions rarely questioned how the pension plan was being administered, or the decisions plan managers made on fund investment. Their focus was on the actual amount of the pension benefit on retirement.

••• Pensions are Workers' Deferred Wages

Perhaps the most fundamental fact to know about pensions is that they are workers' deferred wages regardless of whether the contributions were made by them or their employer. Pensions are key to assuring a life with dignity and adequate income upon retirement. They are a particularly important component of the compensation workers receive in return for their labour. They are not a gift from the employer; they are earned by the workers.

Unfortunately, relatively few working people understand a great deal about workplace pensions or the other parts of the retirement income system. They are often intimidated by the perceived complexities of pensions and often don't know how to cut through the terminology that is so often associated with pensions.

Since a workplace pension plan is one of the biggest assets that a worker will probably own, it's critical that workers and their unions expand their knowledge base in the pensions policy area. But the importance of pensions goes beyond what the value of an individual pension plan is worth to a worker who is about to retire.

There are many more as important reasons why the labour movement must take a much more proactive approach to pensions. That's why in the last two decades there has been a huge shift in the level of interest and attention workers and their unions give to pension plans. Let's briefly examine some of those reasons why there has been greater interest in the field of pensions (all of which will be covered in greater detail in the subsequent chapters of this revised **Pensions Manual**).

• • • The Advantages of a Workplace Pension

To provide an adequate income for retirement, a good workplace pension plan is a must. That is why it has long been a bargaining priority for the labour movement, and this effort has borne fruit. The vast majority of unionized workers now have a workplace pension plan, whereas most non-unionized workers do not.

Despite the huge growth of private savings by workers as a way to provide retirement income, pension plans still provide the best benefit to retired workers and to workers planning their retirement. Workplace pension plans are not only better for workers, but are also better for employers, and are simply better public policy.

Workplace pension plans are generally the best vehicle to ensure a worker's investment risk is managed professionally. They provide workers with the advantage of a pooled investment risk. Belonging to a pension plan means that an individual worker is generally subject to less investment risk, than if he or she was responsible for the investment of their private retirement savings.

With private retirement savings, the responsibility for making investment decisions rests with the individual worker. This means that the value of a private savings plan will depend on an individual's ability to choose investment funds that do well and the individual's ability to make appropriate changes if they are not doing well. If the individual's investment strategy is not successful, then she/he has nothing to fall back.

In the case of the pension plan, investment decisions are guided by the advice from professional investment consultants. This prescribes how the investments are to be diversified between the different types of investment, such as equities, bonds, real estate, etc. Professional investment managers who specialize in each of these investment categories are hired to make the day-to-day investment decisions. Performance of the investment managers is monitored closely by the plan's manager or trustees. Because of the size of the pension plan assets, plan members through their trustees have access to specialized advice and resources that are not available to individual investors.

Private savings plans also shift the cost of administration of the plan onto the individual. The individual pays significant management fees to mutual funds and other services directly out of their retirement savings, whereas pension funds use their own managers. The lower expense levels enjoyed by the pension plan can have a significant positive impact on the benefits that can be provided at retirement.

••• The Pension Promise

First and foremost is that we have yet to achieve the '*pension promise*' for the majority of Canadian workers. When we as union activists refer to keeping the '*pension promise*', we are talking about our commitment to do everything in our power to ensure that our members have financial security in their retirement years. We also do everything we can to hold our federal and provincial governments and our members' employers to that same promise.

In fact in recent years the *'pension promise'* in Canada has taken a backward step. We must continue to work to achieve pension plans for many workers who are not even covered by a workplace pension plan.

Only 33.6% of all Canadians of working age are covered by a pension plan and the percentage continues to decline – 35.4% were covered a decade ago.

In terms of the paid workforce, the percentage of workers who were covered by a pension plan in 2003 was 39% – this represents a steady decline in coverage of 7% from 1991 when pension coverage of the paid working force stood at 46%.

Coverage also differs greatly in the public and private sectors. Since 1977, the workplace pension coverage rate for the private sector has been steadily decreasing, from 35% in 1977 to about 27% in 2003. In the public sector, the coverage rate has always been much higher. In 2003, over 86% of workers in that sector were covered by a workplace pension. Coverage in the public sector actually increased over much of the earlier part of this period, from 1977 to 1991, but has since been dropping.

We also know that the best assurance to belong to a workplace pension plan is to be a union member – 83% of unionized employees are covered by either a pension plan or a group RRSP, compared to just 33% of non-union workers.

••• The Retirement Wave

Another reason for the increased interest in pensions relates to the huge retirement wave our country is facing. Canada is beginning to experience a great demographic shock, as thousands upon thousands of working age people near their retirement age at the same time. Currently 225,000 Canadians retire every year; this figure will climb to 370,000 a year by 2010 and to 425,000 annually by 2020. As more of our members get closer to retirement age it's natural that we would have many more members thinking about pensions.

••• Economic Structural Changes Impacting on the Value of Pension Funds

Another reason for the growing interest in the pension field has been the structural changes to our economy in the last several years. Unemployment, stagnant wages, privatization, deregulation and the globalization of finance and markets have led to our members feeling less secure about their economic well–being during their work life and future retirement. Major events like the technology sector meltdown have triggered steep declines in the value of pension funds. In addition, recent examples of high profile corporate crimes like the Enron and WorldCom scandals have provided workers with many more reasons to connect the health of their pension plans with their financial security during their retirement years.

••• Pension Assets The Largest Single Source of Capital in the World

Canadian pension fund assets covering 5.5 million workers are estimated at just over $720 billion and are second only to the combined financial assets of the major banks in Canada. The value of pension funds globally is over $7 trillion (U.S.). This pool of assets represents the largest single source of capital in the world today. We have witnessed an explosive growth in pension funds in each decade since the 1950s, when the practice of private pensions spread through many sectors of the economy. During the last two decades alone this capital pool has grown by 400%. Pension funds today own 35% of all publicly traded equity in Canada. These pension funds have become a critical source of capital for national and international markets.

••• The Power of Our Pension Funds

The pension funds put aside to guarantee our members' retirement incomes can also determine the term of employment, community life, the environment, consumer goods and public services which help define the quality of life that they and their families are able to enjoy. Yet the financial institutions and individuals that manage pension funds are often given a mandate to pursue narrow investment goals that often undermine the very workers whose savings they invest.

We all agree it's critical that the pension funds of our members be invested in profitable ventures. But that doesn't mean ethical, socially useful and / or other positive considerations can't affect a part of the investment decisions of our pension funds. Only if workers and their unions are part of the decision making process can we ensure that our pension funds are not used to the detriment of workers and their families, but instead are directed to socially responsible, yet profitable investments.

Finally, unions must confront one of the main challenges facing all owners — that their interests do not necessarily coincide with those managing their collective assets. Corporate CEOs are usually rewarded based on short-term stock prices and this focus cascades throughout the organization. In contrast, pension funds must invest for the long-term and should be more concerned about a company's ability to grow over the longer term than about short-term fluctuations in stock prices. For this reason, proxy voting

— which allows pension funds to be heard as owners — and corporate governance reform must remain key priorities for pension fund trustees.

The labour movement, here in Canada and internationally, is slowly beginning to recognize this paradox. As a result there has been a huge growth in union interest in joint trusteeship and the investment policies of pension funds.

• • • Expanding Our Pensions Knowledge Base

Most union education on pensions has not focused a great deal on these important issues.

We have perhaps done a better job of having our members understand their rights to pension benefits when they retire, their entitlements from Canada's public pension system and how public pensions relate to workplace pensions. All are important aspects of member education and will also be covered in this **Pensions Manual**.

But it is important that union activists move beyond this traditional approach to take a full leadership role in the field of pensions.

The fact is our members need to be better informed—not just on the technical aspects of their pension plan, but on the broader issues of joint control and the investment policies of our pension plans.

It's critical that we create widespread awareness and knowledge among our members of the profound effects of their pension funds. That is why we've revised and expanded this **Pensions Manual** now in its fourth edition; the first edition was published in 1995.

Our hope is that through reading it and sharing the information it contains with your fellow union activists, you and your Component will become much more knowledgeable in the field of pensions and better equipped to advance our broader agenda in the pensions field.

This agenda requires somewhat of a cultural shift within our union. This shift will help us expand our expertise and unleash our capital power so that we can skillfully and confidently use pension fund investment to maximize long-term value for our members, both in terms of their financial security in retirement and the overall quality of life in their broader community.

CHAPTER 2

A Brief History of Pensions in Canada

••• Workplace Pensions

The rise of workplace pensions in Canada is very much a 20th century story; however the first pension plan dates back to 1874.

Retirement not an Option for Workers in the 19th Century

During the first half of the 19th century most men worked in farming, crafts or trades and support in old age was provided by their offspring who had taken over the family business or farm. The last third of that century saw manufacturing employment increase at twice the rate of population growth, and these new workers needed to find a different way to provide for their old age. This was also a period when banks, insurance companies and the stock and bond markets were developing many new financial capital instruments for retirement saving. Saving for retirement, however, was not an option most workers could afford and they therefore continued to work until they no longer had the physical capacity to do so.

Railroad Companies First to Introduce Workplace Pensions

This was also a period of widespread labour unrest, with violent strikes and the rise of labour unions. As the 19th century ended, employers faced an aging workforce with potentially diminished capacity. In response, some of the more enlightened employers started providing a variety of benefits for their workers – a response that is often referred to as the beginning of welfare capitalism. These early pension plans were developed based on three different rationales: career, welfare and efficiency.

The first workplace pension plan recorded in Canadian history was a plan that the Hudson's Bay Company had established for certain retiring meritorious officers in 1840. The Ganong Chocolate Factory also offered a pension plan to its management employees in 1855. The railroads were the nation's first large industrial sector to develop pension plans. In 1874 the Grand Trunk Railway Company, a Canadian line, was created only for their management. The plan required employees to join by age 37 and remain at work until at least age 55. The pension deferred part of their wages until retirement, thus 'buying' the loyalty of its workers. By 1900, only federal employees, railway workers and employees of some commercial banks were covered by pension plans.

At first pension plans were justified as a tool to increase workers' loyalty, and to reduce strikes and turnover. As employers found that pensions were not very successful meeting these objectives, they became more interested in the value of mandatory retirement. This was the period of scientific management, when it was thought that older workers (over 45) could not keep up.

Private pension providers at first had little understanding of the actuarial realities of the pension plans they were creating. During the first two decades of this century, most large corporations financed their pensions from operating funds and had no reserves.

First Canadian Private Pension Legislation

The first Canadian legislation that encouraged workers to save for their retirement was the *Canadian Government Annuities Act* of 1908. Its purpose was to encourage Canadians to prepare financially for their retirement through the purchase of a government annuity. The Act allowed for the purchase of various annuities for different amounts and lengths of time. At a specified age, the recipient would begin to receive fixed yearly benefits. The government guaranteed these benefits and assumed all the costs to administer them. The problem, however, was that few Canadians could afford to buy them.

Pensions: Tools for Controlling Workers

After the well-publicized failure of the Morris Packing Company pension plan in 1923, suggestions for reform came from government, consultants and insurance companies, specifically that pension cost should be accrued, funds should be held with an independent fiduciary and workers should be vested.

Reforms were resisted on all three counts. From the beginning, most plans were non-contributory so that employers could terminate them at any time. Actuarial costs were difficult to estimate with most plans because benefits were based on final salaries. Building trust funds was expensive and these might be seen as employee assets. Corporations did not want to turn over funds to another institution when they felt they could better use the funds themselves. Finally, vesting was the least desirable idea, since employers wanted to give pensions to reward only long-serving employees. In general, there was a conflict between the reformers' view of pensions as deferred wages and the corporations' view of pensions as tools for controlling their workforce.

Unions Influence Growth of Workplace Pensions in Postwar Period

During the postwar period, the most important factor that influenced the growth of workplace pensions was the growth of the trade union movement and collective bargaining. First the United Mine Workers and then the CIO unions began pushing for industry-wide standards for pensions in Canada as well as the United States. Their success is measured by the fact that between 1945 and 1960, almost entirely due to union initiatives, pension coverage increased from 19% to 40% of the workforce. This 40% pension coverage rate stayed fairly constant until around 1990 when the rate began to drop to where it is today with only 33.6% of the workforce being covered by a workplace pension.

••• Canada's Public Pension System

The first substantial involvement by the federal government in the field of income security took place during the decade after the First World War (1920-1930).

The federal involvement was the product of not only a high regard for veterans but also of social unrest, including the Winnipeg General Strike. Returning veterans were not assured work and found a marked contrast between the society's rhetoric and their destitute circumstances.

Old Age Pensions Act, 1927

Survivor and disability pensions were therefore created for war veterans and their families, but there was still a strong and growing need for a national old age pension system. The *Government Annuities Act* of 1908 was not the answer since few people could afford them. So in the 1920s, the issue of government assistance for the elderly was back on the political agenda. In 1924, Parliament appointed a special committee to study the question of pensions.

Political advocates like James S. Woodsworth and Abraham A. Heaps argued for a national pension scheme. When his government finally won a majority in 1926, Mackenzie King followed up on his promise to Woodsworth and Heaps by introducing legislation that became the *Old Age Pensions Act* in 1927. The maximum pension was $20 per month or $240 per year. It was available to British subjects aged 70 or over who had lived in Canada for 20 years. It was also restricted to seniors whose income, including the pension benefits, was less than $365 per year (this was determined by a means test). Status Indians were excluded.

Although eligibility was limited, the Act was a modest beginning to nationwide benefits for the poorest elderly. The program gradually included more people, such as blind persons, but eligibility remained limited and seniors had to pass a degrading means test.

The pension became increasingly unpopular when provincial legislation was used to back up the means test. To qualify for assistance, parents had to prove that their children could not support them. Officials even encouraged some elderly parents to sue their children for maintenance. Recipients' eligibility could be withdrawn after they had begun receiving pension payments. Payments were even recovered through claims against the estate of dead recipients.

In 1939, Canada's entry into the Second World War put people back to work and breathed new life into the economy. These good economic times, however, were not as favourable for seniors, whose pensions were devalued because of inflation. The contrast between the prosperous and the aged poor and the memory of the Depression inspired many people to propose a new national system of social security. Political parties, unions, seniors and social interest groups urged the elimination of the means test and the establishment of policies to protect all Canadians from extreme poverty.

Old Age Security Act, 1951

In 1951, the Constitution was amended to allow the federal government to pass the *Old Age Security Act*. The Act, which took effect in January 1952, established a federally funded pension for all men and women 70 years of age and over, except for Status Indians. The maximum Old Age Security pension was $40 per month or $480 per year. For the first time, Canadian seniors could receive a pension without undergoing a means test. The Old Age Security pension however was not an income replacement measure; it was a safety net that conferred on all seniors who met the residency requirements a basic amount of support.

Private pension plans or savings were supposed to supplement that amount, if possible. However, for most people, retirement meant a drastically reduced standard of living. Even with Old Age Security, the average income for seniors in this period was only around 50% of average industrial wages. Some workers had employment-based pension plans, but they faced several problems: these plans were tied to a particular job, they were not portable, and they usually required very long contributory periods. They were also poor in the area of survivor benefits.

Canada / Quebec Pension Plans, 1966

Responding to the need for a public pension plan that offered portability, a greater measure of income replacement and insurance for families against the death or disability of a breadwinner, Lester Pearson's government introduced the Canada Pension Plan in 1966. This was a compulsory, contributory scheme for salaried and self-employed workers between the ages of 18 and 70. A sister program, the Quebec Pension Plan, was enacted in the same year to cover Quebec workers and their families.

The existence of two plans stemmed from the desire of the Quebec government to retain primacy in the social welfare field in that province and to have control of pension fund reserves for investment in provincial development. The other provinces had the option of establishing their own parallel plans as well, but none did. Ontario had legislated its own plan but never brought it into force, throwing its weight behind the Canada Pension Plan in the national interest. A Canada Pension Plan without either Ontario or Quebec would have faced significant challenges to its credibility and, perhaps, longevity. Development capital for the provinces could be acquired through loans from the Canada Pension Plan surpluses.

Section 94A of the Constitution, added in 1951 to permit the federal government to make laws in relation to old age pensions, was amended. This change permitted the Canada Pension Plan to provide pensions to survivors and disabled persons who were not 'old' and whose pensions would therefore not be old age pensions. The paramountcy clause, which ensured the CPP would not affect any provincial old age pension program, was also retained although its language was slightly modified.

Over the next five years, the eligible age for the Old Age Security pension and the Canada Pension Plan would be lowered to 65. Both pensions would be indexed to offer inflation protection.

Guaranteed Income Supplement, 1967

In the interest of fairness, a Guaranteed Income Supplement (GIS), tied to Old Age Security, was introduced in 1967 as a temporary measure to further reduce poverty amongst seniors. The GIS was part of the Old Age Security program and provided low-income Old Age Security pensioners with additional money. It was income-tested, meaning that as the amount of income increased (to a maximum of $720 a year in 1967 dollars for a single pensioner), the amount of the supplement decreased. It predominantly helped those who would retire before they benefited from the Canada Pension Plan.

Important Changes in the 1970s and 1980s

Throughout the 1970s and 1980s many changes to our public pension system were introduced to help women, low-income workers, disabled people and other groups most vulnerable to poverty. Some important changes:

- Flexible retirement was introduced in 1987, allowing Canada Pension Plan contributors the option of receiving a pension as early as the age of 60.
- The Guaranteed Income Supplement (GIS), introduced in 1967, became permanent.
- The Spouse's Allowance was introduced in 1975 and the Widowed Spouse's Allowance was introduced in 1985.
- Better inflation protection was put in place; from 1973, Old Age Security benefits were indexed quarterly as opposed to annually and indexation was linked to the Consumer Price Index.
- Partial Old Age Security benefits were made available to people who could not meet the residency requirements for a full pension.
- The definition of 'spouse' was added to the Canada Pension Plan and redefined under the Old Age Security program to include both legal and common-law spouses.
- Provisions were made to adjust the CPP / QPP contribution period for parents who left the workforce to raise their children.

- In 1988, Aboriginal people earning income on reserves were allowed to contribute to the Canada Pension Plan and receive benefits from it for the first time.
- In 2000, all Old Age Security and Canada Pension Plan benefits and obligations were extended to same-sex, common-law relationships.

Uproar Over Mulroney Government's Proposal to End Indexation, 1985

There were also regressive changes to our public pension system introduced in the 1980s. The Mulroney Conservative government came to power in the mid 1980s espousing neo-conservatism (or neo-liberalism) in the same 'wave' which elected Thatcher in the UK and Reagan in the U.S. Regarding social programs, the message was that spending had to be restrained, and "benefits targeted to those in need".

In the May 1985 budget, Minister of Finance Michael Wilson declared that "social programs must be changed so that benefits are targeted to those in need". He announced that Old Age Security would no longer automatically increase in dollar terms against the first 3% increase in the Consumer Price Index (CPI) annually.

The OAS de-indexation announcement provoked an uproar from the seniors' lobby. On June 19, Mulroney encountered a group of seniors protesting outside the Centre Block on Parliament Hill, in the rain. He thought he could sweet-talk them. But with the TV cameras rolling nearby, one senior, Solange Denis, directly challenged the PM: "You lied to us! You got us to vote for you, and then good-bye Charlie Brown!"

This proved to be a public relations disaster for the government. Eight days later, with Denis sitting in the public gallery, Wilson rose in the House of Commons to announce the government was flip-flopping and withdrawing the partial de-indexation for the OAS.

The labour movement learned an important lesson from this episode – that Canadians are justifiably worried about their retirement security and that politicians who seek to reduce retirement benefits are potentially vulnerable to union opposition and popular mobilization.

An End to Universality of OAS, 1989

The universality of the Old Age Security ended in 1989, with that year's federal budget 'clawback'. The budget declared that seniors had to repay 15¢ of their pension for every dollar of net income earned over a certain threshold. The threshold was $53,215. Seniors received their monthly OAS cheque as before, but next spring at tax time the funding was 'clawed back' from the seniors affected when they filed their income tax form.

But the threshold level where the clawback kicked in was only partially indexed against inflation – indexing continued only at inflation rates above 3%, as with the 1985 reform (see above). This meant that over time, the threshold level declined in real terms.

The Liberal government reformed this program in July 1996 to provide that henceforward, eligibility for it was determined before the benefit was paid out, based on last year's income tax return. Benefits for affluent seniors are reduced before the monthly cheques are sent out, rather than being taxed back after the seniors have received their cheques.

Benefits are now paid out net of the clawback amount, based on the previous year's income tax return. Now affluent seniors do not receive any nominal funding at all. At least under the Tories' clawback, affluent seniors got a nominal benefit on a monthly basis, before it was clawed back when the seniors filed their income tax return. So the Tories maintained at least the pretence of universality; the Liberals eliminated even that.

The Tories' (partially indexed) clawback ended the universality of the OAS because it was now allocated on the basis of income. Their strategy for selling it to the public was to emphasize that it only affected the wealthiest 4.3% of the seniors' population: why should they get a government benefit? But because of the partial de-indexing, a growing number of seniors could expect to be affected (depending on the inflation rate). Thus, the clawback was another example of the 'politics by stealth' strategy, coupled with seductive rhetoric about the reasonableness of 'targeting' programs.

Changes to CPP to Guarantee Sustainability, 1998

The sustainability of Canada's public pensions grew into an important political issue in the 1990s. Life expectancy was increasing and seniors were making up a greater share of the population. At the same time, the number of workers contributing to the Canada Pension Plan (CPP) was decreasing. Many people were concerned that pensions would not be there for them when they retired.

In response to this growing concern, the Government of Canada and the provinces agreed to make changes to the CPP in 1998. Canada Pension Plan contribution rates were increased. The Canada Pension Plan Investment Board (CPPIB) was established to invest funds not immediately needed for benefits. The administration and calculation of benefits changed.

These changes put the CPP on solid financial ground. Despite the aging population, the Canada Pension Plan will continue to be available for future generations. As of December 2006, the CPP reserve fund now stood at $110.8 billion. The CPP reserve fund is expected to grow to $147 billion by 2010 and to more than $200 billion a decade from now. Based on actuarial projections, CPP contributions are expected to exceed benefits paid until 2022, providing a 16-year period before a portion of the investment income from the CPP reserve fund is needed to help pay CPP benefits. By the year 2010, CPP is expected to be the largest pension plan in the world.

The Martin Government took steps to try and protect the CPPIB from a progressive pension investment agenda by banning it from considering 'social' and 'political' issues. They also refused to appoint any representatives from the labour movement – in marked contrast to the situation in Quebec where a senior labour movement representative sits on the investment board of the QPP. Over time, the size of the CPP fund and the fact that its beneficiaries include all working Canadians may well mean that the Federal Government will have to engage with a progressive union agenda.

Public Pensions are Here to Stay

Although seniors will make up an increasing proportion of our population, Canada's public pensions are secure and will continue to support many future generations.

CHAPTER 3

How Much Pension Will an Individual Need?

THERE IS really no generic answer to the question of how much income an individual or couple will need in order to live their retirement years in comfort and dignity. Each individual retiree will spend differently and have different needs. Accordingly, there is no scientific way of determining how much a particular person will require.

••• Retirement Income Above the Poverty Line

One indicator that all individuals who are planning for retirement can consider is whether their retirement income will meet Statistics Canada's 'Low Income Cut-offs' (LICOs) which are also commonly known as poverty lines.

The LICO is based on Statistics Canada's detailed survey of the expenditure patterns of Canadian families known as the Family Expenditure Survey (FAMEX).

From FAMEX data, the Canadian average family expenditure on food, shelter and clothing is calculated. This is expressed as a percentage of pre-tax income.

Low income cut-offs are based each year on those individuals and families who spend 20% more than the average individual / family expenditure on food, shelter and clothing.

Persons and families living below these income levels are considered to be living in *'straitened circumstances'*. There are 35 different LICOs, varying according to family size and size of community.

So at a minimum, an individual or couple will want to try to ensure their annual retirement income will at least meet the LICO which corresponds to their family size and size of community.

If not, it's safe to say a large portion of their retirement years will be spent living in poverty.

• • • OAS and GIS Will Not Provide Above Poverty Income

For those persons whose only retirement income consists of the maximum available benefits under Canada's old Age Security (OAS) and Guaranteed Income Supplement (GIS), most will live below the poverty line.

For the single elderly, the floor currently amounts to $13,635.96 per year (as of January 2008). This is $3,583 below the 2006 low income line for a single person in a large urban centre as established by Canada's national statistical agency, Statistics Canada.

For an elderly couple, the minimum income guarantee is $23,167 (as of January 2008), which is $1,723 above the 2006 low income line for a large city. As is commonly the case elsewhere, too, the single elderly in Canada are overwhelmingly women.

• • • Less Income is Needed for Retirement

Another point to consider is that experience shows workers generally need less of an income during retirement, for a number of reasons:

- there are no more CPP / QPP or Employment Insurance contributions;
- there are no more pension plan contributions;
- there is an increased personal income tax exemption starting at age 65 (clawed back, subject to a means test for those with higher incomes);
- many personal items, such as mortgage payments, life insurance premiums, clothing for work, transportation to work and child related expenses may not only be reduced, but may disappear entirely; and
- there are benefits that may be available to people over 65, such as low-cost public transport.

On the other hand, many workers may find themselves 'retiring' at an earlier age than they anticipated, as a result of corporate or government downsizing. In these circumstances, their savings might be a lot less than they expected. They will have to rely on their retirement savings a lot longer.

Even if they do retire when they intended to, workers' lifestyles may change at retirement, so that other expenses replace those of working expenses. Retirees may travel more or have more time to pursue hobbies, for example.

A related factor is the decreased level of service relating to many government programs and the growing use of user fees that will affect many seniors in their retirement years, just as they are affecting the rest of us.

• • • Where Will This Money Come From?

The usual rule is that your pension income from all sources should be about 70% of your pre-retirement earnings if you want to maintain your standard of living once you're retired. Let's look at someone earning the current year's (2008) maximum pensionable earnings (YMPE), $44,900. The YMPE is set each year by the federal government, based on the average wage in Canada. According to this formula, that person requires 70% of $44,900 or $31,430 per year, when he or she retires.

Assume that this person retired in January 2008 and obtains the maximum basic Old Age Security (OAS) benefit, of $502.31 per month (or $6,027.72 a year) and the maximum Canada / Quebec Pension Plan (CPP / QPP) retirement benefit, of $884.58 per month (or $10,614.96 a year.) [See next chapter on An Overview of Canada's Public Pension System.]

As can be seen from the following table, to achieve a 70% replacement rate, the worker would therefore have to find $14,790.06 of pre-retirement earnings – $1,235.50 each and every month – from some other source.

Seventy Percent Replacement of a
Pre-retirement Annual Income of $44,900

Source of Income*	Dollar Amount	Percentage of pre-retirement income (of $44,900)
Old Age Security	$ 6,027.72	13.42%
Canada Pension Plan	$10,614.96	23.64%
The portion to make up, through workplace pension plan *and/or* private savings	**$14,787.32**	32.94%
Totals	$31,430.00	70.0%

* Based on January 1, 2008 rates

There are really only two other sources of income that a retired worker is able to tap from and that is a workplace pension plan or private savings. And remember from the previous chapter of this *Pensions Manual* that less than 40% of workers belong to a workplace pension plan.

For those workers who do not belong to a workplace pension plan, they will need to accumulate pre-retirement savings, usually through a Registered Retirement Savings Plan (RRSP).

Let's consider a worker who is 30 years of age who plans on retiring at age 65. How much retirement savings will be needed to ensure that individual can have an annual income $14,787.32 (representing the 32.94% of the $44,900 noted above)?

First we have to make the following three assumptions:

- *Life expectancy after the age of 65* – for a Canadian male age 65, the average Canadian life expectancy is 81 years of age, for a Canadian female age 65, the average life expectancy is 85 years of age;
- *Annual rate of return* that the private retirement savings will generate during years of retirement – the assumption used for the calculation below is 6% annual yield on the balance of the savings; and
- *Annual inflation rate* to ensure that the value of the $14,787.32 income is protected during each year of retirement – the assumption used for the calculation below is an annual inflation rate of 2.5%.

So based on these three assumptions:

- The 30-year-old male who retires at age 65 will need a savings of $441,882 to have an annual income of $14,787.32 for each year of retirement; and
- The 30-year-old female who retires at age 65 will need a savings of $519,892 to have an annual income of $14,787.32 for each year of retirement.

The federal government of Canada has developed an online Canadian Retirement Income Calculator to help Canadians plan for their retirement. The calculator takes users step by step through an estimate of the ongoing income they may receive throughout their retirement from:

- Old Age Security (OAS);

- Canada Pension Plan (CPP) or Quebec Pension Plan (QPP);
- employer pension(s);
- Registered Retirement Savings Plans (RRSPs); and
- other sources of ongoing income.

It will therefore help individuals calculate how much private retirement savings from their defined contribution pension plan or their RRSP they will need to provide a certain income for a set number of years.

The calculator can be found at the following website:
https://srv111.services.gc.ca

When using the calculator, it is important that individuals keep in mind that the calculations can only provide a rough estimate of future retirement income and that those estimates are expressed in today's dollars and do not consider the amount of taxes an individual will have to pay on his/her retirement income.

••• The Impact of Inflation

It's important to recognize that inflation over the years will impact seniors' income by reducing the income's purchasing power. The table below shows how different rates of inflation impact on purchasing power over the years.

The Impact of Inflation on Future Purchasing Power
The Future Value of One Dollar ($1.00)

Inflation Rate / Number of Years	2%	3%	4%	5%	6%	8%	10%
5 years	91¢	86¢	82¢	78¢	75¢	68¢	62¢
10 years	82¢	74¢	68¢	61¢	56¢	46¢	39¢
15 years	74¢	64¢	56¢	48¢	42¢	32¢	24¢
20 years	67¢	55¢	46¢	38¢	31¢	21¢	15¢
25 years	61¢	48¢	38¢	30¢	23¢	15¢	9¢

Inflation obviously will impose a major burden on pensioners with fixed income; it is often described as *“a monster that dines on your future”*. On a somewhat positive note, however, is the fact that today’s inflation experience is more moderate (in the 2 – 3% range). However, in the past it has been severe, peaking in 1980 at about 12.5%.

••• No Easy Solutions

There are two general observations and conclusions that can often be made about retirement planning.

Individuals generally underestimate how much is required to fund a flow of income at retirement (or for purchasing pensionable service) and its mirror image. And conversely, individuals generally overestimate how much a stream of income can be generated from a given amount of dollars.

Recognizing these factors early in an individual’s working life is preferable to later in terms of retirement planning. It is also important that we recognize that Canada’s public pension system plays a critical role and we can expect it to play a critical role in the future given the low pension coverage rates amongst Canadian workers.

Add to this the additional challenges faced by increasing life expectancy, early retirement aspirations of workers and volatile investment markets.

CHAPTER 4

An Overview of Canada's Public Pension System

••• The First Tier of Retirement Income in Canada

Previous generations of Canadians along with the labour movement fought hard to win universal public pensions both to recognize the contribution senior citizens have made to our society, and to provide the elderly some measure of comfort in their retirement years. Moreover, like all public programs and services, our pension system is an important tie that binds us together as a nation. It is an expression of our collective commitment to one another and to the fundamental democratic principle that all citizens have the right to services that enrich us all.

The main components of Canada's public pension system are three publicly administered programs: the Old Age Security program, the Guaranteed Income Supplement and the Canada Pension Plan. Some provinces also have a specific income supplement program for seniors.

Public pensions, unlike most private plans, are 100% portable and move with people from one job to another. They are fully indexed to inflation and offer survivors' benefits. And because public pensions are publicly run, administration costs are extremely low – about 1% of total benefits.

••• An Important Factor in Addressing Seniors' Poverty

Thanks to public pensions, Canada has made tremendous gains in overcoming poverty amongst elderly citizens, and providing our seniors with much better prospects for a dignified and secure retirement.

Until recently, the percentage of seniors with low incomes had been declining. It went from 21% in 1980, to 10% in 1990, to 7% in 2003. The National Council of Welfare points out that this catch-up period is over. Since the middle of the 1990s, seniors' income has reached a ceiling and the gap between seniors' revenues and those of other Canadians is now increasing. Between 1997 and 2003, the mean income of senior households increased by $4,100, while the average income of other Canadian households increased by $9,000. The situation is even more pronounced for seniors living alone.

••• Public Pensions are the Only Source of Income for the Majority of Seniors

Public pensions therefore have been especially important for lower and middle-income seniors. They are less likely to have been able to accumulate large private retirement savings during their working lives, and less likely to have worked in jobs that provided decent private pension plans.

Remember less than two in five Canadian workers are members of a registered pension plan and public pensions (OAS, GIS and CPP or QPP) accounted for over half of all income for six out of every ten seniors in 2001. Without these public pensions, poverty will once again become a fact of life for millions of seniors.

There is, of course, a need for changes to our public pension system. Benefits are still low and need to be strengthened.

The following is an overview of each of the components of Canada's public retirement income system:

Old Age Security (OAS)

The Old Age Security program is the first tier of Canada's public retirement income system. The *Old Age Security Act* came into force in 1952, replacing legislation from 1927 requiring the federal government to share the cost of provincially-run, means-tested old age benefits.

The Act has been amended many times. Among the most important changes have been:

- the drop in age of eligibility from 70 to 65 (1965);
- the establishment of the Guaranteed Income Supplement (1967);
- the introduction of full annual cost-of-living indexation (1972);
- quarterly indexation (1973);
- the establishment of the Spouse's Allowance (1975);
- payment of partial pensions based on years of residence in Canada (1977);
- the inclusion of Old Age Security in international social security agreements (ongoing);

- the extension of the Spouse's Allowance to all low-income widows and widowers aged 60 to 64 (1985);
- the introduction of a 'clawback' in the 1989 federal budget which put an end to the universality of the Old Age Security; maximum of one year of retroactive benefits (1995);
- the ability for an individual to request that their benefits be cancelled (1995); and
- the extension of benefits and obligations to same-sex common-law partners (2000).

The Old Age Security program is financed from Government of Canada general tax revenues. It is administered through the Income Security Programs Branch of Social Development Canada.

All benefits payable under the *Old Age Security Act* are adjusted in January, April, July and October if there are increases in the cost of living as measured by the Consumer Price Index.[1] As of January 2008, the maximum monthly OAS benefit was $502.31.

Since 1989, older Canadians with incomes above a threshold amount have been required to pay a surtax of 15% on incomes above the threshold, up to the amount of a full OAS benefit. Pensioners with an individual net income above $64,718 must repay part of the maximum Old Age Security pension amount. The repayment amounts are normally deducted from their monthly payments before they are issued. The full OAS pension is eliminated when a pensioner's net income is $104,903 or above.

Despite its history as a universal program for older Canadians, it has clearly taken on an income-tested character. The income threshold at which OAS benefits begin to be taxed back is just over 1.4 times average wages and salaries, and the full amount is taxed back at 2.25% of average wages and salaries.

Guaranteed Income Supplement (GIS)

The Guaranteed Income Supplement (GIS) is a monthly benefit paid to residents of Canada who receive a basic Old Age Security (OAS) pension and who have little or no other income. In law, the GIS is a component of the OAS program.

The GIS was created in 1966 as a small program to compensate the elderly of that time for the fact they would not get to participate in the earnings-related Canada Pension Plan that was being created at that time. Like the OAS, the GIS is administered by the Government of Canada. It is paid for out of the general revenues of the Government of Canada, and GIS expenditures show up as expenditures in the federal government's budget.

GIS payments may begin in the same month as OAS pension payments. Recipients must re-apply annually for the GIS benefit by filing an income statement or by completing an income tax return by April 30. Thus, the amount of monthly payments determined for the year may increase or decrease according to reported changes in a recipient's yearly income.

Unlike the basic OAS pension, the GIS is not subject to income tax. The GIS is not payable outside Canada beyond a period of six months, regardless of how long the person has lived in Canada.

To receive the Guaranteed Income Supplement benefit, a person must be receiving an Old Age Security pension.

The GIS is an income-tested benefit. A maximum benefit is created for a single elderly person and for elderly couples. The maximum benefit for couples is less than twice that for the single elderly.[2] Maximum benefits are paid to the elderly with no income except OAS. Then benefits are reduced by 50 cents per dollar of income from sources other than OAS.

As of January 2008, the maximum benefit for the single elderly is $634.02 per month. The maximum benefits are adjusted quarterly to reflect changes in consumer prices. GIS benefits are not taxable.

Under the GIS program, there is also a Spousal Allowance and a Survivor Allowance for seniors aged 60 to 64 with low incomes. They are designed to bridge the gap until these people become eligible for the OAS pension.

A **Spousal <u>Allowance</u>** is available to 60 to 64 year-old low-income spouses or common-law partners of OAS pensioners who receive the GIS. The maximum monthly Spousal Allowance benefit is $921 as of January 2008. The benefit is reduced according to a couple's yearly income; if a couple's combined yearly income, not including their OAS / GIS pension, exceeds $28,176 the 60 to 64 year-old spouse or common-law partner is not eligible for the Spousal Allowance.

A **Survivor <u>Allowance</u>** is available to 60 to 64 year-old low-income spouses or common-law partners whose spouses or common-law partners have died. The maximum monthly Survivor Allowance benefit is $1,020.91 as of January 2008. The benefit is reduced according to an individual's yearly income; if the yearly income exceeds $20,520 she / he is not eligible for the Survivor Allowance.

If a person is receiving the Allowance and her / his spouse or common-law partner dies, she / he will be switched to the Allowance for the survivor.

In combination, OAS and GIS provide a minimum income floor for older Canadians. For the single elderly, the floor currently amounts to $13,635.96 per year (as of January 2008). This is $3,934 below the 2006 low income line for a single person in a large urban centre as established by Canada's national statistical agency, Statistics Canada. For an elderly couple, the minimum income guarantee is $23,107 (as of January 2008), which is $1,723 above the 2006 low income line for a large city. As is commonly the case elsewhere, too, the single elderly in Canada are overwhelmingly women.

Maximum Old Age Security benefit rates as of January 1, 2008

Type of Benefit	**Maximum Monthly Rate January – March 2008**
Basic Old Age Security pension	$502.31
Guaranteed Income Supplement Single Spouse/Common-law partner of • a pensioner • a non-pensioner • an Allowance recipient	 $634.02 $418.69 $634.02 $418.62
The Allowance • regular • survivor	 $921.00 $1,020.91

Canada / Quebec Pension Plan (CPP / QPP)

CPP / QPP is a government-sponsored pension plan funded solely by contributions made by employees, employers and self-employed people and from interest earned from the investment of the funds. These plans came into effect on January 1, 1966 and provide very similar benefits. The goal is to provide working Canadians with an income related retirement pension of 25% of a worker's earned income to a maximum of 25% of the average industrial wage.

Supplementary benefits include contributor disability pension, benefits to dependent children of deceased or disabled contributors, surviving spouse's pension and a lump sum death benefit.

Benefit calculations are based on how much and for how long a contributor has paid into the CPP.[3] Benefits are not paid automatically – everyone must apply and provide proof of eligibility. However, once eligibility is determined, CPP benefits are paid even if the beneficiary also receives income from other sources.

Benefits are adjusted in January of each year as needed to reflect increases in the average cost of living, as measured by the Consumer Price Index. Participation is compulsory for eligible individuals and covers practically all employees and self-employed persons.

Contributions to the CPP are paid on earnings between a minimum and a maximum amount. The minimum earnings in any year on which no contributions are paid, known as the **Year's Basic Exemption (YBE)**, are $3,500 and have remained frozen at that amount since 1998.

The maximum, known as the **Year's Maximum Pensionable Earnings (YMPE)**, is adjusted annually to reflect the growth in the average Canadian industrial wage. The YMPE for 2008 is $44,900. Contributions stop once a contributor reaches the age of 70 or begins to receive a CPP retirement pension or disability benefit. The contribution rates for 2008 are 4.95% for employees and 4.95% for employers. People who are self-employed pay both portions, for a total of 9.9%. Employers and employees make approximately 94% of contributions and the remaining 6% comes from the self-employed.

The amount of each contributor's pension depends on how much and how long he or she has contributed and at what age he or she begins to draw the benefits. The monthly maximum retirement pension for a person who retires at age 65 as of January 2008 is $884.58 and the average payment in October 2007 was $481.46.

The CPP offers flexibility with respect to the age of retirement. Seniors can take their pension as early as the age of 60 or as late as 70. The CPP permanently reduces the pension by 0.5% per month for those who take their benefit before their 65th birthday, reflecting the fact that these seniors will, on average, receive their benefit longer than someone who retires at the age of 65. For those who take their benefit after their 65th birthday, the CPP permanently increases the pension by 0.5% per month, reflecting the fact that these seniors will receive their benefit for a shorter amount of time on average. The adjustments are intended to ensure there is no advantage or disadvantage from taking the retirement benefit at a particular age.

Disability Benefits – An individual is eligible to collect disability benefits if that person "… is determined in a prescribed manner to have a severe and prolonged mental or physical disability …" according to the CPP Act. The term 'prolonged' means that a person's disability is expected to continue for a significant period after the time of application, and that its duration cannot be predicted with any certainty, or is likely to result in death. A 'severe' disability is defined as one that impairs to such an extent that a person is "… incapable regularly of pursuing any substantially gainful occupation….". A person qualifies on medical grounds only when the 'severe' and 'prolonged' criteria are met simultaneously at the time of application. However, the severity of a disability is assessed first. If an applicant does not meet the 'severe' criteria, the question of whether the disability is prolonged is not considered.

The maximum monthly disability benefit as of January 2008 is $1,077.52; the average payment in October 2007 was $785.77.

On top of that benefit, the disabled pensioner will receive an additional children's monthly benefit for each child under the age of 18. If the child is between the ages of 18 to 25 and still attending a post-secondary educational institution, the benefit is paid directly to him / her. As of January 2008 the children's monthly benefit was a flat rate of $208.77.

Survivor Benefits – Survivor benefits are paid to the surviving spouse or common-law partner of the contributor and his / her dependent children. The amount of the spouse's portion of the monthly survivor benefit varies depending on a number of factors, including the age of the spouse or common-law partner at death and whether the beneficiary also receives other CPP benefits. The maximum monthly survivor benefit for those age 65 and over was $530.75 and the average payment in October 2007 was $313.14.

The children's monthly benefit is also paid on top of the spouse's benefit. The eligibility criteria and the amount of the benefit is the same as the children's monthly benefit under CPP disability benefits.

Death Benefits – The death benefit is a one-time payment to, or on behalf of, the estate of a deceased Canada Pension Plan contributor. As with most Canada Pension Plan benefits, the amount of the death benefit depends on how much, and for how long, an individual pays into the Canada Pension Plan. CPP first calculates the amount that one's Canada Pension Plan retirement pension is, or would have been if one had been age 65 when death occurred. The death benefit is equal to six months' worth of this 'calculated' retirement pension, up to a maximum of $2,500. The average payment in October 2007 was $2,237.81.

Other Provisions – The CPP includes provisions that compensate for periods of low earnings, namely the child-rearing drop-out provision (CRDO) and the 15% general drop-out provision. The CRDO allows the CPP to drop

Maximum Canada Pension Plan Benefit
Rates as of January 1, 2008

Type of CPP Benefit	Maximum Rates for 2008
Retirement pension (at age 65)	$884.58
Disability pension	$1,077.52
Death benefit	$2,500.00
Survivor's pension (under age 65)	$493.28
Survivor's pension (age 65 & over)	$530.75
Combined pensions: Survivor/Retirement (at age 65) Survivor/Disability	 $884.58 $1,077.52
Disabled contributor's child benefits Deceased contributor's child benefits	$208.77 $208.77
Yearly Maximum Pensionable Earnings (YMPE)	$44,900.00
Year's Basic Exemption (YBE)	$3,500.00
Employer / Employee CPP Contribution Rate	4.95% each up to a maximum of $2,049.30 annually
Self-Employed CPP Contribution Rate	9.9% up to a maximum of $4,098.60 annually

up to seven years of low or zero earnings (due to child rearing) from the calculation of a contributor's CPP disability, survivor and / or retirement benefit. The 15% general drop-out provision is for low or zero earning years and applies to all contributors. The Plan has other provisions under which married or common-law spouses may either share their pension (if the union is intact), or split their credits (if the union has dissolved).

••• Provincial and Territorial Income Supplement Programs

Several provincial governments and both territories have recognized the inadequate living conditions of those relying primarily on OAS or GIS and SPA for support and provide their own supplement programs. Such programs exist in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Northwest Territories and Yukon. All these are income tested and therefore only available to the poorest seniors and are not indexed to the inflation rate.[4]

In addition, provinces and territories provide other kinds of benefits to seniors such as prescription drug plans, heating oil subsidies and home care assistance programs, with eligibility based on receipt of the GIS. Eligible seniors who do not receive the GIS may also be eligible for, but not receiving, a variety of other supports, which could significantly improve their quality of life and standard of living.

••• Integration of Private and Public Pension Plans

Private and public plans are closely integrated. When an individual receives a pension from one plan, this may have an impact on the benefits that person is entitled to receive from other plans.

Income-based benefits, such as the Guaranteed Income Supplement, the Allowance and the Allowance for the Survivor, as well as benefits received from provinces and territories, take into account any CPP / QPP benefits and other income received by the beneficiary.

CPP / QPP benefits are never reduced, but when they begin to be paid out, they may have an impact on the level of other benefits to which an individual is entitled.

Some workplace pension plans are integrated into the CPP or QPP. In such cases, the level of benefits of the workplace pension plan will take CPP / QPP benefits into account. It is important for workers to check whether their pension plan is integrated and, if so, what the impact will be on the monthly amount they will receive throughout their retirement years.

The integration with CPP / QPP may be achieved through a direct or an indirect reduction method. The indirect reduction method is more common. In most cases, it consists of two contribution or benefit rates – a lower rate for incomes lower than the yearly maximum pensionable earnings (YMPE), and a higher rate for incomes above that level. For example, the pension amount per year of service may be 6.0% of earnings up to the YMPE level, and 8.0% of earnings above that level.

Under the direct reduction method, contributions or benefits are lowered by an amount equal to a portion or the total amount of CPP / QPP contributions or benefits. For example, a worker may be retired prior to being eligible for CPP benefits but is entitled to receive benefits from her / his workplace pension. Once the worker is entitled to receive CPP benefits, his / her workplace pension benefits are lowered by an amount equal to the CPP benefits the worker is entitled to receive.

CPP / QPP benefits may also have an impact on the level of benefits received from a private-sector disability insurance plan. In addition, most workers' compensation plans take into account income from the Canada Pension Plan.

[1] For the most current benefit rates for the Old Age Security program, visit the following website - http://www.sdc.gc.ca/en/isp/oas/oasrates.shtml

[2] For the most current maximum benefit rates for elderly singles and couples under the Guaranteed Income Supplement (GIS) program, visit the following website - http://www.sdc.gc.ca/en/isp/oas/oasrates.shtml

[3] For the most current maximum benefit rates under the Canada Pension Plan (CPP) program, see Table at the end of this chapter or visit the following website - http://www.sdc.gc.ca/en/isp/pub/factsheets/rates.shtml

[4] For details on each of these provincial and territorial-based programs visit the following website - http://chp-pcs.gc.ca/CHP/index_e.jsp/pageid/4005/odp/Top/Health/Seniors/Publications/Provincial_Guides_to_Programs_and_Services

CHAPTER 5

Private Retirement Savings

••• Registered Retirement Savings Plans (RRSPs)

RRSPs are individual, personally managed savings plans and are the most popular method of personal savings for retirement, especially for those workers who do not participate in an employer pension plan. RRSPs now receive more money each year than employer pension plans (RPPs). In 2004, just over 6 million Canadians contributed $28.8 billion to RRSPs – although this only represented 8% of what Canadians were entitled to contribute. In comparison, 4.5 million Canadians belonged to about 1,400 registered pension plans in 2004 and the total contributions to those plans were $19.3 billion (from employers and workers).

An individual must have earned income from employment, professional or business activity in order to contribute to an RRSP and may also contribute to an RRSP for her / his spouse or common-law partner. Like employer pensions, savings in an RRSP receive tax assistance – contributions are tax deductible and investment income is not taxed as it is earned.

RRSPs Invested in Wide Range of Financial Products

RRSP funds may be invested in a range of financial products and investment vehicles, including savings accounts, Canada Savings Bonds, term deposits, guaranteed investment certificates and mutual funds.

An RRSP can be set up through most financial institutions – banks, credit unions, trust companies, mutual fund companies, insurance companies and investment dealers or brokerage firms.

An individual may also set up a self-directed RRSP which may hold a wider range of investment vehicles (such as individual stocks) and allows the individual to directly manage the investments.

RRSP Contribution Limits

The allowable RRSP contribution for the current year is the lower of:

- 18% of earned income from the previous year, or
- The maximum annual contribution limit for the taxation year, or
- The remaining limit after any company sponsored pension plan contributions.

Earned income includes salary or wages, alimony received, and rental income, among other income sources, but does not include items such as investment income.

As a result of changes introduced in the 2005 federal budget, the following limits and deadlines apply annually.

Maximum Annual
RRSP Contribution Limits

Year	Total Annual Contribution
2005	$16,500
2006	$18,000
2007	$19,000
2008	$20,000
2009	$21,000
2010	$22,000

Any money withdrawn is taxed at a rate applicable to the individual's annual income during the year that the funds are withdrawn. Funds withdrawn from an RRSP will be charged an amount to cover some or all of the taxes charged on that amount of income. This amount must be held back by the plan administrator and remitted to the government on your behalf. Effective January 1, 2005, the following withholding tax rates apply:

Amount of RRSP Withdrawal	All Provinces except Québec	Québec
Up to and including $5,000	10%	21%
$5,001 to $15,000	20%	26%
More than $15,000	30%	31%

So if a worker withdraws funds while still receiving employment income, he or she will be faced with a high tax bill.

Two programs allow an individual to make withdrawals of RRSP funds without paying tax immediately: the Lifelong Learning Plan and the Home Buyers' Plan.

Home Buyers' Plan

The Home Buyers' Plan allows the individual to borrow funds from his / her RRSP to purchase their first home. Here are some of the key facts:

- The individual and their spouse can each borrow up to $20,000.
- The funds must have been deposited at least 90 days before they were withdrawn.
- At least 1/15 of the funds must be repaid each year, beginning two years after the funds were withdrawn.
- A signed agreement to buy or build a qualifying home is required.
- An individual can only participate in the program once.

Lifelong Learning Plan

The Lifelong Learning Plan allows one to pay for training or education with RRSP funds. Here are some of the key facts:

- Up to $10,000 per calendar year can be withdrawn to finance full-time training or post-secondary education.
- The student can be the individual or their spouse, but not their children.
- If the student meets disability requirements, the training / education can be on a part-time basis.
- The total amount that can be withdrawn is $20,000 with withdrawals over a maximum of four consecutive years.
- Amounts that are withdrawn are not subject to taxes on withdrawal.

- At least 10% of the amount borrowed must be repaid each year, over a maximum period of 10 years.

If the individual withdraws RRSP funds under one of these plans, they will receive a statement of account that tells them how much they have to repay each year. If they miss an annual repayment, the amount will be included in their income for tax purposes.

••• Registered Retirement Income Fund (RRIF)

An individual may contribute to an RRSP up until the end of the year in which they turn 69. They must then either be cashed in, or converted into an annuity or Registered Retirement Income Fund (RRIF). RRIFs are the most popular option for converting RRSPs. That's because an RRIF is like the continuation of an RRSP. The individual's funds remain tax sheltered, and they continue to choose how their funds are invested. But instead of putting money into an RRSP, the RRIF is designed to pay money out as income for one to live on.

In an RRIF, one must withdraw a minimum amount each year. The individual will be required to pay tax on this income. Their RRSP or RRIF withdrawals add to their income and could affect the amount of their OAS benefits.

••• Who Contributes to RRSPs?

It's not surprising to learn that the higher income an individual earns, the more likely he / she will contribute more of their annual income to an RRSP. For those Canadians who earn under $50,000 a year, less than half were able to contribute to an RRSP. Of those Canadians who made over $60,000 a year, at least two-thirds of them were able to contribute to an RRSP.

For Canadians with incomes over $115,000, their RRSP deduction pays for almost half of their retirement savings. But for Canadians with incomes under $36,000, the RRSP deduction pays for less than one-quarter of their retirement savings.

Many low-income Canadians can actually be worse off if they contribute to an RRSP. The deduction in their future OAS / GIS payments, combined with extra fees for other means-tested services, can more than offset the modest tax savings they receive from their RRSP. In some situations, low-income earners would ultimately be better off using money they contribute to an RRSP to pay down debt or increase their mortgage payments.

It's important to stress that these situations are very much based on a low-income earner's personal financial situation, and therefore individuals who find themselves in this situation should work with their union to seek our professional investment advice.

••• Individuals Assume all the Investment Risk with RRSPs

On a final note on RRSPs, it's worth noting that the individual assumes all the investment risks associated with RRSPs. This means that the value of an RRSP will depend on an individual's ability to choose investment funds that do well and the individual's ability to make appropriate changes if they are not doing well.

Often RRSP buyers enlist the help of professional financial planners in making choices regarding the type of investments to purchase for their RRSP account. Although such advice might be beneficial in terms of overall investment returns, it does not come with a guarantee. If the investment strategy is not successful, then the individual RRSP investor has nothing to fall back.

••• Other Personal Savings and Investments

There are many other ways individuals set aside money for retirement. For each of these different types of investments the tax treatment can vary. This is important to remember as you develop your retirement income strategy.

The following is a list of some of the most common types of investments.

Personal Savings – Personal assets represent additional potential sources of income whether in the form of bank accounts; stocks; bonds; mutual funds; guaranteed investment certificates; Canada Savings Bonds; real estate; art, stamp or coin collections; antiques; etc.

Home Ownership – Equity in a home is a form of savings. In addition, although still uncommon in Canada, reverse annuity mortgages enable homeowners to draw on the equity in their home as a source of income (either temporarily or for their lifetimes).

Life Insurance – The primary purpose of life insurance is to provide survivors with cash upon the death of the insured. However, some policies include an investment component that you can draw upon in retirement.

Despite all of these options, many Canadians' retirement needs are not being met. The retirement income system must therefore continue to evolve, in response to both current problems and the ongoing changes in Canadian society. This may prove to be an even more difficult problem in the future.

CHAPTER 6

Workplace Pension Plans

What is a Workplace Pension Plan or a RPP?

A workplace pension plan is an arrangement by an employer, a union or a joint arrangement between the employer and the union to provide pensions to retired employees in the form of regular (usually monthly) payments.

A workplace pension plan in Canada is also commonly known as a registered pension plan (RPP), meaning that it has met the requirements of and has been registered with the Income Tax Act and the applicable provincial pension legislation for the jurisdiction in which the majority of plan members work (see section entitled *Legislative Framework Governing Pensions*).

Both employee and employer contributions paid to a RPP are not deemed as income under the *Income Tax Act* and investment earnings are tax exempt until such time as benefits commence to be paid.

Workplace Pension Coverage in Canada[1]

The percentage of Canadians who belong to a RPP is declining. Only 33.6% of all Canadians of working age are covered by a pension plan and the percentage continues to decline – 35.4% were covered a decade ago. In terms of the paid workforce, the percentage of workers who were covered by a pension plan in 2005 was 38.5% – this represents a steady decline in coverage of 7.5% from 1991 when pension coverage of the paid work force stood at 46%.

Changes in coverage from 1977 to 2005 were very different for men and women. The biggest decline occurred among men. In 1977, more than one-half (52%) of male workers were covered. This proportion dropped over the entire period, although most dramatically from 1991, to 38.3% in 2005.

The decline occurred in the private sector, where coverage fell from about 44% to 25.9%.

The situation was quite different for women. As a result of legislative changes allowing part-time employees to join a RPP, as well as the increase in the number of women in the workforce, the female coverage rate rose substantially from 1987 to 1993. However, starting in 1993, the rate edged down slightly, from just over 42% in 1993 to 38.7% in 2005.

Coverage also differs greatly in the public and private sectors. Since 1977, the workplace pension coverage rate for the private sector has been steadily decreasing, from 35% in 1977 to 25.9% in 2005. In the public sector, the coverage rate has always been much higher. In 2005, over 84% of workers in that sector were covered by a workplace pension. Coverage in the public sector actually increased over much of the earlier part of this period, from 1977 to 1991, but has since been dropping.

We also know that the best assurance to belong to a workplace pension plan is to be a union member – 83% of unionized employees are covered by either a pension plan or a group RRSP, compared to just 33% of non-union workers.

In 2006, there were approximately 15,130 active registered pension plans in Canada, covering nearly 5.7 million members.

Over 95% of these plans are governed by the respective federal or provincial pension standards legislation.

There are, however, a small number of workplace plans (under 25) that are not subject to pension regulatory legislation and have their own acts regulating their operations. These plans are mostly for federal government employees and most provincial and some broader public employees employed under a provincial jurisdiction. The majority of National Union members who work for provincial governments or the broader public sector are in a workplace pension plan that is governed by its own separate legislation.

Over 11,000 RPPs sponsored by employers and unions (the largest number of workplace pension plans) are managed by life and health insurance companies. These plans cover approximately one million workers. Life and health insurers' RPPs usually consist of small- and medium-sized plans, as larger plans are often funded through trusteed arrangements.

• • • Types of Workplace Pensions

The two major types of registered pension plans are called Defined Benefit and Defined Contribution (the latter is also called Money Purchase). There are also plans that combine the features of defined benefit and defined contribution plans.

Defined Benefit Plans (DB)

These are pension plans in which retirement income is defined by a formula that provides regular paid benefits based on earnings and years of service.

There are two types of defined benefit plans: *Contributory* or *Non-Contributory.*

Contributory means that both the employer and employees contribute to the funding of the pension plan. Federal and all provincial pension legislation provide for a 'minimun employer 50% contribution rule', meaning the employer must pay for at least 50% of the cost of the pension earned. Generally on termination or retirement, employee contributions in excess of 50% of the value of the accrued pension must either be returned to the employee, transferred to another pension plan, RRSP or a Life Income Fund (LIF) used to purchase an annuity from an insurance company, or used to increase the pension benefit.

Non-Contributory means that only the employer contributes to the pension plan.

Most public sector pension plans, and all defined benefit plans covering members of the National Union, are contributory pension plans, as both employer and employees contribute an equal amount.

There are different types of benefits provided depending on the benefit formula of the defined benefit plan. The following are the typical formulas:

Best or Final-Average Earnings

Pensions are based on the plan member's service and average earnings over a stated period (often three or five years and usually during a period close to retirement).

For example, the plan could provide a pension based on 1.5% of average earnings during the plan member's last five years on the job, multiplied by years of service. A plan member who had worked in a job for 20 years, earning an average wage of $40,000 over his or her last five years, would get an annual pension of $12,000 under this assumption ($40,000 x 20 years x 1.5%).

The common formula to calculate benefits from a best-average earnings plan can range anywhere from a plan member's best three years to the plan member's best six years (which might or might not be identical to the plan member's last years on the job).

Career-Average Earnings

The benefit is based on a percentage of average career earnings. A typical formula is a pension equal to 1.5% of the employee's earnings in each year. An integrated formula (see section above) generally provides for 2% of the employee's earnings in each year but that percentage is reduced as a result of the integration with CPP.

A plan member whose career average earnings were $30,000 over the 20 years he or she had worked for an employer, for example, would obtain an annual benefit of $9,000 ($30,000 x 20 years x 1.5%).

A feature often provided in career average plans is base year upgrades. These upgrades mean that a member's pensionable earnings on an annual basis will be higher for the years before the base year because a member's pensionable earnings are usually higher in that year than what was actually earned in the previous years. If the base year is upgraded or moved forward to a year closer to the present, the pensionable earnings will be further increased. Regular base year upgrades can mean a career average plan is closer to operating as if it were a best or final average earnings plan.

Flat Benefit

This type of pension is typically defined as a stated dollar amount for each year of service. For example, the plan might provide $50 monthly, for each service year, to obtain an annual benefit of $12,000 (20 years x 12 months x $50). The pensions are commonly integrated with CPP retirement benefits by providing bridge benefits from retirement to age 65.

Bridge Benefit

The benefit level of a DB plan also depends on whether or not the plan includes a supplement in the form of a '*bridge benefit*'. Bridge benefits begin at any time during a period after the commencement of early retirement until the member reaches age 65.

There is a ceiling on the amount of bridge benefits which may be paid from a defined benefit plan. The maximum amount of monthly bridge benefit payments is restricted to the total of the CPP and OAS benefits the member would be able to receive if she or he were age 65 at the date the bridge benefit begins. If the plan member, however has not reached age 60, or has not completed ten years of pensionable service, the maximum bridge benefit is reduced by:

• one-quarter of one percent for each month by which the bridge benefit begins prior to the member reaching age 60; and

• 10% for each year of pensionable service less than 10.[2]

For a person who has accrued the maximum permitted lifetime pension, or is close to that level, the maximum possible bridge benefit will again be reduced so that it does not exceed the member's CPP retirement benefit, prorated by the member's pensionable service.

It should be noted that this is a brief overview of what is a difficult concept to explain in general terms. Individuals should be encouraged to check to find out how the integration formula and the bridging period are applied in their own pension plan.

Integrated

This is probably one of the most difficult pension concepts to explain. An integrated formula adds an additional component to the DB pension benefit formulas outlined above. In such a plan, benefits or contributions are coordinated with the benefits or contributions of Canada's universal public workplace pension plan – CPP.

With integration, the combined benefits from both plans are equivalent to what a plan member would have received from the workplace plan alone. In turn, the workplace pension benefit is reduced by roughly the same amount that the member would expect to receive at age 65 from CPP. Since the introduction of the CPP program in 1966, most pension plans of public sector workers are integrated with CPP.

If a member of a workplace pension starts to receive benefits at age 65, the process is straightforward. The pension she / he receives at retirement is already integrated with CPP.

However, if there is a gap between the date a member's pension starts and the date CPP integration occurs, it will affect the integrated pension. The intended result of integration is to reduce the pension benefit by an amount that approximates a plan member's CPP benefit. If the plan member's pension starts before it's integrated, it will also include an amount equivalent to the plan member's CPP benefit. This is referred to as bridge benefits (see section above).

Non-integrated (or Stacked)

Non-integrated refers to a defined benefit plan that does not explicitly take into consideration the additional pension benefits that are provided from Canada's universal public workplace pension plan – CPP. Benefits under just a plan are *'stacked'* rather than integrated with the CPP at age 65 when an individual qualifies for an unreduced benefit under that plan. This means that a retired member will receive a constant stream of pension income, without any adjustments for CPP entitlement at age 65.

Ancillary Benefits

The main purpose of a pension plan is to provide a regular income to individuals and their families who retire and are no longer in the workforce. There are other benefits that can be included that are secondary to the main purpose of a pension plan – these are called ancillary benefits.

Ancillary benefits can include the following:

- immediate vesting;
- termination benefits;
- pre- and post-retirement death benefits;
- disability pensions and accrual of benefits with a waiver of contributions during periods of disability;
- bridging benefits and temporary benefits payable before full OAS and CPP / QPP benefits are payable;
- optional forms of pension benefits such as joint and survivor;
- accrual of benefits during pregnancy and parental leave(s); and
- inflation protection.

Each of the terms noted above are defined in the Glossary at the end.

• • • Defined Contribution Plans (DC)

These are sometimes called a 'money purchase' plan. In a defined contribution plan, an employer will contribute a fixed amount of a percentage of an employee's earnings to a pension fund account for the employee's credit. The employee may or may not be required to contribute.

Like defined benefit plans, the contributions are specified, but in contrast to defined benefit plans, the benefits are unknown until the employee retires.

The accumulated value of the contributions at the time of the employee's retirement, plus earnings on those contributions, are used to calculate the amount of monthly pension income the employee will receive. The value of an employee's pension account upon his / her retirement will depend on how well the funds have been invested, the performance of the stock market and fluctuation of interest rates throughout an employee's work career. It is the current accumulated value and forecasted future interest earned on that accumulated value which determines the amount of the monthly pension benefit.

The pension account upon an employee's retirement is often to purchase an investment vehicle to provide a regular monhtly income. The most common investment vehicle purchased is an annuity. There are two kinds of annuities – a life annuity which provides monthly benefits for the life of the retiree and a fixed term annuity which provides regular monthly benefits for a defined period of time.

The other two common investment vehicles an individual DC pension account will purchase to provide monthly retirement benefits are a *Registered Retirement Income Fund (RRIF)* and a *Life Income Fund* (LIF*)*.

A RRIF is a tax-sheltered fund set up with the proceeds from the pension account from which the retiree is required to make a minimum annual withdrawal based on his / her age. This withdrawal is part of retiree's taxable income for the year. The money in the RRIF continues to grow tax-sheltered until withdrawn as income.

A LIF is similar to a RRIF in that it provides monthly retirement income payments on a predetermined basis. There are however two major differences between a LIF and a RRIF.

While both require that a retiree take a minimum payment amount out of the plan each year, the LIF also places a ceiling on the retiree's withdrawals by imposing a maximum annual withdrawal. The other distinction is that retirees may control the investments in their RRIF during their entire lifetime.

A LIF (except in Quebec) requires that retirees purchase an immediate life annuity (which must include a 60% spousal survivor benefit, unless their spouse waives this requirement) by the end of the year in which they celebrate their 80th birthday.

Regardless of what vehicle is chosen to purchase a monthly retirement benefit from a DC plan, the investment risk (whether it's the current or future value of the plan) lies solely with the employee.

In 2004, 4.9% of Canadians in workplace pension plans were covered by defined contribution plans.

••• Combination of Defined Benefit and Defined Contribution

In a combination plan, the pension is a combination of two types of benefits. Typically the employer pays for a defined benefit (for example, 1% of salary for each year of service). Added to this basic benefit will be a defined contribution arrangement, to which both the employee and the employer may contribute. This money is used to purchase an annuity, which is paid in addition to the basic guaranteed defined benefit.

Another type of combination plan is a 'hybrid' plan. In general, they are usually treated as defined benefit plans for tax, accounting and regulatory purposes. As with defined benefit plans, investment risk in hybrid designs is largely borne by the plan sponsor. As with defined contribution designs, plan benefits are expressed in the terms of a notional account balance, and are usually paid as cash balances upon termination of employment. These features make them more portable than traditional defined benefit plans and perhaps more attractive to a more highly mobile workforce. A typical hybrid design is the Cash Balance Plan, where the employee's notional account balance grows by some defined rate of interest and annual employer contribution.

••• Clear Advantages to a Defined Benefit Pension Plan

It is clear that the best form of pension is a defined benefit plan. Defined contribution plans are certainly better than no plan at all, for most workers, but they are unable to deliver the same level of benefits that a defined benefit plan can.

Less Risk / Greater Certainty – A DB plan provides less risk to a worker and greater certainty on how much pension income the worker will have in retirement. The reason for this is that a DB plan is first and foremost a pooled resource under which, if there is a shortfall in the fund, the employer as a plan sponsor must at least help make up the shortfall to ensure the promised benefits are available. A DC plan is simply an accumulation of money, with no promised benefit. If the DB plan is short of money, the employer has to cover, or share in the task of covering the shortfall with the workers. If the DC plan does not provide enough for a decent retirement the employee is simply out of luck.

Additional Benefits – DB plans can provide for a number of benefits in addition to the basic pension, including enhanced early retirement benefits, survivor benefits beyond those required by legislation, portability, disability benefits and inflation protection.

While DC plans can also provide benefits in addition to retirement income, these additional benefits must be purchased by each individual at the time of retirement and will significantly reduce the monthly income available to retirees.

Lower Administration Fees – Because DB plans are centrally managed, the cost of administering the pension fund is shared among all beneficiaries, so less of the funds needed to pay retirement benefits are taken up by investment management fees.

In a DC plan, especially an individually managed plan, a larger proportion of an individual's account is absorbed by investment management fees charged by the pension industry, leaving fewer funds available for retirement income.

Most moves by employers to a DC plan also transfer the administrative cost to the individual worker. This potentially huge source of profits for the investment industry explains why they are so active in the push for conversion of DB plans to DC.

Guarantee – A DB plan offers a guaranteed income for life to retirees. A DB plan pays benefits for as long as a retiree lives and, in most cases, pays benefits to a surviving spouse for as long as he / she lives.

A DC plan carries no certainty that the benefit will be paid for the retiree's entire life; the retiree faces the real possibility of outliving the so-called retirement 'nest egg'. The only way to ensure a lifetime of benefits is to purchase an annuity, but an annuity comes at a real cost and reduces the monthly payments available.

Purchasing an annuity with survivor benefits is even more expensive and reduces the retirement income available. At a time of increasing life expectancies, DC plans provide no guarantee that they will have sufficient assets to cover living longer than expected.

DB plans are the best form of pension plans for workers. Workers are assured a certain retirement income for the rest of their lives and the risks and responsibilities associated with providing that guaranteed retirement income either rests with the employer or is shared equally between the employer and the workers.

[1] *Pension Plans* in *Canada* in **The Daily** (Statistics Canada: June 21, 2007)
[2] Morneau Sobeco Handbook of Canadian Pension and Benefit Plans, 13th edition, edited by Jennifer A. Greenan, (CCH Canadian Limited, Toronto: 2005)

CHAPTER 7

Legislative Framework Governing Pensions

There are approximately 14,000 employer-sponsored pension plans in Canada, covering just under 4.5 million employees or about one-third of the total Canadian workforce. Pension plans in Canada are subject to significant regulation through pension, tax, family law and employment standards legislation.

••• Pension Standards Legislation

The federal government and every provincial jurisdiction in Canada, except the province of Prince Edward Island, have pension standards legislation in force that establishes minimum requirements for pension plans. Prince Edward Island has pension benefits legislation that received Royal Assent in April 1990, but still has not been proclaimed. The federal *Pensions Benefit Standards Act* covers federally regulated companies as well as companies that operate in Canada's three territories (about 10% of the Canadian workforce).

These Acts differ in many significant and insignificant aspects, and are frequently changed, sometimes retroactively and sometimes proactively.[1] Each legislative scheme is governed by a regulatory commission (see forthcoming chart for a list of federal and provincial legislation and the corresponding regulatory commission).

The primary purpose of the federal and provincial pension standards legislation is to provide protection to members of Registered Pension Plans (RPPs). This is accomplished through imposing minimum standards related to virtually every aspect of an RPP.

Each of the pension statutes imposes minimum standards on workplace pension plans. Specifically, the rules cover, but are not limited to: eligibility for membership; funding; information disclosure to plan members; investment of plan assets; registration of pension plans; locking-in of contributions and benefits; vesting and portability; business sales and corporate reorganizations; division of benefits on spousal relationship breakdown; the form of benefits for members' spouses; death benefits; and integration with public pension plans.

The regulations under pension legislation set out minimum funding requirements for pension plans. These requirements provide a level of protection for pension benefits through minimum funding levels and deadlines for contributions to pension funds. The minimum funding requirements apply primarily to defined benefit pension plans. The only requirements that affect defined contribution pension plans are those dealing with the timing of contributions.

Employers are required to contribute towards the current service costs of their pension plans. They are also obligated to make special payments over a specified period of time to amortize any unfunded liability or deficit that may exist. These amortization periods range from five to fifteen years, depending on the type of unfunded liability or deficit.

Since the members of a pension plan may work in more than one jurisdiction, the plan may be affected by pension legislation in a number of provinces. An RPP must, however, be registered with the regulatory authority of the jurisdiction in which the majority of the plan members report to work or, if they do not report to work, at an establishment of the employer from where they are paid.

Federally regulated industries, such as banks and airlines, must register with the federal body (i.e. the Office of the Superintendent of Financial Institutions (OSFI), rather than with a province. The laws of the province where the plan is registered, however, do not determine an individual's minimum right to benefits.

A plan member's rights to benefits will be determined by the province of residence (i.e. where the particular plan member reports to work or, if he does not report to work, at an establishment of the employer from where he is paid).

For years, the Canadian pension industry has been lobbying for simplicity and harmonization in the regulation of multi-jurisdictional pension plans, but the provincial governments have failed to reach a consensus on the issue (see section below on the Canadian Association of Pensions Supervisory Authorities (CAPSA)).

Pension standards legislation is not static and periodic changes are common. Many jurisdictions have amended their legislation in the last couple of years and many additional changes could occur in the next few years.

Canadian Association of Pension Supervisory Authorities (CAPSA)

Canadian Association of Pension Supervisory Authorities (CAPSA) is an inter-jurisdictional association of those federal and provincial pension regulatory commissions noted in the table below. The overall objective of CAPSA and its members is to facilitate an efficient and effective pension regulatory system in Canada.

For the past five years, CAPSA has been working towards the development of a Model Pension Law that would form the basis of a harmonized and simplified model pension statute. Once drafted, the model law would serve as a model for federal and provincial governments to consider when they are making amendments to their pension legislation.

As a component of CAPSA's Model Law initiative, the funding principles that have been identified are intended to form the basis for harmonized model funding rules for defined benefit pension plans. According to CAPSA, harmonized funding rules would contribute to the reduction of compliance costs and simplify the administration of multi-jurisdictional pension plans.

The Model Law Initiative was presented as a way to improve pensions for the plan members. However, as it was drafted, the model law reduced member protection and benefits by omitting many of the highest existing standards contained in the federal and provincial pensions standards legislation.

In its submission to CAPSA's consultation process on the Model Law Initiative, the Canadian Labour Congress stated that "there is more to be gained through substantive improvement in the law in jurisdictions that want to make progress than there is to be gained by establishing uniformity around a lower level of regulatory protection .... it could also serve as a barrier to progress on regulatory change in areas where no jurisdiction has taken adequate action ... such as the absence of mandatory indexation".

It is also important to note that in many areas CAPSA's proposed model pension law ignores the role of the bargaining agent and the collective bargaining process.[2]

Pensions Standards Legislation in Canada

Jurisdiction	Applicable Legislation	Regulatory Commission	Official Websites
Federal	*Pension Benefits Standards Act*	Office of the Superintendent of Financial Institutions	www.osfi-bsif.gc.ca/osfi/index_e.aspx?ArticleID=216
British Columbia	*Pension Benefits Standards Act*	The Financial Institutions Commission of British Columbia	http://www.fic.gov.bc.ca/responsibilities/pension/overview.htm
Alberta	*Employment Pensions Plan Act*	Alberta Superintendent of Financial Institutions (ASFI)	www.finance.gov.ab.ca/business/pensions/ index.html
Saskatchewan	*Pension Benefits Act*	Pensions Division, Financial Services Division	http://www.sfsc.gov.sk.ca/pensions/default.shtml
Manitoba	*Pension Benefits Act*	The Manitoba Pensions Commission	www.gov.mb.ca/labour/pen/index.html
Ontario	*Pension Benefits Act*	Pensions Plans Branch, Financial Services Commission of Ontario	http://www.fsco.gov.on.ca/english/pensions/
Québec	*Supplemental Pension Plans Act*	Direction des régimes de retraite, Régie du Québec	www.rrq.gouv.qc.ca/en
New Brunswick	*Pension Benefits Act*	Office of the Superintendent of Pensions Department of Training and Employment	http://www.gnb.ca/0307/001e.htm
Prince Edward Island	*Pension Benefits Act* (not yet in force)	N/A	N/A
Nova Scotia	*Pension Benefits Act*	Office of the Superintendent of Pensions	http://www.gov.ns.ca/enla/pensions/
Newfoundland & Labrador	*Pension Benefits Act*	Office of the Superintendent of Pensions	http://www.gs.gov.nl.ca/cca/ip/

• • • Income Tax Legislation

Canadian pension plans must also be registered under the *Income Tax Act* (ITA). The rules and regulations under the ITA relating to registered pension plans are extremely complicated. Although the actual sections outlining the

ITA's treatment of pension benefits are not numerous, thousands of pages of technical notes, newsletters, technical interpretations and budget speeches have been released regarding these provisions. The responsibilities imposed on pension plan sponsors are onerous, especially for those who sponsor defined benefit plans. The difficulty of compliance increases with plan complexity. Therefore, a fair degree of expertise is needed to comply with all aspects of the legislation.

Employer contributions to a pension plan are tax deductible and are only taxable to the member once he or she begins to draw a pension. Any investment gains earned on the contributions to the pension plan are generally tax exempt. Employee contributions, if permitted by the plan, are deductible to the employee in the year that they are made.

A pension plan registered under the ITA with the Canada Revenue Agency (CRA) and the applicable pension regulatory authority must be funded in accordance with pension standards legislation and the ITA, its regulations and CRA policies.

••• Pension Benefits Guarantee Fund – Ontario

Up until very recently Ontario is the only jurisdiction in Canada that provides a guarantee fund to protect pension benefits in the event of a plan wind-up (see section on the federal C-55 Bill below). The purpose of the Pension Benefits Guarantee Fund (PBGF) is to guarantee payment of certain benefits in respect of service in Ontario where the employer is insolvent. The PBGF is funded by assessments on employers sponsoring defined benefit plans. The Ontario Superintendent of Financial Services (Superintendent) is responsible for the administration of the PBGF.

If certain conditions are satisfied, the Superintendent may declare that the PBGF applies to a particular pension plan. First, the plan must be registered in Ontario or a designated province. Second, the plan must provide defined benefits which are not exempt from the PBGF. Third, the pension plan must be wound up in whole or in part. Finally, the Superintendent must be of the opinion, based on reasonable and probable grounds, that the funding requirements of the Ontario *Pensions Benefit Act* and its regulations cannot be satisfied.

Where money is paid out of the PBGF as a result of a wind-up, the Superintendent has a lien and charge on the assets of the employer who sponsored the pension plan in an amount equal to the payment out of the fund, plus interest.

• • • *Wage Earner Protection Act*

In December 2007, the federal government passed and gave Royal Assent to Bill C-12, *An Act to amend the Bankruptcy and Insolvency Act, the Companies' Creditors Arrangement Act, the Wage Earner Protection Program Act and chapter 47 of the Statutes of Canada.* The legislation has become commonly known by its short title, Wage Earner Protection Act.

The genesis of the legislation dates back to the Spring of 2005 when it was first introduced as Bill C-55. The original legislation, coined by the federal NDP as the *'Workers First Bill',* was one of the concessions the NDP obtained from the Liberal government of Prime Minister Paul Martin in the Spring of 2005 for the NDP's support for the minority government's 2005 budget.

Amongst other things, the legislation contains measures to protect workers' pension plans and RRSPs in the event of bankruptcy, namely by giving priority to unpaid regular employee and employer contributions when an employer sponsoring a pension plan goes bankrupt. It establishes a new national fund enabling workers to collect up to $3,000 in unpaid wages and pension benefits when employers go bankrupt. The national fund is expected to be operating by June 2008 and will receive initial funding of $35 million.

• • • Family Law Legislation

Although there is a reference to benefit splitting upon the end of a spousal relationship, the legislation usually defers to the jurisdiction family law legislation. Family law affects pension plans since pension plans generally form part of 'net family assets' on a relationship breakdown. This covers opposite sex and same-sex marriages as well as common-law relationships. In some provinces, employment standards legislation has been amended to require the continued accrual of pension plan benefits in the event of maternity or parental leave or periods where workers' compensation benefits are payable.

CHAPTER 8

How Pensions are Funded

••• Basic Principles

The purpose of a pension plan is to provide benefit payments to which members become entitled according to a set of rules based on age and service. The benefit payments depending on years of service may be:

• a refund of the member's own contributions and interest paid when employment is terminated prior to the member retiring from the workplace;

• a lump sum payment that represents the value of payments, which would otherwise be made in the future, when employment is terminated prior to the member retiring from the workplace; or

• a series of monthly payments starting at the time a member retires and continuing for the remaining lifetime of the member and / or the member's spouse (either as an immediate or deferred pension).

Plan members become entitled to increasing amounts of benefit over time with increasing years of service or amounts of earnings and increasing contributions paid into a pension plan.

A pension fund is established by the sponsor of the plan for the purpose of meeting those benefit payments. Contributions made to the fund must respect rules established under the *Income Tax Act,* which limit the amount of employer and member contributions that are deductible for tax purposes. The amounts deposited each year must also meet the minimum funding requirements of federal or provincial pension benefits standards legislation (see section on *Legislative Framework Governing Pensions*). Contributions are invested and grow with interest, dividends and capital gains.

The funding mechanism for a defined contribution (DC) pension plan is relatively straightforward compared to the funding mechanism of a defined benefit plan (DB). In a DC plan, the accumulated value of the contributions, plus investment earnings, are applied at the employee's retirement, to provide a pension income based on the annuity rates then in effect. It is the current value and forecasted future interest earned that determines the amount of the monthly pension benefit. The fact is that the value of an employee's pension will depend on how well the funds have been invested, the performance of the stock market and fluctuation of interest rates throughout an employee's work career. The amount of the retirement benefit will also depend on interest rates since the amount of the annuity received depends on the interest rate that applies – the higher the rate, the higher the value of the annuity.

It is much more complicated for defined benefit (DB) pension plans where retirement income is defined by a formula that provides monthly income based on earnings and years of service. The funding challenge for DB plans is to match the assets of the fund with the anticipated amounts of future benefit payments.

Many of the factors which determine the amount of future benefit payments are difficult to predict, for example:

- When will a member retire?
- How long will the member live in retirement?
- Will the member terminate or die before retirement?
- What will the member's wages be in the periods which are used for the calculation of benefits?
- Where there is a formula for cost-of-living adjustments, what will be the rate of inflation?

Because these questions cannot be answered in advance for any individual, estimates must be made on the basis of averages for large groups in similar circumstances. Using an estimated stream of future benefit payments, an appropriate level of contributions is established using an assumed rate of investment returns or interest. The level of contributions invested and accumulated at an assumed rate of interest should build a fund sufficient to meet the stream of defined benefit payments.

••• Actuarial Valuation

In order to meet the various requirements, the plan sponsor(s) will commission an actuary to perform an actuarial valuation, generally at three-year intervals, in which two basic questions are addressed:

[1] *Have there been enough contributions to the fund up to the present date?*

[2] *What level of contributions is necessary in the future?*

In doing a valuation, an actuary looks at many factors such as the following:

• *The assumed rate of return (discounted rate):* The most important assumption is the expected investment return on pension fund assets. To determine this, the actuary will take into account such factors as the types of assets owned by the fund, the degree of risk attached to the assets (for example, assets invested in stocks will be more risky than those invested in Government of Canada bonds), the expected inflation rate and how long the assets will be invested before they need to be paid out.

• *Wage levels and expected wage increases:* The current wage and salary scale and the expected rate of increase over time will also determine how much has to be set aside.

• *Termination of employment:* This is the rate at which plan members are assumed to terminate employment. Termination of employment may give rise to 'vested' benefits on termination, which become liabilities of the plan or it may give rise to no benefits on a non-vested termination.

• *Mortality (or the rate at which plan members and retirees are assumed to die):* Such rates are generally based on published tables, representative of the level of mortality among members of pension plans.

• *Retirement age:* Typically, plans provide for normal retirement benefits to be payable from age 65. However, early retirement incentives are increasingly common and many workers are taking advantage – or are being forced to take advantage – of them. Such provisions may increase the potential cost of benefits.

• *Disability rates:* If a plan provides supplementary benefits payable in the event of disability, it is usual to make assumptions about the rate at which workers become disabled.

• *Inflation:* Where plans are indexed, in whole or in part, to inflation, actuaries must estimate the rate of inflation that will prevail. In addition, as discussed above, inflation is one of the factors used in estimating a plan's investment return.

• *Expenses:* Investment, administrative, legal and actuarial expenses are incurred by pension plans. If such expenses are paid out of the fund, provision for payment of these expenses is made in establishing funding rates.

Exactly what is taken into account and how depends on the particular actuarial method used.

It is extremely important to remember that an actuarial assumption is just that – an assumption. While it is based on the best estimate of a trained professional, using technical data and complex models, the estimate is not infallible. As in many professions, opinion, judgment and even bias will also play a part of the equation. These may be influenced by instructions frequently issued to actuaries by plan sponsors.

Workers should never take assertions that contribution rates or other factors they find objectionable are based on 'actuarial assumptions' as the final word on the subject. As in other areas, there is always room for a second informed opinion.

The actuarial valuation should really be seen as a continuous process in which assumptions are chosen and adjusted on the basis of experience in order to match the stream of contributions going into the plan and investment returns with the present value of benefits which is expected to be paid out of the plan.

••• How Is the Present Value of Future Benefits Calculated?

Once a particular interest rate assumption has been chosen, the mechanics of determining the contribution required today to meet any particular future benefit payment are really quite simple.

Suppose that an interest rate of 5% is chosen. If the plan is required to make a payment of $1.05 one year from now, we must deposit $1.00 today. One dollar is the present value of the future benefit payment of $1.05.

In some respects, it is easier to think about the future value of the contribution rather than the present value of the benefit. If we decide to deposit $1.00 today, it is relatively easy to calculate its future value after any number of years.

Using a simple calculator, you would multiply $1.00 by 1.05 to get the future value after one year **($1.05)**. To get the future value after two years, simply multiply $1.05 by 1.05 **($1.1025)**. After three years, $1.1025 by 1.05 **($1.1576)**, and so on. Continuing this step-by-step process gives us the future value of an initial contribution of $1.00 after any number of years.

If, instead, we want to calculate the present value of a future benefit payment of $1.00 using the same annual interest rate assumption of 5%, we simply divide by 1.05 rather than multiply by 1.05. If the payment must be made at the end of one year, the contribution or deposit required today is $1.00 divided by 1.05 **(95.24¢)**.

The resulting amount (95.24¢) when deposited at the beginning of the year will grow with interest at 5% by 4.76¢ to a total of $1.00 at the end of the year. If the payment must be made at the end of two years, we divide the result for one year – 95.24¢ – by 1.05 **(90.70¢)**.

If the payment must be made at the end of three years, we divide the result for two years by 1.05 and so on **(86.38¢)**.

The final result is the amount which will grow to $1.00 at the end of three years when invested at 5% interest. The amount which will grow to $1.00 after three years at 5% interest is 86.38¢ and this is the *present value factor* – 0.8638 – the factor which can be multiplied by *any* amount of benefit to be paid in three years time to obtain its present value – the amount which, when contributed today, will have a future value equal to the benefit payment.

••• Estimating the Amount of the Benefit Payment

In some plans, the amount of benefit is fixed either as a dollar amount or as a percentage of wages in the current year. In these cases, there is no need to predict the future amount of the benefit; it is known. The amount may change as a result of future negotiations, but the cost of funding impact of the negotiated improvement will be taken into consideration in a valuation of the plan only after the change has been made.

In other plans, the amount of the benefit moves ahead automatically with wage increases and also may move ahead automatically with inflation increases after retirement. In this case, the impact of future wage and inflation increases must be anticipated in an actuarial valuation of the plan.

For example, a plan might provide annual retirement benefits for each year of service equal to 2% of average earnings over the five years immediately prior to retirement and annual adjustments during retirement equal to 75% of the rate of inflation. In order to project the amount of future benefit payments, the actuary must first make assumptions about the average rate of future wage increases and the average rate of future price increases. On the basis of the assumptions, the amount of average earnings at retirement can be predicted and the amount of benefit can be calculated using the formula set out in the plan documents.

The initial amount of benefit can then be adjusted in annual steps in accordance with the expected or assumed rate of inflation and the formula for cost-of-living adjustments. These various steps produce a stream of annual benefit payments starting at the member's expected retirement date and ending with the member's expected date of death.

The present value of each year's benefit payment can then be calculated using the appropriate present value factor for the assumed rate of interest and the number of years between the present date and the projected date of each year's payment. By adding up the present values of each annual benefit payment, the amount is obtained which should be in the fund today in order to cover the future obligation.

••• The Mortality Factor

The process of calculating present values of future benefit payments was described above as if it were done step-by-step for each individual. But it is not known when any particular person will die.

In practice, the present values can only be calculated on the basis of averages for large groups. We may not know when Member X or Member Y will die, but we can predict the average age of death for all members.

To recognize this simple reality of life and death, the mortality factor must be integrated into the calculation of present values.

Suppose there is a group of 1,000 plan members all aged 60 and all wanting to retire immediately with a pension of $10,000 per year. On the basis of averages for the entire Canadian population, it can be reasonably expected that there will be the following number of survivors at each successive year of retirement.

AGE	SURVIVORS
60	1,000.0
61	988.9
62	976.9
63	963.9
64	949.7
65	934.5
75	707.2
85	347.6
95	59.1

Using the complete version of the above table, the amount of benefit payments which will have to be made in each future year for the original group of 1,000 retirees can be predicted. If the benefit is indexed to inflation, the amount of the payments could be adjusted in accordance with the formula and the assumed rate of price increases.

With a complete stream of all future payments, the present value at age 60 of each payment could then be calculated. The sum of all the present values is the amount, which should be in the fund when all 1,000 members retire at age 60.

The calculation might of course be wrong when measured against the actual experience for any one group. The members involved may die sooner than expected, in which case, there would be a positive balance left in the fund when the last member has died. The members may, on the other hand, live longer than expected and the fund would therefore fall short at some point before the last member has died.

The likelihood of being wrong about the average remaining lifetimes of any group of members decreases with the size of the group. The larger the group, there is less likelihood of being wrong.

It is also difficult to predict rates of termination before retirement and the average age of retirement because they involve a certain amount of individual choice and can be influenced by management practices. Death occurs according to relatively predictable patterns, at least when we are dealing with large groups of people.

••• Who Will Qualify for What Benefits and When?

Calculating the present value of a retirement pension with the mortality factor taken into account is a difficult and important element involved in an actuarial valuation. There are, however, other factors that must also be taken into account because not all members will remain employed and covered by the plan until retirement age and service conditions are met.

To complete the analysis, there must be an estimate of the number who will terminate prior to retirement and the number who will die prior to retirement. The benefits in these circumstances may be calculated in a different way; they may involve a refund of the members' own contributions and / or a lump sum payment that represents the present value of future benefit payments. In any case, the basic principles are similar to the calculation of the fund required for those who do retire from the plan.

First of all, there is a prediction made as to the number of members who will die or terminate in each future year of the plan. Then the lump sum or series of benefit payments to which they will become entitled are calculated at that point. Finally, the present value of the total amount of death and termination benefits expected to be made in each future year is calculated. The sum of those present values is the estimated total obligation of the fund with respect to such benefits. An actuarial valuation will often report the liabilities of the fund arising from death and termination as separate items of the balance sheet for the plan.

The remaining members are the ones for whom the present value of a retirement pension must be calculated using an estimated age of retirement, an estimated amount of pension payments and annuity factors that incorporate the effect of mortality.

If the plan provides any form of continuing benefits for a spouse or beneficiary in the case of death after retirement, the calculation of annuity factors must also incorporate the number who will be receiving death benefits in each future year, the amount of such additional benefits and the term over which they will most likely be paid.

••• Determining the Financial Health of a Plan

Each new actuarial valuation of a pension plan must address two basic questions based on the present value of future benefit payments:

- *Have there been enough contributions to the fund up to the present date?*
- *What level of contributions is necessary in the future?*

There are a variety of ways to address these two basic questions. The simplest and most common method simply examines the present value of benefits earned for service to date and the present value of benefits to be earned in the coming year.

The *unit benefit* method starts by calculating the benefits which are likely to be paid to current members of the plan as the result of service to date and, secondly, as the result of service in the coming year. The amount of the benefits may be based on projected wage and / or inflation increases if the plan provides for such adjustments.

The present value of benefits for service to date is known as the *accrued liabilities* of the plan and includes the present value of benefits earned by:

- active members;

• retired members; and

• terminated members who are entitled to a deferred pension.

The liabilities with respect to active members are often broken down into the components that will arise from retirement, death and termination.

The *liabilities* are then compared to the *assets* in the fund to determine whether there is a deficit or a surplus. If there is a deficit, a program of special payments will be set up to cover the shortfall. If there is a surplus, it may be held as a reserve against adverse experience in the future. Surpluses, however, have been more often used to reduce future service contributions to the fund or to improve benefits depending on the terms of the plan and the process of negotiations.

The contribution to be made with respect to future service is determined by calculating the present value of benefits that will be earned in the coming year by the active members of the plan. This too may be broken down into benefits on retirement, death and termination.

The total may be referred to as the *future service cost* or the *normal actuarial cost*. If the plan requires member contributions, these will be deducted from the total result to determine the contribution for the coming year. The required contribution may be expressed as a percentage of payroll or in some other formula which will permit calculation of the requirement in subsequent years.

A less common method, but one used widely in the public sector, is based on determining the normal actuarial cost as the first step. Instead of asking what contributions might be required with respect to benefits earned in the coming year, the actuary asks, "What rate of contributions would have been required if a fixed percentage of payroll had been calculated at the members' date of entry into the plan sufficient to fund their future benefits from the plan with respect to all years of service?" This is called the *entry age normal cost*; it might be calculated as the average of separate determinations for age and service groups or as a single calculation using the average age of entry into the plan. The resulting percentage of covered payroll is then used to determine future service contributions to the plan on an ongoing basis.

The corresponding method of examining where the plan stands with respect to past service is somewhat more complex than under the *unit benefit method*. The liabilities are calculated with respect to *all* years of service in the plan – both service to date and expected years of service in the future. This result is then compared to the assets in the fund *plus* the present value of future contributions at the entry age normal rate. Because this approach includes all years of service, it is also described as an *aggregate method* of valuation.

The advantage of the entry age / aggregate method is that it produces a stable rate of future service contributions, which does not increase as the average age of the group increases. The aggregate method also allows the future service contribution rate to be set at any level in excess of the normal actuarial cost determined on a unit benefit basis. The entry age basis is generally more conservative than the unit benefit basis but can produce lower future service contributions in a group with a relatively high average age.

••• The Solvency Question

Solvency is a regulatory measure in pension legislation for determining the financial strength of a pension plan. It represents the hypothetical funded status of a plan if it were wound up or discontinued. Governments require sponsors of plans that are not fully solvent to accelerate contributions to those plans in order to bring them to a fully funded level, typically over a five-year period. This measure is also increasingly being disclosed to plan participants, either as a regulated requirement or voluntarily by plan sponsors.

In recent years, several jurisdictions have introduced new legislative requirements for accelerated funding when a plan has a deficit on a solvency basis. The solvency asset value is generally determined on the basis of relatively conservative assumptions. It is based on what the current market value of the pension fund would be if the assets of the fund were sold at current market prices and annuities were purchased to meet the current obligations of the plan.

There are, however, serious limits to the annuities markets. The price tag put on indexed annuities makes them very unattractive. Moreover, annuities are priced based on assumptions that the assets used to support the annuities will be invested only in long-term bonds. The price of annuities is high at this time because of historically low interest rates and the lower the assumed rate of interest, the higher the liabilities.

In the current area of low interest rates, this explains in part why many DB plans in Canada are funding a solvency deficit. If long-term interest rates begin to rise, coupled with an increase in the rate of return earned by the pension fund, a large deficit can turn into a surplus.

Another important assumption used in a solvency valuation relates to the assumed retirement age. Actuaries must examine all the possible retirement ages and choose the one that maximizes the actuarial value of the pension expected to be received by the plan member. This is effectively a kind of worst-case scenario for plan sponsors because actuaries must assume that everyone who is eligible to retire will do so at the most expensive age. This can easily add an additional 10% to the solvency liabilities, relative to the plan's funding liabilities.

• • • Comprehensive Pension Insurance – A Possible Alternative[1]

Given these limitations, it is important to ask whether there is a better way of protecting pension plan members from wind-ups and insolvency than relying upon solvency funding. One way is to develop a comprehensive pension insurance system. Under this approach, pension funds would not have to be funded on the basis that they could be wound up at any time. Rather, they would be insured against this contingency.

System-wide, insurance would be much less expensive than requiring every pension plan to be fully funded as though it were going to be wound up.

Insurance, however, raises its own questions and issues – solvent employers don't want to fund an insurance program that would benefit weaker employers, and questions inevitably arise about issues such as what level of premium should be paid by which employers, which factors should be used in assessing premiums and what the implications of higher insurance premiums would be in the broader market.

Financial Statements

Financial statements provide an accounting summary of what has occurred in relation to a particular pension plan. They show such key information as what assets the pension plan owns at a given point in time (such as on the last day of the fiscal year) and what liabilities it owes to others at the same point in time. They also show what revenues have been generated and what expenditures have been made, over the course of a specified time frame (such as over the course of a year). Typically, this data is broken down into meaningful subcategories, to help readers gain a fuller understanding of the pension plan.

Financial statements may provide other useful information, such as the current market value of particular assets (as contrasted with the original or 'book' value that appears on the 'balance sheet'); and detail about how certain events, some of which may not even have taken place, could affect the pension plan. Sometimes, these details are found within appended notes to the financial statements, not in the body of those statements themselves.

The particular reports, categories and subcategories that are included in financial statements, as well as the other information that is provided, may be specified in law or regulation; or may be in accordance with guidelines issued by accounting or other professional associations.

Financial statements, which are often included in a pension plan's annual report, can provide an important source of additional information to its members. They may provide a description of the plan; the number of members, active and retired; average salaries at retirement; the plan's investment policy; the principal investments of the plan; plan contribution; plan earnings; investment fees; rates of return; and other important facts. Sometimes, members may have to obtain professional advice for assistance on how to read and interpret this information.

It is important to differentiate between the data found in financial statements and the information found in actuarial valuations. Financial statements provide the best 'guesstimate' of the *current* status of a pension plan. This is usually based on events that have actually occurred (although it is important to recognize that judgments and estimates may be involved).

Actuarial valuations deal with the *long-term* status of a pension fund. As such, they incorporate a series of estimates, to account for developments that may reasonably be expected to occur over a far longer period of time. Such estimates tend to be quite conservative in nature.

In conclusion, it is important to note that financial statements provide valuable information, but it must be recognized that they only represent a snapshot in time.

[1] This section is taken directly from a paper entitled *Current Pension Issues And Trends* by Murray Gold with Toronto-based law firm Koskie Minsky LLP. P. 6-7. The paper was presented to the Canadian Labour Congress Pensions Committee in February 2006.

CHAPTER 9

Key Elements of a Pension Plan: A Checklist

There is a lot more to learn about a pension plan than simply how much it will pay an individual upon retirement. There are many different types of pension plans and many variations in the benefits to which a member might be entitled. It is not an easy task to analyze the positive and negative aspects of a particular pension plan and any analysis will vary based on differing individual circumstances.

Information in this section is of a general nature – it's a checklist to help an individual to begin to understand his or her pension plan. Remember, pension plans vary greatly and minimum standards that apply to registered pension plans are based on provincial pension legislation (see section entitled *Legislative Framework Governing Pensions*). It is also important to note that many of the pension concepts noted below only relate to defined benefit (DB) pension plans (see section entitled *Workplace Pension Plans*).

In preparing a checklist of this sort, it is also difficult to avoid technical terms entirely. To assist in understanding the information below, the reader might want to refer to the glossary of terms at the end of the manual (see *Appendix I – The Language of Pensions: A Glossary*).

For details about a specific plan, individual members should contact the plan administrator.

••• Membership and Eligibility

A workplace pension plan may be established for all employees or just for certain groups or classes of employees. A class of employees is normally defined by the nature and terms of employment, for example, salaried or hourly employees, unionized or non-unionized employees, supervisors, managers, executives, corporate officers or employees who work at a specific location or division. Once a pension plan is established for a group of employees, every employee in that class is eligible to join that plan.

Separate plans can also be established for full-time and part-time employees.

Membership in a pension plan can be either mandatory or voluntary.

Eligibility to join a pension plan is based on employment and length of service. Part-time employees, casual, temporary workers or new hires might not be entitled to join the pension plan until they have reached a minimal length of service (i.e. – work 700 hours) or earned a certain level of income (i.e. – earned at least 35% of the Year's Maximum Pensionable Earnings, a term used in the CPP).

Our objective is that all past service, beginning from the time employment first commences, be recognized and that employees become eligible to purchase credits for past service at a specified date – for example, when the employee becomes vested. We should also seek 100% plan participation, for full-time, part-time and temporary workers.

••• Definition of Credited Service

Most pension benefits are based on years of pensionable service. If service under the pension plan is not the same as service with the employer, the pension will be smaller than it should be. This situation can arise under a number of circumstances, for example, when service under a newly established pension plan is credited on day one of the new plan, even if employees have spent many years with an employer. The definition of credited service can make a huge difference in the size and adequacy of the pension a member will receive at retirement.

A second issue in the definition of credited service is how absences from work will be treated. Service may be interrupted for sick leave, disability, maternity or parental leave, lay-off, absence on union business, educational leave and so on. A related issue is what happens when members are terminated and are then re-hired. Pension plans routinely include provisions stating that members who are terminated and then re-hired must start from scratch.

A third issue, which has become quite pronounced in the public sector in recent years, relates to what happens when organizations are privatized, devolved to other levels of government or combined with organizations operating under different collective agreements or pension practices.

Our negotiating objectives should be to obtain as broad a definition of credited service as possible, to ensure that seniority is maintained and to preserve (or upgrade) existing benefits when organizations or jurisdictions change.

••• Contributions

Pension plans are either contributory or non-contributory. In a contributory plan, both the employees and the employer must make contributions to the plan. Member contributions are usually a percentage of earnings, as described in the plan terms, and are normally made by payroll deduction. In a non-contributory plan, only the employer is required to make contributions. In some pension plans, you can also make additional voluntary contributions, which allow you to purchase additional pension benefits.

The employer and member contributions to a registered pension plan, and the investment earnings on those contributions, must be held separate and apart from the assets of the employer. This is in order to protect the assets of the pension fund in the event the employer becomes insolvent or goes bankrupt.

Ultimately, the important thing to remember about contributions to a pension plan is that they are the deferred wages of employees. Employee's contributions are obvious in a contributory pension plan. In a non-contributory plan, however, employees contribute, although less obviously, to the cost of benefits by way of foregone wage increases.

••• Vesting

When pension benefits are vested, this means that the employee is unconditionally entitled to receive the pension benefits that have accrued under the plan as a result of satisfying age or service requirements. In the case of a DC plan, being vested means an employee is entitled to receive a pension benefit equal to the value of the contributions the employer made on his / her behalf as well as the employee's own contributions, if any, plus investment earnings. In the case of a DB plan, being vested means an employee is entitled to receive the pension benefits accrued according to the benefit formula. Being vested does not mean an employee is entitled to the employer's contributions; it means the employee is entitled to the promised pension benefit (that is, the benefit that she / he has accrued), consistent with the type of the employee's plan.

In other words, vesting enables a plan member to qualify for pension credits without remaining a plan member until retirement. Without vesting, plan members would only receive their own contributions plus interest when they change jobs.

Required conditions for vesting are outlined in the plan document and must, at a minimum, meet the requirements of the applicable pension benefits legislation (either federal or provincial) which determines vesting by attainment of a certain age and / or completion of a specified period of service or plan membership.

• • • Locking-In

Locking-in is a legislated provision that means the plan member cannot withdraw their own or their employer's contributions in cash and can only use them to provide a pension at retirement. The date at which contributions are locked in varies by jurisdiction and is determined by attainment of a certain age and / or completion of a specified period of service or plan membership.

Locking-in protects the pension funds from being used for anything but retirement purposes. Creditors can not seize locked-in pension benefits.

As a result of pension legislation, locking-in provisions may allow for the value of a worker's pension to be transferred to another locked-in retirement arrangement (i.e. the funds do not necessarily have to stay in the original pension account).

• • • Deferred Vesting

When an employee terminates employment before eligibility for retirement and is vested, he or she may be entitled to a deferred pension. The problem is that the benefit may be frozen, thereby losing its real value over time. It is therefore important to ensure that there is indexing or another mechanism in place, to preserve the pension benefit.

• • • Portability

Portability means that employees have the ability to 'take' their pension credits with them when they change jobs. Although pension legislation requires some form of portability, true portability has not yet been achieved.

Generally, pension legislation requires plan sponsors to provide employees who terminate employment with a number of options for the vested portion of their pension:

• the employee can leave his or her pension in the pension fund and receive a pension in the future (a 'deferred vested benefit');

• the employee can take the value of his or her pension and purchase an annuity from an insurance company;

• the employee can take the value of his or her pension and transfer it to a locked-in RRSP (or in Quebec, to a Locked-in Retirement Account – LIRA); and

• the employee can transfer the value of his or her pension into the new employer's registered pension plan, if the new employer agrees to accept the transfer.

Where this option exists, it is often because 'reciprocal transfer arrangements' have been made between employers.

••• Normal Retirement Age (or Date)

In a pension plan, the normal retirement age or date is the time at which the employee becomes eligible to receive an unreduced pension. This age or date must be set out in the pension plan and can be no later than one year after an employee turns 65.

This does not necessarily mean that the employee must retire at that time. The age at which an employee is eligible to retire under a plan will depend upon the terms of his / her employment and upon any applicable legislation.

••• Retirement Benefits

The benefits provision of a DB pension plan sets out the formula that will determine the actual amount of a member's pension benefits. Some factors to consider:

• Are the benefits integrated or stacked with CPP / QPP? Stacked results in higher benefits, but also higher contributions.

• Are the benefits integrated with OAS? Most provinces no longer allow this.

• What percentage of salary will the member's pension benefits offer upon retirement?

• Is a member forced to contribute beyond 35 years and yet land up with a maximum benefit capped at 35 years?

• Is there provision for ad hoc or (preferably) automatic indexing? Is the indexing fixed to the CPI or to the CPI minus some amount?

• Is there an early retirement bridge benefit?

• Are past service credits and military service credits accepted?

••• Early Retirement Age

Many jurisdictions allow pension plan members to retire early if they are within 10 years of the normal retirement age. The pension plan should specify the age at which a member may apply for early retirement with a reduced benefit.

••• Reduced Benefits for Early Retirement

When members retire early, there is less time for contributions made on their behalf to earn interest and build up enough money to pay the promised benefit. As well, the pension will have to be paid for a longer period of time than if the member retired at the normal retirement age. For these reasons, members who retire early are given a reduced benefit.

Our objective is to ensure that the reduction in our members' benefits for early retirement is as low as possible.

This issue is complicated by the fact that the *Income Tax Act* says that benefits must be reduced by at least 3% per year prior to age 60 unless the maximum pensionable service is achieved or the job is designated as a 'public safety' occupation. The occupations specified in law are firefighter, police officer, corrections officer, air traffic controller and commercial airline pilot.

Actuarial estimates put the costs in the 5% to 7% per year range and at some point it is important to know how much the other members should 'subsidize' the early-retired group.

••• Unreduced Pensions

Pension plans often include provisions for members to retire early with an unreduced pension once they have reached a certain age and / or completed a certain number of years' service. For example, early retirement with an unreduced benefit may be permitted once the worker has completed 30 years' service; or when age plus years of service equals 80.

A related issue is the provision, by some employers, of special arrangements for early retirement that allows for unreduced pensions, even though normal plan criteria may not have been met.

Another issue concerns designated 'public safety' occupations. In these occupations, if their plan so provides, a plan member may retire early with an unreduced benefit if the member has reached age 50, if age plus service equals 75, or if he or she has 25 years' service.

Our concern is that these occupations are currently largely male-dominated. At the same time, there are other, female-dominated occupations, such as nursing, which are not specified in law although they have equal or even greater 'public safety' considerations.

Early retirement is an important part of our overall retirement objective. Allowing employees to retire early with the dignity that adequate income permits, not only improves the quality of life, it can also help create jobs for younger Canadians and / or reduce layoffs. In order to encourage early retirement, we need to negotiate unreduced early retirement provisions, to the extent they are permitted by tax laws and regulations.

••• Bridge Benefits

Bridge or supplementary benefits are paid to workers who retire early to make their retirement income equal to the amount of income they will be eligible to receive from OAS and CPP / QPP at the age of 65. The benefit is then reduced at age 65 equal to the amount an individual is now eligible to receive under OAS and CPP (see also section entitled *Workplace Pensions*).

••• Disability Pensions

Many pension plans pay some form of disability benefit, but in many cases, the benefit is inadequate. In many cases, it may be more appropriate to provide benefits through a long-term disability plan (LTD) until the worker reaches age 65, than through the pension plan.

If disabled members are provided for through LTD, it is important to make sure the member continues to accrue pension credits while he or she is disabled. That way, when the member reaches retirement age, she or he will still be able to get a decent pension.

It is also desirable to have a minimum disability pension. But where there is a minimum benefit, care must be taken that any offsets for Workers' Compensation benefits and / or CPP / QPP disability benefits do not nullify the minimum benefit.

••• Pre-retirement Death Benefits

Some plans provide a pre-retirement death benefit. Death benefits are paid to a pension plan member's beneficiary when the member dies before retiring, and the member still has contributions on deposit with the plan. The member's spouse is usually the beneficiary unless the spouse consents in writing to the nomination of another beneficiary. If there is no spouse and no named beneficiary on file prior to the date of the plan member's death, death benefits are paid to the plan member's estate. The amount of the death benefit usually will depend on the member's age at date of death and years of contributory service.

••• Survivor Benefits

Legislation in all jurisdictions now requires that a spousal benefit be available as part of the normal form of pension for those with spouses. If an employee has a spouse when he / she retires, the employee's pension must be paid as a joint and survivor pension unless the employee and her / his spouse waive this right. This allows the surviving spouse to receive a lifetime pension after the employee's death that will be at least 60% ($66^{2/3}$% in Manitoba) of the monthly pension that was paid to the employee. The surviving spouse would also continue to receive these payments if he or she later became the spouse of another person.

In a joint and survivor pension arrangement, the dollar amount of the monthly pension a member would have received if he / she did not have a spouse may be reduced to fund the payments that will continue throughout the member's lifetime and that of his or her spouse. If the spouse dies before the member, the pension continues to be paid at the reduced amount.

••• Disability Benefits

A good pension plan should provide for continued plan membership while a member is disabled and receiving long-term disability benefits. Ideally, the accrual of pensionable service should continue. Employee contributions should be waived or paid by the employer. Disability retirement without reduction should be available for the worker who is disabled and cannot return to work.

• • • Inflation Protection

This takes two forms: protection before and after retirement. The best way to ensure inflation protection before retirement is to have a best or final average earnings benefit formula. This ensures that a member's pension benefit is calculated using her / his highest wage level that reflects the wage raises received over those years. After retirement, further inflation adjustments are required to prevent a member's pension being outstripped by rising prices.

It is important to note that while inflation may not seem as relevant in today's environment as it once was, it could very well return at some future date. Even with a minimal inflation rate, an employee who draws on his or her pension for 30 or more years could find themselves with significantly lower incomes over time, if their pensions are not inflation protected.

• • • Wind-up (or Partial Wind-up) of a Pension Plan

A wind-up occurs when a pension plan is terminated or discontinued, in whole or in part, usually at the decision of the employer. This most often occurs as a result of a downsizing or restructuring where the employment of a significant number of active plan members is terminated, when a business or part of a business is shut down or when an employer becomes insolvent or bankrupt. However, depending on the circumstances, an employer can simply decide to discontinue a pension plan.

Generally wind-ups rarely occur in the public sector as governments and other public service employers do not shut down, become insolvent or bankrupt. In fact the only substantive example of a wind-up of a public sector defined benefit pension plan is in Saskatchewan when in the late 1970s the Saskatchewan government wound up its defined benefit plan and legislated a new defined contribution pension plan based on matching employer and employee contributions and individual investment accounts. The plan covers all new employees hired after 1977 and any existing employees who chose to transfer their accrued pensions from the old defined benefit scheme to the new plan. There is no other case in the Canadian public sector of an established defined benefit scheme being replaced with a defined contribution scheme.

In July 2004, the Supreme Court of Canada handed down an important decision dealing with the treatment of surpluses on the partial wind-up of a defined benefit (DB) pension plan. In its decision on the *'Monsanto'* case, the Supreme Court concluded that, on the effective date of a partial wind-up, employers will be required to distribute, either to the affected plan members or to the employer, a pro-rata share of the actuarial surplus relating to the part of any pension plan being wound up. This distribution of actuarial surplus would occur regardless of whether plan members were required to contribute to the pension plan.

The Supreme Court did not indicate, however, how the distribution should be split between the members affected and the employer. In outlining the policy and practical reasons supporting this interpretation, the Supreme Court noted that "requiring that the pro-rata share of the actuarial surplus be distributed at the time of partial wind-up is unlikely to compromise the continuing integrity of the pension fund".

Although the *'Monsanto'* decision dealt with Ontario law, similar wording appears in pension legislation across Canada and this decision impacted on pension legislation in all jurisdictions of Canada.

••• Employee Information

In every jurisdiction there are legislative standards in place to ensure members are informed about their plan. These minimum standards include:

- explanation / summary of plan with description of members' entitlements and obligations;
- explanation / summary of notification of registration of any plan amendments, especially those affecting the members' benefits;
- annual benefit statement; and
- statement of benefits due on members' retirement, termination or death.

Ideally, at a minimum, the plan sponsor should provide members with access to actuarial valuations; annual information returns that may be required under provincial or federal legislation; the pension document, as amended; the trust agreement(s); the insurance contract(s); the pension fund reports; and the detailed financial statements setting out the specific holdings in the pension fund.

••• Surplus Assets

In employer sponsored plans, the payment of surplus funds to the employer is usually technically possible; however, there are invariably a number of stringent conditions that must be met. The most important is that the plan should specifically allow for employer withdrawal of surplus.

Workers should never accept the premise that employer-sponsors 'own' their pension plans and that the fund's assets or surpluses can be used at the employer's total discretion. Surpluses, no matter how they arise, are part of a worker's total compensation package. Despite this, there may be specified conditions where workers might gain – through achieving other benefits – from sharing these pension surpluses with their employers.

In a jointly trusteed plan, both the liabilities and the rewards are shared equally. If there is a surplus, there is a requirement for the parties to agree on the use of the surplus. Uses could include pension plan improvements or reduction in contributions by both the employer and the members.

CHAPTER 10

Pension Plan Governance

Traditionally, pension funds and plans were assumed to be the responsibility of employers. The prevalent view was that employers had the sole prerogative to manage our pension plans as they saw fit, with the responsibility to provide their workers with the pension promise – secure income during their retirement years. Workers and their unions rarely questioned how the pension plan was being administered, or the decisions plan managers made on fund investment. Their focus was on the actual amount of the pension benefit on retirement. In the public sector, most plans were partially funded and really didn't accumulate a significant investment fund; in fact some plans didn't even have an investment fund established – there was no need for a fund, per se, because the benefits were guaranteed, and there would always be a government with taxing power in place to ensure the benefits promised were actually paid.

In the last two decades there has been a huge shift in the level of interest and attention workers and their unions give to pension plans. They're not only thinking about the level of pension benefits; they're also paying much more attention to the overall health of pension plans. Pensions are now widely viewed by workers as their deferred wages that will provide them with a steady income upon retirement.

For this reason, the National Union and its Components have long had a concern with the specific ways our members' pension plans are governed – in particular, the way they are structured, and how their governing bodies are constituted.

••• What is Pension Plan Governance?

Pension plan governance refers to the system used to organize the roles and responsibilities of all individuals involved in governing, managing and administrating a pension plan.

The governing structure of a pension plan will determine such things as:

- the benefits provided by the pension plan to its members;
- the allocation of contribution rates among employers and employees;
- the investment policy of the plan and how it is executed;
- the delivery of the benefits to plan members (i.e. pension administration);
- the selection of the professional advisors to the pension plan (i.e. actuary, legal, audit, investment); and / or
- the best way of communicating with plan members, on an ongoing basis in relation to results, problems and other issues.

The governance factors relevant to any particular situation can vary according to the specific model that a plan has adopted.

••• Governance Models

Governance models for pension plans can be looked upon as a continuum; movement along the continuum depicts the extent to which authority over the critical governance factors passes from control by the employer sponsor, at one end, to control by plan members, at the other.

Before exploring the types of governance models, a number of important factors should be recognized. First, pension plans are subject to federal and provincial regulation in many of the critical governance areas such as benefits, design, investments and funding strategy. These regulations determine the degree of control the governance authority exercises over the pension plan.

Second, a model may not indicate the control that is actually exercised. For example, in some cases, decision-making authority rests with the employer, the plan sponsor, but the employer has established an advisory body which includes representatives of plan members (workers). Often, the employer will regularly implement the recommendations of the advisory body.

There are other cases where workers have formal representation on a pension board, but are outnumbered by employer representatives. In still other instances, they may only have decision-making authority over a limited range of issues.

A brief exploration of the four main governance models should illustrate some of these factors.

••• Employer Governance

In this model, authority over the critical governance factors rests with the sponsor of the plan – the employer. Day-to-day management of the pension plan, for private sector plans, rests with an appointed trustee (for example, the employer's own administrative operations, a trust company, a life insurance company, or specified individuals appointed by the employer).

For some public sector plans, where pension plan governance is based on what is included in the relevant legislation governing a particular plan, it may rest within one government ministry, or be distributed among several.

Under this model, the terms of the pension plan are typically not negotiable, although there may be consultations on specific issues.

Some employers / sponsors have modified this model by appointing pension committees or advisory bodies. The mandate of such committees or bodies can vary. With some plans, it may have no role except to advise, in relation to a limited range of issues. In other plans, it can have a number of specific responsibilities, which (in the public sector) may even be legislated.

••• Member Governance

In this model, authority over the critical governance factors rests with the sponsor of the plan – the union which appoints a Board of Trustees that is made up entirely of plan member representatives. The employer's contribution to the plan is defined through collective bargaining, and the employer has no residual financial obligations beyond this.

In this model, the Board of Trustees is responsible for plan administration, controlling the investment policy of the plan, benefit design, and for other matters. This model is most commonly found in the construction trades.

••• Joint Governance

In joint governance, responsibility for some or all of the critical governance factors rests with a joint Board of Trustees; pension plans governed under this model are referred to as *jointly trusteed*. A jointly trusteed plan is set up through the use of a trust document. The trust document becomes the binding contract on the parties and cannot be arbitrarily changed without agreement of the parties.

The trustees are appointed to the Board by their principals (for example, an employer and the union(s) representing the particular workers), in accordance with the relevant trust agreements. Joint boards are numerically balanced in voting power, although in some cases the actual number of trustees on each side is not the same. Generally, the Chair is rotated between the two sides or there is a provision to appoint a 'neutral' Chair.

In jointly governed plans, the joint Board is concerned with the management of the plan. In larger matters requiring the attention of the principals [the employer(s) and the union(s) representing the members], the Board acts as a vehicle for identifying issues, developing proposals and arranging or performing research and analysis.

••• Pros of Joint Trusteeship

Although there are no hard and fast rules, joint governance is the model which the National Union and its Components favour.

Under the governance model where the employer is the sole sponsor of the plan, unfunded liabilities are the responsibility of the employer. (With respect to plans covering a large portion of our members, the employer happens to be the provincial government.) In exchange for this assumption of risk, surpluses belong to the employer with no requirement to use them for improved benefits.

In a jointly trusteed plan, both the liabilities and the rewards are shared equally. If there is a surplus, there is a requirement for the parties to agree on the use of the surplus. Uses could include pension plan improvements or reduction in contributions by both the employer and the members.

Jointly sponsored DB plans in fact contribute, in an important way, to improved funding because they reduce the level of employer exposure to deficiencies.[1] In jointly trusteed plans both the employer and workers (through their union) are both responsible for funding half of any deficiencies that arise with respect to their plans.

Jointly trusteed plans make it much more difficult for employers to shed their responsibilities for liabilities in plans. In fact, joint trusteeship obligates trustees to deal with liabilities in the near future and not decades from now. The move in several provinces to joint trusteeship over the last decade has therefore been a significant factor in reducing liabilities of public sector pension plans.

Some other advantages of a joint trusteed plan are:

• Plan members have an equal say with the employer in all the major decisions related to the governance of their pension plan including investment practices and plan allocations;

• Surpluses generated within the plan are equally shared between plan members and the employer sponsor, and can be used for plan improvements;

• In most public sector plans which our members belong to, joint trusteeship makes it more difficult for future governments to interfere with the benefit structure and the investments;

• Information on all aspects of plan operations is generally more accessible;

• Increased pension services could be provided if desired; and

• The potential to engage in socially responsible investment (see section entitled *Socially Responsible Investment*).

••• A Cautionary Note Concerning Joint Trusteeship

Joint trusteeship of pension plans is an important progressive policy objective for unions – but the pursuit of that objective can be fraught with peril if the union does not have a clear understanding of what it is trying to achieve and the reasons as to why it is trying to achieve it.

The key disadvantage in joint trusteeship is that any liabilities accruing to the plan in the future become the shared responsibility of both the employer and plan members, rather than being restricted to the employer. Any future unfunded liabilities will most likely result in equal premium increases for the employer and for plan members.

With joint governance comes responsibility.

Worker representatives are responsible for ensuring that pension fund investments will provide promised benefits to plan members. They are also responsible for implementing policies and guidelines that reflect workers' goals and interests and for ensuring that the ongoing operations of the plan are carried out satisfactorily.

If things go wrong, it isn't possible to pass the blame onto the employer. As a joint trustee of the pension plan, the union gets to share the rewards, and the blame.

Plans often have a guaranteed benefit. In the public sector, this guarantee may be legislated. With joint control, this guarantee may no longer exist. As well as obtaining the rewards from successful management and investment of pension monies, in this model, workers also share the many risks.

Unions may not be well equipped, at least initially, to play an effective role in the process. Pensions can be an intimidating subject. Specialized knowledge is required, with a great deal of additional information being required for union representatives to play an effective trustee's role. Additional union resources, as well as adequate education and training in pensions and related areas, will be needed.

Unions must never let a short- term bargaining goal become a long-term liability. Before putting joint trusteeship on the bargaining table, a union should know why it's a priority and whether the union has the capacity to deal with the many complexities of joint trusteeship.

••• Multi-Employer Pension Plan (MEPPs) Governance

As noted above, most workplace pension plans are sponsored either by the employer alone or jointly by the employer and the union. Each employer providing an occupational pension plan has its own pension plan and a separate pension fund.

As the name suggests, a multi-employer pension plan (MEPP) is one where unrelated employers agree to participate in a single pension plan, because their employees are engaged in similar types of employment within a specified geographic area.

Typically, there will be a large number of small employers, with employees moving frequently between them. A MEPP allows plan members to move between employers without losing all or part of their pension, because the pension benefit is determined by service at more than one employer. A MEPP may be collectively bargained or established by legislation.

Very often in private sector MEPPs, the participating employers commit to a given level of contributions with no contributions coming from the employees.

Most MEPPS will have some form of joint trusteeship. The trustees, using actuarial advice, determine the level of contributions that can be supported by the contributions.

Pension standards legislation, both federal and provincial, usually includes special sections to deal with the various facets of MEPPs, including definition, administration, participation, eligibility, vesting and locking-in, portability, termination and other matters.

While many similarities exist across jurisdictions, the applicable statutes are by no means identical and, in fact, there are some important differences. For example, Newfoundland does not define a MEPP and provides no specific administrative requirements. As another example, while many provinces make participation in the plan optional, Manitoba makes it compulsory for full-time employees and Newfoundland's legislation is silent. Vesting and locking-in provisions can also be quite different across jurisdictions.

For specific arrangements related to a MEPP, the relevant federal or provincial supervisory authority should be contacted.

••• A Final Note

While the differences between the governance structures of pension plans can appear quite minor at first glance, their implications can dramatically affect the way that unions and plan beneficiaries can or cannot play a role in administering a pension plan and fund.

The most significant point of differentiation among pension plan governance models is the source of real policy direction for a plan. Is policy (such as benefit and contribution levels) set by the plan sponsor solely, or by the plan sponsor based upon the advice of an 'advisory' body, or jointly by trustees representing either the employer or plan members?

Wherever the pension plan lies on the continuum of a governance model, the most critical point is to develop a structure within that governance model which best facilitates and creates accountability, with at least meaningful input, if not control, from the workers whose money is being 'trusteed' for their retirement.

[1] Murray Gold, *Current Pension Issues and Trends,* Koskie Minsky LLP (Toronto: 2005) p. 7.

CHAPTER 11

Pension Plan Administration

Many factors can affect the pension fund that accumulates and the pension benefits that are paid out. Some of these factors – including decisions that are made about how pension contributions are invested and assumptions that are made about things like wage increases, inflation, the costs of future benefits – are strongly dependent on the people who participate in the administration of the pension plan.

••• A Clarifying Note

The objective of this Chapter is to provide a general overview of how a pension fund is managed and how it is administered. In that regard, it deals primarily with decision-making authority and administration practices and procedures of pension plans.

For the purposes of this Chapter, it is assumed that the plan administrator is the 'Pensions Committee' – whether the committee is the actual named governing body responsible for the plan or whether the committee has been *delegated* by the plan administrator to oversee the plan.

It should also be noted that *Chapter Twelve – Union Approach and Policy to Joint Trusteeship of Pensions* of this Manual deals specifically with union policy and approaches involving union trustees appointed to union or jointly trusteed pension plans.

••• Plan Administrator

First and most important is the *'plan administrator'*. This term is used to describe the party responsible for managing the pension fund and administering the plan in accordance with the plan's terms.

Generally pension standards legislation does not explicitly state who shall be the plan administrator, but rather gives a list of possible administrators.

Plan administrators can therefore be: the employer, a Pensions Committee generally comprised of employer representatives and / or members of the plan, the insurance company guaranteeing the benefits provided under the plan, or a Board of Trustees of either employer or member representatives or both[1] (see also *Chapter Seven – Legislative Framework Governing Pension Plans*).

While the plan administrator may designate others to carry out certain or all investment and administration functions, the administrator, as the governing body, is ultimately responsible for overseeing the plan.

Administration is also a general term often used to describe all persons and bodies associated with the plan (and their agents) who have governance, management or day-to-day operational responsibilities over matters affecting the benefit entitlements earned by plan members and beneficiaries.

As noted in *Chapter Ten – Pension Plan Governance*, the governance structure of a pension plan plays a major role in how the plan is administered and who in fact has decision-making responsibilities and authority for how the plan is managed.

- In an employer sponsored plan, the plan sponsor – the employer – generally delegates the administration of the plan to a Pensions Committee comprised of representatives of the employer and, possibly, members of the plan.
- In a jointly trusteed plan, the Pensions Committee generally consists of an equal number of trustees appointed by the employer and the unions representing members of the plan. Those trustees are responsible for administering the plan.
- In a traditional multi-employer plan, the administration is the responsibility of a Pensions Committee made up of trustees representing each participating employer. In some public sector multi-employer pension plans an equal number of trustees are appointed by the employers and the unions representing members in the plan (e.g. OMERS, HOOP, BC Municipal Employees plan).

Quebec is the only jurisdiction that requires that a Pensions Committee be appointed to administer all aspects of the plan and that the committee consists of at least two members of the plan and one who must be independent of both the employer and the plan members. Legislation in most other jurisdictions allows for some form of representation of plan members on the Pensions Committee. The legislation differs by jurisdiction in terms of the powers of such representation – whether they have decision-making authority or serve in an advisory capacity.

••• Financial Responsibilities

In order to ensure sound administration of a pension plan, the roles and responsibilities of all parties involved in the operation of the plan must be clearly defined and the persons delegated with those responsibilities must have the education and skills to do the job.

Members of the Pensions Committee (plan administrator and / or trustee), who have decision-making authority over plan administration are responsible to the members and the beneficiaries (retired members). In order to fulfill this responsibility, committee members must carry out the provisions of the plan text and ensure that all legal requirements are met. There are generally transfer agreements that may supplement the plan text which allow members to transfer their benefits to another of the employer's pension plans or to a new employer's plan, when certain conditions exist.

In terms of financial duties, the Pensions Committee must ensure that the pension fund is invested in various types of investments to obtain revenues that will make it possible to pay the pension benefits when members become beneficiaries of the plan. One of the duties of committee members is to ensure the fund's investments do not involve unreasonable risks.

The main financial duties include:

• Ensure that the member and employer contributions are paid into the pension fund within the prescribed period and that the contributions received correspond to the amounts required;

• Pay pensions and any other prescribed benefits, and where a member is entitled and applies, refund, or transfer his / her accrued benefits;

• Adopt and periodically revise an investment policy (commonly known as the Statement of Investment Policies and Goals (SIPG) or the Statement of Investment Policies and Procedures (SIPP)) or to define the investments that can be made to the plan by setting, for example, asset mix, investment return targets;

• Ensure the pension fund is properly invested and that the investments are in conformity with the investment policy; and

• Choose an actuary to make an actuarial evaluation of the plan.

'Prudent Person Rule' or 'Fiduciary Responsibility'

Pensions Committee members are subject to the '*prudent person rule*' which requires them to "exercise the care, diligence and skill in the administration and the investment that a person of ordinary prudence would exercise in dealing with the property of another person."

The term used to describe a person who has a legal obligation to follow the prudent person rule is '*fiduciary*' – an individual who acts in the capacity of trust and confidence to exercise discretionary authority or control over investment decisions of the plan's funds.

This prudent person rule exists in federal legislation as well as the pensions laws of all provinces except for Alberta, Saskatchewan and Newfoundland and Labrador. A fiduciary relationship, however, exists in all provinces under common law, regardless of whether or not it is contained in pensions benefit legislation of a particular jurisdiction.

This prudent person rule or fiduciary responsibility has been controversial over the course of recent years, as it is somewhat difficult to measure and has been used to argue that trustees or administrators must only consider financial criteria when making investment decisions.

Do committee members violate their fiduciary duties (prudence) by considering the social consequences of investment? Why would public sector pension funds invest in companies that are attempting to take over public services – like private corrections companies that build and run prisons, or private laboratory companies that are bidding to provide public health care services?

Is it prudent to invest plan members' retirement income in companies that are guilty of environmental degradation, or clothing firms that rely on third world sweatshop labour to produce fashion apparel?.

It's critical that the members' pension funds be invested in profitable ventures. But that doesn't mean that ethical, socially useful and / or other positive considerations cannot be used to assist making investment decisions for our pension funds.

This position has been reinforced by a 2005 comparative analysis of the legal interpretation of fiduciary duties among different Canadian common law jurisdictions done by Shareholder Association for Research and Education (SHARE).[2]

The results of SHARE's analysis found that the application of non-financial criteria by way of investment screens and economically targeted investing is compatible with the fiduciary obligations of pension trustees. The study noted that while Canadian courts have not yet provided a clear statement on the issue, the weight of current policy and practice indicates that trustee fiduciary duties include, and arguably require, consideration of non-financial factors, provided that it can be demonstrated to be in the financial long-term interests of plan members.[3]

Indeed, because pension funds are long-term and global investors, consideration of the potential risks and opportunities that political, social, environmental and ethical practices have and will have on financial markets and the fund's investments, is prudent.[4]

••• Administrative Responsibilities

Pensions Committee members are also responsible for the daily administration of the plan. Some of these administrative duties are prescribed by law while others are imposed by the plan's text and internal policies that have been established by the committee.

The main administrative duties prescribed by pension legislation for committee members are as follows:

• Determine which employees meet the eligibility requirements to join the plan as prescribed in the plan text and enrol eligible members in the plan;

• Send out on a regular (annual) basis a statement of benefits accumulated under the plan to each member;

• Answer questions from members about their pension plan and their benefits;

• Submit an Annual Information Return (AIR) to the appropriate pension regulatory body, as well as to the Canada Revenue and Customs Agency;

• Register all plan amendments with the appropriate pension regulatory body and with the Canada Revenue and Customs Agency;

• Inform the plan's members of amendments which adversely impact the plan;

• Issue annual reports and / or hold an annual meeting of all plan members and beneficiaries to inform them of the committee's activities, the plan's financial situation and any amendments to the plan; and

• Hire staff or consultants to provide advice to the committee or help carry out the committee's duties.

••• Roles and Responsibilities of Staff and Consultants in Plan Administration

The role of a Pensions Committee can be compared to that of a Board of Directors in a union or a business. The committee makes strategic decisions, conducts risk control and monitors the administration. Pension plan administration is complex. Pensions Committee members do not necessarily have the knowledge required for carrying out certain financial and administrative functions. In order to perform its role objectively and with openness, it will enlist the services of staff or certain professional consultants in the field of pensions to help with day-to-day financial and administrative activities.

Some of the professionals that help manage and administer a pension plan include investment manager(s), actuary, custodian, auditor, legal advisor, communication specialist, administrative service provider, pension consultant, asset consultant, investment broker / dealer and performance measurement purveyor.

The following is a brief description of what each of these professionals do and their specific roles and responsibilities.

• ***Investment manager*** – A company or person that is hired by the plan to manage plan assets. They decide on how to invest fund assets and select securities on a day-to-day basis within the discretion determined by the Pensions Committee, usually in the form of an investment policy statement (Statement of Investment Policies and Goals (SIPG) *or* the Statement of Investment Policies and Procedures (SIPP)). The investment manager may be an independent counselor, an insurance company, a trust company or a bank (or their investment subsidiaries).

Choosing an investment manager is a critical decision for the plan. Consideration should be given to the investment manager's style, objectives and risk tolerance. Whether or not the investment manager has a track record in terms of solid pension experience and association with well-established investment companies should also be considered.

• ***Actuary*** – This is a professional who calculates and certifies the value of the liabilities of a defined benefit pension plan, the plan's funded status and the level of required contributions for funding purposes and pension expense for accounting purposes. They also prepare reports, in accordance with pension legislation. There is a more detailed explanation of the role of actuaries in *Chapter Eight – How Pensions are Funded.*

• ***Custodian*** – Custodial services are offered by a company (usually a trust or insurance company) or person performing functions related to the administration of the pension fund, including: safekeeping of assets and security certificates; maintaining accounts and records; providing regular statements of fund transactions and holdings; receiving plan contributions and investment earnings; making payments to beneficiaries and paying expenses as directed; and settling trades with investment dealers on instructions from the investment manager(s).

It is important when choosing a custodian to take into account experience, fees, reporting capabilities and compatibility with the plan's investment manager(s).

• ***Auditor*** – This is a professional accountant who prepares an audit of the transactions affecting the pension plan and / or pension fund and verifies financial statement.

• ***Legal advisor*** – The legal advisor provides legal advice and interprets plan provisions, pension legislation and regulations.

• ***Communication specialist*** – The role of this individual would be to foster openness and accountability with the plan's members. Given the complex and specialized nature of pensions, it's important to have a specialist to help communicate the plan's administration and performance to members and beneficiaries to help instill confidence and interest in the plan.

• ***Administrative service provider*** – The role of this person or company is to be record keeper of the plan. It involves maintaining information on beneficiaries for the ongoing administration of the plan. Functions include recording members' contributions and other related information, determining benefit entitlements and providing information to other interested parties.

A Pensions Committee may decide to have the plan hire its own staff, contract with a company or have the custodian firm hired by the plan do these functions.

• ***Pension consultant*** – This is a person who assists and advises the plan sponsor, unions or other employee groups, in the management of the pension plan. Areas of expertise may include plan design, documentation, compliance with an interpretation of pension legislation, preparation of employee benefit statements and other communications, calculation of plan member benefit entitlements and administration.

• ***Asset consultant*** – A person who assists and advises in the investment of fund assets. Areas of expertise include investment policy and asset allocation, management structure, investment strategies, selection of investment managers and custodians and performance evaluation.

• ***Investment broker / dealer*** – A company or person matching buyers and sellers of securities and / or providing research for investment managers.

• ***Performance measurement purveyor*** – This is a company or person performing the function of calculating rates of return and related statistics to measure and compare the performance of the fund.

••• Basic Principles of Sound Administration

Administering a pension plan somewhat resembles administering a union. Like elected officers and senior staff of the union who are responsible for administering the union's policies, services and assets, Pensions Committee members must act in a competent, responsible and prudent manner.

Sound administration of a pension plan is achieved when a set of procedures and internal control mechanism are put in place to manage the pension fund and administer the plan.

Sound administration entails numerous advantages, thus facilitating:

- accountability;
- informed decision-making;
- by and large better investment performance;
- better control of risks;
- satisfactory monitoring of the plan's operations; and
- appropriate division of responsibilities amongst the plan's key players.

In addition, sound administration prevents contradictions between the plan text and the administrative policies, inappropriate expenditures, poor communication to members and beneficiaries, legislative breaches and conflict of interest.

[1] B. Berthune, A. Whiston *and* Lois C. Gottlieb, *Morneau Sobeco Handbook of Canadian Pension and Benefit Plans,* 13th edition CCH Canadian Limited, Toronto: 2005. p. 86-88.
[2] Gil Yaron**,** Fiduciary Duties, Investment Screening and Economically Targeted Investing: A Flexible Approach for Changing Times, Shareholder Association for Research and Education (Vancouver: May 2005).
[3] *Same Source*
[4] *Same Source*

CHAPTER 12

Union Approach and Policy to Joint Trusteeship of Pensions

••• Joint Trusteeship A relatively new governance model for unions

For the National Union and its Components, pension fund activism is helping to ensure economic security for our members in retirement while becoming a key strategy in promoting and engaging in socially responsible investment and good corporate governance.

A key component of pension activism is the ability to influence pension fund investment through union sponsored pension plans and union participation in the joint trusteeship of pension plans. Many of the construction and retail unions have a long history of being the sponsor for their members' pension plans. For the rest of the labour movement, this is uncommon and it is only in recent years that other unions have had the opportunity to have representation on pension plans through a jointly trusteed model. The significant trend towards joint trusteeship has been with large pension funds involving public sector unions and their government employers.

Components of the National Union were among the first unions in Canada to gain joint control of members' pension funds. The first major victory in this area was with OPSEU, where after ten years of campaigning on the issue, OPSEU was able in 1994 to achieve joint trusteeship of their public service plan, one of the largest pension plans in Canada. Since then BCGEU, HSA BC and MGEU have fought hard for, and achieved, joint trusteeship of some or all of their members' pension plans. There is a commitment from the governments of PEI and Newfoundland and Labrador to move to joint trusteeship of their employees' plans and active campaigns by Components of the National Union to achieve joint trusteeship in Nova Scotia, New Brunswick and Alberta. It is therefore likely that the joint trusteeship model of plan governance will be the dominant model within the public sector in the next decade.

Even with the National Union's success at achieving joint trusteeship of many of our members' plans, union trustees of pension plans is a relatively new development with which we have less than 15 years experience to call upon. The role that our trustees play as administrators and managers of our members' pension plans, the perspectives they bring and the challenges they face are not completely understood by them as well as many of our leadership activists.

••• Joint Trusteeship Improves Financial Health of Plans

We do know that achieving joint trusteeship of several of our members' pension plans has generally contributed, in an important way, to improved financial health of those plans. One of the primary reasons for this is that joint trusteeship reduces the level of employer exposure to deficiencies.[1] Jointly trusteed plans make it much more difficult for employers to shed their responsibilities for liabilities in plans. In fact, joint trusteeship obligates trustees to deal with liabilities in the near future and not decades from now. The move in several provinces to joint trusteeship over the last decade has therefore been a significant factor in reducing liabilities of public sector pension plans. In a jointly trusteed plan, employers and workers share the risk of underfunding and the benefit of surplus which ultimately reduces the volatility of any pension liability.[2]

••• The Power of Workers' Capital

The increased financial health as well as better governance and administration of our pension plans are worthy goals of joint trusteeship and have produced positive outcomes for our members. But joint trusteeship of pension plans has a much greater potential for working people. It provides an opportunity for them through their unions to influence corporate behaviour toward more socially responsible investment and worker friendly outcomes.

Canadian pension fund assets are estimated at just over $800 billion and are second only to the combined financial assets of the major banks in

Canada. Today the collective assets of our members' pension plans that are either jointly trusteed or sponsored by one of the National Union Components are over $90 billion. That's a lot of economic clout.

Expanding our Joint Trusteeship Agenda

We need to transform the way we think about pensions and joint trusteeship. We need to create a pensions culture within the National Union and our Components where we are able to speak with confidence and commitment about what joint control of our members' pension plans means, and what it should mean. We must develop a broad agreement on how we transform our pension ideology into concrete, achievable actions. We need to make pension fund trusteeship a central part of the union's work, as much as negotiations and grievance handling.

Gaining joint control of the governance of our pension plans is only the first part of our pensions' agenda. We need to expand our pensions' agenda so that we are better equipped to unleash our new found power to ensure that pension fund capital is used to advance the best long-term interests of our members, their families and the communities that they are a part of.

••• A First Step
Increased support for our trustees

The field of pension trusteeship can be a very complex and intimidating area – it is an area that is governed by a great deal of regulation and legislation, most of which we have had no say in establishing and which therefore often doesn't represent our interests.

Most of the trustees who are appointed to pension governance boards to represent our members' interests are relative newcomers to the scene of pension fund governance. They face many challenges acquiring the skills, knowledge and support to assist them in becoming active and integrated participants on the pension board.

In a recent survey of union trustees in Canada, many had reported that they feel they are largely thrown unaided into a world of complicated financial jargon, entrenched traditions of operation and unclear financial and legal obligations.[3] In general, they receive little formal or informal training, mentoring, reporting structures, directives or other support. Other pension trustees and staff, who largely reflect the interests of employers and the financial community, sometimes view them with suspicion and /

or annoyance due to their perceived lack of ability and their union connection.[4]

It is in this environment that our union trustees are expected to protect the interests of our members and plan beneficiaries as well as promote the union's broader agenda around environmental, social and governance issues (see *Chapter Thirteen – Socially Responsible Investment*). Trustees also have an obligation to ensure the policies of the union are being followed while at the same time maintaining their fiduciary responsibility.

••• Relationship between a Union and its Trustees

It's not fair, strategically wise, nor realistic to expect those members who we elect or appoint as individual trustees of our pension plans to do this by themselves; we need to make this a coordinated initiative of our entire union.

This Chapter examines a number of issues related to trustees and their relationship to their union. It also offers a number of suggestions regarding a union's approach and policy with respect to working with those trustees who have been elected or appointed to represent members with respect to decision-making involving the members' pension plans. The specific areas examined below are:

- recruitment and selection
- understanding of roles, responsibilities and accountability
- skills and training
- ongoing support and networks
- conflict of interest
- internal union policy

••• Recruitment and Selection

The selection procedures for labour trustees vary greatly, depending on the governance model of the pension plan. The union can hire individuals external to the union, the government can appoint a union trustee based on the union's recommendation or the trustee can be elected by plan members or be appointed by the union. Some unions appoint or recommend union staff from their pension and benefits departments or bargaining committees who tend to be generally more knowledgeable about the issues than the average plan member and typically have a strong sense of the union agenda. Some plans or unions have formal selection procedures with competency tests and interviews.

Most union trustees enter their roles with limited previous knowledge of, or experience with, pension governance, management and investment. For many, their previous knowledge of pensions is limited to a policy level and most of what they learn 'on-the-job'.

With this in mind, the following are guidelines[5] for the union to consider when recommending or appointing representatives as trustees to the pension plan:

•The prospective candidates should have strong leadership capability and a solid union perspective;

•They should have a strong appreciation for and support the union's objectives for the pension plan as well as its broader pensions agenda;

•In acknowledgement of the incredibly steep learning curve of a new trustee, the union should consider those candidates who are viewed as having the interest, ability and time to commit to expanding their knowledge base and skills around the many complex issues related to pension plan administration and investment;

•It is also important that the union recommend / appoint trustees who are trustworthy and accountable to the union. (In that regard, some unions have taken the position that it is advisable to have an individual who holds either a leadership or staff position in the union.)

Other issues involving appointment or recommendations of union trustees which should be considered include: terms of appointment, ability and circumstances under which to 'un-appoint', requirement for regular reporting and established communication guidelines.

In recognition of the skills and knowledge learning curve faced by all union trustees, it is also advisable for the union to develop a succession planning process for trustees. This involves identifying a 'pool' of potential trustees and training them in pension issues.

••• Understanding of Roles, Responsibilities and Accountability

It is critical that union trustees have a clear picture of the roles and responsibilities. This can be complicated for new trustees who often feel conflicted in what they sometimes perceive as competing interests. Union trustees represent their coworkers or their union's members as the plan's members, retirees as the funds' beneficiaries, as well as their union. They are also part of a wider decision-making process shared with employer trustees, investment professionals and other financial and legal advisors.

Union trustees face the challenge of feeling isolated from other trustees and the staff of the plan. Union trustees new in the job are sometimes viewed as not competent, inexperienced or even untrustworthy by their co-trustees representing employers and / or by plan managers.[6] Particularly when joint trusteeship is first achieved, there is often an 'us' versus 'them' mentality at the pension board.

The mere questioning of fund managers, requesting more detailed explanation of a funding proposal or actually engaging in debate can be viewed by '*the other side*' as suspicious. Some union trustees report that plan managers often have a paternalistic and narrow view of them as simply passive participants in deciding investment policy and disseminators of information to plan members.

Without strong support and clear accountability mechanisms from the union, the association between the union and its trustees will be weakened and could very well result in the trustee acting independently of the union's agenda and objectives.

It is therefore important to ensure there are strong structural and administrative links between the union and its trustees in terms of policy directives, reporting mechanisms, feedback, evaluation and other sources of support and contact (see also sections below). This will inevitably help in strengthening a union trustee's identity and accountability to his / her union and the union's overall pensions agenda while at the same time meeting their fiduciary responsibility to the plan members and beneficiaries.

••• Skills and Training

The fact that pension plan administration and investment are complex issues cannot be overstated. In order for a union trustee to perform the role proficiently on behalf of plan members and the union, she / he requires a broad knowledge and skills in pension administration. This is not something that one can necessarily pick up from a manual and just accomplish during one's spare time. It takes time, commitment on behalf of a trustee and dedicated training resources and opportunities from the union.

Initially, there are basic educational needs of trustees in technical areas such as plan terms, actuarial assessments, financial reporting, investment guidelines and laws and regulations that need to be considered. Much of this training is available from the pension industry through its organizations, institutes and conferences that provide training in pension issues.

This training, however, is not adequate in fully meeting the needs of union trustees. It is provided through a financial or business lens and rarely deviates from, let alone questions, the traditional means of pension governance. As well, these courses typically cater to pension trustees in general and do not address some of the needs specific to union trustees such as developing critical thinking and alternative viewpoints.

Union trustees need specific training on issues related to the labour movement's agenda on pensions such as socially responsible investment (SRI), new interpretations of the prudence principle, shareholder activism and proxy voting.

Such training is critical in that it helps to alleviate possible confusion by the union trustee over his / her roles and responsibilities and it reinforces the trustee's identity with her / his union.

Currently, there is little formal training from a union perspective available. One of the few educational alternatives tailored toward union labour trustees is a trustee education program developed by the Vancouver-based Shareholder Association for Research and Education (SHARE) that includes both courses and conferences. SHARE's courses are offered through the CLC's regional week-long schools.

The National Union has established a Trusteeship Coordinating Committee to provide a forum to provide an exchange of information and the coordination of activities among those Components that have achieved joint trusteeship of pensions. NUPGE also sponsors annual working sessions which bring together elected officers, staff and union trustees from our Components. The major focus of these Working Sessions is on skills and expertise building on a wide range of pensions issues. We have also devoted a section of the National Union website to pensions, providing news and research on a wide variety of pension issues from across the country and around the world.[7] Stories contained on this site are distributed to over 100 activists by way of an e-bulletin.[8]

These initiatives are a good starting point for trustee or pension training from a union perspective. There are, however, still gaps in terms of the expertise level of training, on-going training structures, and training content, specifically regarding the pensions agenda of the labour movement. This type of training is critical if we are to increase the levels of participation of our union trustees and also benefit their effectiveness at advocating labour goals and objectives.

Enhanced cooperation within the National Union and among our sister unions and among education providers is necessary to share and build on progressive and alternative educational experiences for our union trustees. It is also critical unions devote the appropriate time and resources to developing, implementing and administering new training programs to meet the growing educational needs of union trustees.

••• Ongoing Support and Networks

The job of a union trustee involves a lot of work, well beyond attending meetings of the pension board and its various committees.

There is a lot of preparatory work for a union trustee if her / his participation in the decision-making process is going to be knowledgeable and effective. There are often binders of information to read prior to a meeting and often the material is not available until two or three days before the meeting. This can't be done on the corner of somebody's desk. Unions must be prepared to give these key people the time and resources necessary to do the job.

Unions can also play an important role in helping their trustees develop a large and strong network for advice or support. Union trustees are most often selected or elected from the leadership or staff of the union. As a result they often possess an extensive set of contacts within the union to rely on for advice and support.

As well, where there is more than one union trustee of the pension plan, it becomes easier to form a network. In these cases usually the more experienced trustees will assist newer trustees. Some unions have a staff member dedicated to pensions; in those cases, the union staff can play a valuable role as a mentor / advisor for newly appointed / elected trustees.

It is also critical that trustees develop the capacity to know who to go to for good advice and to understand the difference between advice and good advice. A lot of people in the 'pensions industry' are paid to give advice, and advice can differ as many times as the number of people who give advice.

This is another area where a good solid support network for union trustees can be a valuable tool. At the same time, however, trustees should recognize that advice is not a substitute for decision-making; it's only a tool to help you make decisions. Union trustees therefore also need to develop the capacity to evaluate advice.

Finally, one of the best ways a union can support their pension trustees is to provide opportunities for them to develop organized networks among themselves. As union trustees operate largely in isolation, it would be useful to create and / or support forums which bring union trustees together – those from the trustee's union, or from the same plan, or geographic region, and then ideally trustees across unions and across the country.

••• Conflict of Interest

Union trustees can sometimes feel that the responsibility and accountability to their union can conflict with their responsibility and accountability to plan members.

A trustee must behave prudently with respect to the pension fund and investment decisions and be loyal to the plan members' interests. It is critical that they avoid placing themselves in a conflict of interest situation which is only easy to do if one has a good understanding of what is and is not a conflict. Here are a number of examples to consider.

•It's a conflict if the trustee makes decisions that she / he will benefit from at the expense of others. It's not a conflict if the trustee is also a plan member.

•It's a conflict if the trustee uses information received from the investments for his / her own benefit. It's not a conflict if the trustee makes decisions concerning investments that she / he believes are relevant to consider.

•It's a conflict if the trustee acts as a union officer in the interests of the union, and not in the interest of the plan members. It's not a conflict if the trustee makes decisions based on his / her beliefs and principles, as long as they are supported with independent advice.

•For the union, it's a conflict if the union attempts to direct a trustee on an issue. However it's not a conflict if the union is requesting information concerning actions taken by the trustees provided she / he is not restricted by plan confidentiality policies.

•It's also a conflict for the union to mandate how trustees will conduct themselves but not a conflict if the union is requesting reports on attendance, expenses, etc.

It's important that a union ensures appointed / elected trustees are trained to recognize conflicts or potential conflicts and agrees to follow a conflict of interest policy from the plan and / or the union.

••• Internal Union Policy

Being appointed a pension plan trustee should not be seen as a perk. It involves very serious work and complex decision-making – and with that go responsibilities to the union, the plan members and fellow trustees who serve on the governing body.

It is therefore wise for a union to develop a consistent policy approach to the trustees they appoint or elect to the governing bodies of members' pension plans. Besides the key areas referred to above, a union should consider having union trustee policies developed covering, but not limited to, these key areas:

•accountability of trustees;
•procedure for appointment of union trustees;
•procedure for removal of trustees;
•union time and resources available to trustees;
•expense allowances;
•conflict of interest guidelines;
•standards of communication;
•lengths of trustee terms; and
•education and training opportunities for trustees, internal and external.

••• Policy Framework for Good Governance Principles for Union Trustees

The National Union's Ontario Component, the Ontario Public Service Employees Union (OPSEU/NUPGE), adopted a policy statement in April 2003 with respect to "*Union Appointed Trustees and Sponsors for Jointly Trusteed Plans.*"

The policy statement outlines a number of sound governance and administration principles for union trustees which focus on:

•fiduciary responsibility and financial management practice faced by union trustees;

•social investment practices; and

•the role of the union in overseeing their trustees and sponsors.

The OPSEU policy statement is appended to this Chapter as a suggestion for a template for other Components to consider in developing a policy framework to guide union trustees.

OPSEU POLICY
with respect to Union Appointed Trustees and Sponsors for Jointly Trusteed Pension Plans

I. General Principles

1. OPSEU sponsors and trustees have a fiduciary responsibility to pension plan members and the union to manage the plan's assets to ensure the funds are available to pay the pensions that have been promised. All other policy guidelines are subordinate to this principle.

2. OPSEU policy is to advance the interests of its members and all working Canadians through the socially responsible investment of pension funds which include shareholder activism, ethical and other screens and economically targeted investment strategies.

3. OPSEU is responsible for ensuring that all union appointed sponsors and trustees are sufficiently trained to carry out the policies of the union.

4. OPSEU has oversight of its appointed sponsors and trustees and has an obligation to ensure the policies of the union are being followed. In the event that trustees fail to perform their duties, the union has a responsibility to remove them. The appointment and removal process should be accomplished by way of a written policy setting out both the grounds and procedure for appointment and removal.

II. General Governance

5. The governance policies of pension plans should be transparent to sponsors, trustees and members.

6. Trustees must ensure that investment portfolios remain diversified, seeking adequate rates of return at acceptable levels of risk.

7. Pension plans should have comprehensive governance policies to enable trustees to be responsible fiduciaries by being active decision-makers.

8. Governance policies should provide detailed descriptions of direct responsibilities of trustees as well as delegation of responsibility through the organization itself. Governance policies should describe the monitoring and regular review processes to ensure evaluation of decision-making.

III. Sponsorship and Trust Documents

9. In the case of jointly trusteed plans, sponsorship agreements must prohibit changes to the plan, trust or sponsorship except by mutual consent of the parties to protect against unilateral or legislative change.

10. In the case of jointly trusteed plans, there should be an equal number of employer and union trustees on Boards of Trustees.

11. Retirees should be given the opportunity to serve as trustees.

12. Lengths of trustee terms should be designated to enable sponsors to have an orderly process for the appointment of trustees.

13. Trustees should elect a chair and vice chair, or co-chairs, from among themselves (rotating between sponsors) for a specified period.

14. Sponsors should provide in the trust agreement a process for appointing a mutually agreed 'extra' trustee to resolve deadlocks between 'regular' trustees.

15. The Board of Trustees should have the specific authority to hire and fire the plan and investment managers.

16. The Board of Trustees should at minimum establish four committees with clear terms of reference and equal representation of union and employer trustees – namely an Administration Committee, an Investment Committee, an Adjudication Committee and an Audit Committee.

17. The Board of Trustees should, at minimum, reserve direct responsibility for actuarial valuations and investment decisions, audited financial statements and annual reports.

18. Trustees should ensure that the plan text – defining members' pension benefits – is interpreted fairly and consistently with established rules and procedures.

19. Trustees should establish and monitor standards of service to members and regularly review these standards of service.

IV. Communication with Sponsors and Members

20. The Board of Trustees should make their decision-making transparent through documentation that is clear, comprehensive and fully informed. Regular reporting to sponsors and members should be incorporated into the sponsorship and trust documents such that reporting is meaningful and relevant to sponsor and member concerns and allows for dialogue.

21. Service to members should be a high priority. While legislation guarantees a bare minimum of information to members, pension plans should have much higher standards of communication. Members should have information on their pension entitlements as well as more general information on the plan.

22. The Board of Trustees should ensure that pension plans have comprehensive and accessible websites.

23. Pension plans should deliver retirement planning workshops specific to the plan.

V. Active Trusteeship and Training

24. Information and briefings provided by staff and advisors should be complete and communicated in a form as determined by trustees to ensure accessibility and transparency.

25. Trustees are responsible for the decisions they make and must be aware of the rationale for each decision. Trustees must be fully informed and seek advice when necessary.

26. Trustees are fiduciaries for the plan as a whole. All trustees must receive ongoing training in pension fund administration.

27. Sponsors must satisfy themselves that their trustees are trained to the extent they are able to carry out their fiduciary responsibility.

28. Sponsors, in recognition of their own fiduciary responsibility for pension fund governance, must receive ongoing training in pension plan governance.

29. Trustee training expenses should be covered by the plan as a cost of effective governance and should be directly under the control of trustees.

30. There should be an appropriate number of trustee meetings per year such that trustees are confident they can fulfill their fiduciary responsibility.

VI. Statements of Investment Policies and Procedures (SIPPs)

31. All pension plans are required by law to have statements of investment policies and procedures (SIPPs). SIPPs must be developed, monitored, regularly reviewed and filed annually by trustees.

32. SIPPs are specific to the administrative and financial circumstances of each pension plan. But each should include language on: plan liabilities, benchmarks, risk tolerance, investment manager selection, investment strategies, private placements, all classes of assets, proxy voting, fund management, mandates and monitoring of practices and conflict of interest.

33. The Board of Trustees must monitor fund managers to ascertain whether they are in compliance with plan investment mandates.

34. Statements of investment policy should have breadth, depth and clarity and should be communicated and made accessible to members both in print and on websites.

VII. Social Investment Strategies

35. No component of statements of investment policy should bar trustees from pursuing social investment strategies.

Shareholder Activism

36. No component of SIPPs should bar trustees from pursuing shareholder activism. This is especially relevant given the recent accounting and auditing scandals and the loss of confidence in the markets.

37. Shareholder activism includes proxy voting, initiating shareholder proposals at annual meetings and class action suits. Shareholder activism encourages investment in corporations that take the high road on labour standards, environmental protection and responsible community behaviour.

38. The SIPP must give clear information about how shareholder activism is to be undertaken, the extent of activities and by whom so that there is direction to investment managers and information to members about investment strategy.

39. The SIPP should provide authorization to work with other shareholders in developing and supporting shareholder resolutions.

40. Pension plans should have proxy voting guidelines.

41. The Board of Trustees must monitor proxy voting through delegation or retention of the votes. The process for delegation or retention, monitoring and review must be described in the SIPP. Trustees must assure themselves that the process works in the best interests of plan members by regular review of voting results.

42. Investment managers must be advised of proxy voting policies of the pension plan.

Ethical Screens

43. No component of SIPPs should bar trustees from implementing investment screening.

44. Screens include the following:

•positive screens, to screen in good features such as good labour, hu man rights and environmental practices;

•negative screens, to screen out poor corporate behaviour such as child labour;

•best-of-sector screens to include best-practice companies within a sector.

45. Investment screening must be described in the SIPP and communicated to members. The description should include the financial and non-financial criteria being used for the screens.

Economically Targeted Investment

46. No component of SIPPS should bar trustees from implementing economically targeted investment (ETIs).

47. ETIs are investment funds set up to benefit workers and their communities, including: real estate development and mortgage funds, regional development and worker-friendly and privatization alternatives.

48. Investment policy relating to ETIs will be extensive and therefore will form documents separate from the SIPP. However, they should be referenced in the SIPP.

49. The SIPP should contain the objectives of the ETI investment as well as reference to the ETIs asset allocation, type and risk profile.

50. A specified proportion of assets or amount of money may be allocated to an investment vehicle such as a pooled fund organized by a number

of pension funds in order to minimize risk. Documents relating to this strategy, including performance benchmarks, should be referenced in the SIPP.

51. Trustees who are authorizing, implementing and setting standards, criteria or processes for shareholder activism, screening or targeted investment initiatives, must assure themselves that investment managers understand and support such initiatives and are capable of implementing them.

52. Investment managers should be required to report on performance at least quarterly, and on compliance once or twice a year. Reports should have depth and clarity and should be accessible in a format agreeable to or suggested by the trustees themselves. Investment managers should be required to meet with trustees at least annually for discussion on performance and strategy.

[1] Murray Gold, *Current Pension Issues and Trends*, Koskie Minsky LLP (Toronto: 2005) p. 7.
[2] Same source, p. 7.
[3] Johana Weststar *and* Anil Verma, *Effective Labour Representation on Pension Boards*, Pensions at Work, Ontario Institute for Studies in Education of the University of Toronto. (Toronto: 2005) http://www.pensionsatwork.ca/english/pdfs/weststar_effective.pdf
[4] Same Source.
[5] Dennis Blatchford, *Cons, Cautions and Conundrums of Joint Trusteeship: Lessons Learned*, contained in the *Report of the National Union of Public and General Employees 2005 Pensions Working Session*, National Union of Public and General Employees (Ottawa: April 2005)
[6] Johana Weststar *and* Anil Verma, *Effective Labour Representation on Pension Boards*, Pensions at Work, Ontario Institute for Studies in Education of the University of Toronto. (Toronto: 2005) http://www.pensionsatwork.ca/english/pdfs/weststar_effective.pdf
[7] To view the pensions section of the National Union's website go to http://www.nupge.ca/issues/pensions.htm
[8] To subscribe to the National Union's **Pensions E-Bulletin**, e-mail national@nupge.ca

CHAPTER 13

Socially Responsible Investment (SRI)

The traditional approach to the investment of pension funds has been focused on the sole and narrow strategy of maximizing return and minimizing risk. However, the pension fund landscape is changing. Plan members are now asking why fund assets are not managed in ways that more closely reflect their values. It is also becoming clear that the social goals of the plan members and beneficiaries can be integrated into the investment decision-making process in a manner consistent with trustees' duties as fiduciaries.

One tool that can be used in the pursuit of workers' goals funds is *Socially Responsible Investment (SRI).*

••• What is Socially Responsible Investment (SRI)?

SRI refers to a strategy of adopting social or ethical goals in addition to the rate of return objective in pension fund investing. It really represents a multi-dimensional understanding of financial investment practices that advances the broader and long-term interests of plan beneficiaries – workers who contribute to the plan on a regular basis. The most important objective of SRI is to maximize long-term market rates of return to ensure adequate retirement payments for workers. In this regard, the SRI view does not differ from conventional investment priorities.

But the SRI view departs from conventional investment practices by expanding the options, methods and principles that guide capital allocation decisions. It's critical that we recognize that capital markets are neither perfectly efficient nor value-free.

Therefore, those who seek to advance the long-term interest of workers inside financial markets must look beyond both the array of choices these markets presently offer and the narrow band of information conventional investment managers provide.

Alternative investment practices and vehicles can better reward both the pension fund beneficiaries (workers) and the broader community to create wealth in the long-term. A growing body of evidence shows that there does not have to be a contradiction between SRI practices and the fiduciary duties of pension trustees to plan beneficiaries. Fiduciary duties extend beyond short-term financial return and pension trustees can and should consider broader interests when making plan investment decisions.

••• Environmental, Social and Governance (ESG) Issues

The concept of SRI within the field of pension investments is relatively new and is constantly evolving. In the last year we have witnessed SRI terms making way for new terminology that appears to be gaining attention and respect within the pension investment community. This new terminology refers to a fiduciary duty of trustees to consider environmental, social and governance (ESG) issues in their investment decision-making. Increasingly the links between ESG factors and financial performance are being recognized.

The National Union is committed to staying on top of these new developments and we will adapt our work with the use of terminology that is considered most broadly accepted and inclusive. Regardless of the language we use, our objective remains the same: to advance a larger social agenda for pensions that includes social, environmental and good governance factors being a part of pension investment decision-making.

••• Advancing a Social Agenda for Pension Investment

Pension funds can advance a larger social agenda reaching beyond simple individual returns. The SRI or ESG view is not value-free, but neither are the institutions that currently control these funds. To hold, as many pension fund managers do, that the quality of an investment depends solely upon its risk and return profile with little or no consideration of the impact upon workers, the environment and communities – is certainly not value free. Rather, it is to advance one particular value, the risk-adjusted rate of return, above all others. To claim a single-minded focus on risk-adjusted rates of return advances no agenda. Such a view simply reinforces the narrow values associated with conventional investment practices, discourages debate and reduces transparency.

••• Collateral Benefits versus Collateral Damage

We know there are many inefficiencies and systematic negative consequences of contemporary financial market practices. Just as carefully SRI / ESG investments can yield 'collateral benefits' beyond monetary rates of return, contemporary financial investment practices can result in 'collateral damage'. How often have we witnessed the 'collateral damages' such as corporate downsizing, overseas job flight, employee lay-offs, and mergers and acquisitions resulting from such narrow-minded investment choices that concentrated on rapid stock turnover and leveraged buy-outs?

••• The Three Pillars of Socially Responsible Investment (SRI)

There are three basic pillars that an SRI strategy must rely on to be successful, each of which the National Union and its Components build its capacity around in terms of understanding, commitment to and the ability to advance:

- Ethical screening
- Shareholder activism
- Economically targeted investments (ETIs).

••• Ethical Screening

Ethical screening, often called social screening, involves the application to an investment of social and ethical screens – either negative or positive. Certain features can be screened in or out of an investment portfolio. However, most individuals and institutions that practice ethical screening also take a proactive approach, implementing positive social screens. For example, they may seek out investments in companies that demonstrate leading-edge environmental practices or companies with a good labour relations record. While ethical screens are new for pension funds, they have been used in a class of mutual funds known as ethical mutual funds, and have been shown not to damage the rate of return.

In analyzing the social and environmental performance of companies or their labour relations record, it is possible to draw from a comprehensive array of sources. These include corporate documents; national and international press; periodicals, journals, and trade publications; government publications and databases; and the Internet. Another mechanism is to conduct interviews with a wide variety of stakeholders, including community, company, industry, government and union contacts.

One pension fund in Canada that has a systematic screening regime in place is the OPSEU Staff Pension Plan. It has a labour screen in place that rates the performance of Canadian companies based on approximately 25 criteria, which reflect both positive and negative attributes. They look at things like level of unionization, labour practices, job security and benefits, number of strikes / lockouts and diversity issues.

••• Shareholder Activism

The second pillar of SRI is shareholder activism. This is a way that shareholders (the members of pension plans) can collectively claim their power as pension fund owners to influence a corporation's behaviour on pension fund investment policies. Shareholder activism involves a whole range of approaches to influencing corporate behaviour ranging from writing letters, to drafting resolutions for annual meetings, to pulling shares – all in an attempt to hold corporations accountable.

Increasingly, workers are recognizing that they do in fact have the ability to influence management decisions of large companies. Some unions with joint trusteeship have injected labour priorities into corporate governance agendas around issues such as training, executive compensation and the creation of sustainable shareholder value through high-performance workplace practices. Labour's shareholder activism has the potential to promote the establishment of standards to measure and disclose corporations' human resource values, thereby aligning the interests of workers and plan beneficiaries (who as we know are most often one of the same). The result is usually increased transparency, stronger corporate governance, and greater accountability on the part of management.

In addition, like all 'owners', union pension funds need to be concerned about the potential that the management teams running the corporations in which they have invested do not have the same objectives as the owners – and on strictly financial grounds. For example, pension funds are usually invested in companies for the long-term and need to ensure that the company is concentrating on long-term creation of wealth rather than the short-term fixation with stock prices that often determines executive compensation.

Some unions have even developed proxy voting guidelines for their trustees that address corporate governance issues. Proxy voting refers to the fact that most pension funds hold blocks of shares within a company. Union trustees then insist that their pension fund vote this block of shares in a way to influence corporate decisions so that they reflect the long-term interests of pension plan beneficiaries. Proxies are typically voted on in relation to the following categories:

•Board of Directors' proposals (such as the election of Board members, their compensation, and / or their term of office);

•Corporate governance and changes in control (for example, deciding on whether the Board should be increased or on the appropriate compensation packages for Board members and Executives);

•Worker-related proposals, such as the extent to which workers should be actively involved in decision-making; whether compensation should be linked to performance; or whether the firm should use part-time or contractual employees to the exclusion of full-time employees; and

•Corporate responsibility, for example, in the company's human rights record.

••• Economically Targeted Investment (ETI)

The third pillar of SRI is referred to as *economically targeted investment (ETI).* ETI is an investment designed to produce a competitive rate of return commensurate with risk as well as create economic 'collateral benefits' for a targeted geographical area, group of people, or sector of the economy.

Unions have a history in operating such funds, ranging from large commercial and residential funds that support union-built construction to more recently established funds that specialize in private equity.

As an example, the Carpentry Workers' Pension Plan has a subsidiary non-profit housing cooperative which uses a portion of the pension funds to build quality, affordable housing in B.C. using unionized workers. Another example is the specialized fund pooling vehicle, the Vancouver Land Corporation which provides capital to build moderately priced housing in Vancouver. This corporation was established by the Telecommunications Workers Union, the International Woodworkers of America and other B.C. unions.

There are also Labour Sponsored Investment Funds (LSIFs), which are pools of venture capital that invest based not only on just financial criteria, but on social and environmental parameters as well. They exist in six provinces: British Columbia, Saskatchewan, Manitoba, Ontario, Quebec and New Brunswick. These funds look closely at employee relations, environmental performance, business practices, the products / services provided, impact on communities, etc. Overall these funds had combined assets of over $6 billion in 2005, representing 51% of the venture capital market in Canada.

The Ontario government however announced in September 2005 that at the end of 2005 it was ending the 15% tax credit it has offered since 1991 to Ontarians who put money into LSIFs. There were 46 LSIFs in Ontario with a total of $3-billion in assets under management.

ETI funds aim to generate 'collateral benefits' in addition to yielding market-based rates of return. Such investment approaches are said to have a double bottom line because they generate not only conventional returns, but also additional benefits for stakeholders such as more and better paying jobs, affordable housing, well-funded pension plans, and reduced environmental degradation. Collateral benefits can include enhanced workplace cooperation leading to increased productivity, or the delivery of products and services that might not otherwise occur without some intervention to correct a capital market failure.

The greatest obstacle facing ETI investing today is the lack of education and expertise among pension plan trustees and their advisors, therefore preventing them from making informed decisions regarding ETIs. Many find that investment professionals and management trustees discourage ETIs out of unfamiliarity or perceived risk aversion.

• • • Conclusion

It is critical that we expand our knowledge base of these three important pillars of progressive pension fund investment. The National Union needs to raise the level of comfort and understanding of our leadership and our pension plan trustees on the prudent and strategic use of these SRI / ESG practices to create 'collateral benefits' to our members and the broader community.

CHAPTER 14

The Real Pensions Crisis in Canada: It's about coverage—Not funding*

* This chapter was originally published April 2007 as a stand-alone paper - *No Pension Panic*.

••• The Sky is Falling—*Or Is It?*

Lately, the business sections of newspapers have been full of stories talking about the pension funding 'crisis' in Canada and around the world. The headlines have been alarming: "*Pension Shortfalls Threaten to Explode …*" *"Pension Plans Face $225 Billion Shortfall …" "Companies' Pension Shortfalls Could Destroy Retirement Dreams …" "A Time Bomb is Ticking in Pension Plans …".*

Those who are signaling the alarm about the so-called 'crisis' primarily come from the pension and investment industry and the corporate financial sector. They continuously have been warning us that the future of workplace pension plans is in jeopardy, *that the sky is falling!*

These alarmist headlines are likely to scare many working people and their families. After years of paying into a decent workplace pension, they might be now asking whether their pension plan will be able to provide them with financial security in retirement. They probably want to know what's happening to their pension. Is it safe? *Is the sky really falling?*

This answer is no. This is in large part a manufactured crisis, designed to attack quality workplace pensions and allow employers to abrogate responsibilities to their employees.

••• The Focus of the Attack Defined Benefit (DB) Pension Plans

The so-called 'crisis' with private workplace pensions ostensibly involves a specific kind of pension plan – defined benefit (DB) plans – the most common and superior type of workplace pensions in Canada.

A DB plan defines and guarantees a specific pension amount to the worker upon retirement. The benefit is determined according to a formula based on the worker's salary, age and years of service. DB plans are required to set money aside to pay promised benefits.

The funding crisis that we keep hearing about is intended to justify a move away from this DB style of pension plan to a defined contribution (DC) plan, where the employer and often the employee set aside a specific amount of money – a defined contribution – every month.

At retirement, the worker has an account balance which is completely dependant on how much has been put into the fund and how these contributions have grown over time as they have been invested. By definition there cannot be a *'funding crisis'* with a DC plan – the employee is entitled to his or her account, and only to his or her account.

But there can often be a *'pension crisis'*, under a DC plan, as the amount available may not be nearly sufficient for a decent retirement.

••• Clear Advantages to a Defined Benefit (DB) Pension Plan

It is clear that the best form of pension is a defined benefit plan. Defined contribution plans are certainly better than no plan at all, for most workers, but they are unable to deliver the same level of benefits that a defined benefit plan can.

Less Risk / Greater Certainty

A DB plan provides less risk to a worker and greater certainty on how much pension income the worker will have in retirement. The reason for this is that a DB plan is first and foremost a pooled resource under which, if there is a shortfall in the fund, the employer as a plan sponsor must at least help make up the shortfall to ensure the promised benefits are available. A DC plan is simply an accumulation of money, with no promised benefit. If the DB plan is short of money, the employer has to cover, or share in the task of covering, the shortfall with the workers. If the DC plan does not provide enough for a decent retirement the employee is simply out of luck.

Moving from a DB to a DC plan transfers the entire risk of inadequate retirement income from the employer to the employee. That's why employers like it so much.

Additional Benefits

DB plans can provide for a number of benefits in addition to the basic pension, including enhanced early retirement benefits, survivor benefits beyond those required by legislation, portability, disability benefits and inflation protection. While DC plans can also provide benefits in addition to retirement income, these additional benefits must be purchased by each individual at the time of retirement and will significantly reduce the monthly income available to retirees.

Lower Administration Fees

Because DB plans are centrally managed, the cost of administering the pension fund is shared among all beneficiaries, so less of the funds needed to pay retirement benefits are taken up by investment management fees. In a DC plan, especially an individually managed plan, a larger proportion of an individual's account is absorbed by investment management fees charged by the pension industry, leaving fewer funds available for retirement income. Most moves by employers to a DC plan also transfer the administrative cost to the individual worker. This potentially huge source of profits for the investment industry explains why they are so active in the push for conversion of DB plans to DC.

Guarantee

A DB plan offers a guaranteed income for life to retirees. A DB plan pays benefits for as long as a retiree lives and, in most cases, pays benefits to a surviving spouse for as long as he / she lives.

A DC plan carries no certainty that the benefit will be paid for the retiree's entire life; the retiree faces the real possibility of outliving the so-called retirement 'nest egg'. The only way to ensure a lifetime of benefits is to purchase an annuity, but an annuity comes at a real cost and reduces the monthly payments available. Purchasing an annuity with survivor benefits is even more expensive and reduces the retirement income available. At a time of increasing life expectancies, DC plans provide no guarantee that they will have sufficient assets to cover living longer than expected.

DB plans are the best form of pension plans for workers. Workers are assured a certain retirement income for the rest of their lives and the risks and responsibilities associated with providing that guaranteed retirement income either rests with the employer or is shared equally between the employer and the workers. This is in large part why corporate employers want to eliminate DB plans in favour of DC plans. By doing so, they are reducing corporate risks and corporate responsibility to their workers.

If the value and effectiveness of workplace pensions is reduced, the result will be greater poverty among Canadian seniors, and increased pressure to substantially improve our public pension system.

• • • The Global Corporate Agenda: Downloading Pension Liability & Risk to Workers

The attack on DB pensions is not something we are experiencing just here in Canada; it's happening around the world. It's part of a larger attack on wages and benefits of workers through corporate globalization.

There have been world-wide structural changes to our economy in the last several years in favour of capital and profits and away from social spending and workers' incomes. The attempts to undermine DB pensions have to be seen in this light.

The objective of the global corporate agenda with respect to workplace pensions is to download the pension liability and the funding risk onto workers – by replacing DB plans with DC plans and having workers individually responsible for their own retirement income in the form of individual savings accounts.

Major corporations in the U.S. and Canada have already converted their DB plans into DC plans like IBM Corp., Motorola Inc., Lucent Technologies Inc., Verizon Communications Inc. and most recently Nortel Networks.

This agenda, however, has not been limited to the private sector. In Latin America and Eastern Europe, there has been a substantial trend toward converting publicly funded universal pension plans to a system of individual savings plans / accounts. This trend has been advocated and assisted by the World Bank, and it has led to massive increases in poverty among retired workers.

In the United States, a recent proposal from President Bush to redirect a portion of Social Security pension contributions to individual investment accounts encountered heavy weather even from his own ranks and has been quietly dropped. Thankfully, the investment industry's persistent lobbying for the individual investment accounts option versus traditional universal public pensions has been blunted in recent years by a better understanding of the consequences for retirees.

There still remains however a strong push in the U.S. by employers, both in the private and public sector, for the conversion of DB plans to DC plans. In the public sector, 14 states have already adopted some form of compulsory or voluntary conversion to defined contribution plans and legislation in an additional 12 states has been proposed to convert DB plans to some form of a DC plan.[1]

••• Extent of Financial Shortfall in DB Plans 'Challenging, but Manageable'

There is no disagreement that some of the large private sector industries are currently experiencing some formidable challenges when it comes to the funding of employer DB plans. But the extent of the problem has been massively overstated.

We have been constantly bombarded with DB bad news in the last several years by the financial industry. There have been a lot of stories in the news about underfunded pension plans. The Certified General Accountants Associaiton of Canada estimated that up to the end of 2004 the shortfall in Canada's DB pension plans had grown $30 billion in one year to $190 billion.[2]

The Office of the Superintendent of Financial Institutions (OSFI) is the federal body that oversees federally regulated pension plans. In November 2005, the OSFI reported that an estimated 72% of federal DB plans were less than fully funded as at June 2005, compared to 53% in December 2004, although on average the funding shortfall was less than 10%.[3]

The OSFI described the situation as "stable but fragile."At that time OSFI stated that it had 50 out of the 370 DB plans it oversees on its 'watch list',[4] down from the 60 it reported six months prior.

Added to that, there have been the high profile stories in recent years implicating the DB pension funding shortfall as a significant factor in the bankruptcy or near bankruptcy of major private sector employers like Algoma Steel, Stelco and Air Canada.

The DB pension deficits that are reported sound like big numbers, and a lot of bad news. But, it is important to look behind those headlines and numbers to see what this means.

• • • What's Behind the Current DB Funding Shortfall?

There are various reasons for the sudden funding crisis in DB pension plans.

Contribution Holidays

Many of the employer sponsored DB pension funds are in a deficit position because through the 1980s and 1990s, employers used the surpluses generated by high investment returns to take regular contribution holidays, and even take cash out of the plans, rather than contributing and leaving the money to fund those years when investment returns did not meet the pension plan's liabilities. Because investment returns were so consistently good for so long, corporate financial executives got used to pension plans being very cheap, if not free, or even a source of cash.

In June 2005, Shareholder Association for Research and Education (SHARE) published a study, which looked at the relationship between contribution holidays and plan funding for federally registered and British Columbia registered DB pension plans. The study compared contribution holidays taken by active DB pension plans between 1994 and 2003 against their respective current funding deficits.

Findings indicated that lost revenue from contribution holidays would have played a significant role in mitigating the current funding deficits for many pension plans assessed on a growing-concern basis. Of the 42 significantly underfunded DB pension plans in the study, 45% would have completely eliminated their current actuarial deficit if contribution holidays had not been taken.[5]

Stock Market Downturn

DB pension deficits also arose partly because of the downturn in stock markets after the overheated technology sector crashed in the late 1990s and poor market returns in 2001 and 2002. This is still having a lingering effect on plan investments, even though the markets have since rebounded. In fact, in November 2005, the OSFI reported that strong equity market performance in the preceding six months made a positive contribution of about three percentage points to those DB plans regulated by the federal agency.[6]

Unexpected Return to Low Interest Rates

Another reason is partly because of very low interest rates in Canada during most of the past decade (which make it more expensive to pay for future pensions).

Many plans underperformed and failed to meet their assumed returns based on assumed interest rates ranging from 6% to 7% or even higher, which never materialized. When the valuation rate of interest for funding purposes was increased beyond 4.0%, plan sponsors prematurely accounted for higher investment returns before they had actually occurred.

The current and apparently stable low interest environment represents a return to normal interest rate cycles and the current environment should not have been regarded as a surprise. It is however worthy to note that if long-term interest rates rise as little as 1% - 2 %, the apparent funding deficits in most plans will disappear.

Change in Actuarial Methods

An important factor impacting the deficit position of many DB plans, which is not often mentioned by the pension industry, is the change in actuarial methods introduced by the actuarial profession in February 2005. The change in actuarial methods, adopted by the Canadian Institute of Actuaries, revises how solvency liabilities are calculated. Among other things, the new standard makes the calculation of those liabilities more sensitive to prevailing market interest rates versus using rates more in line with historical norms. According to OSFI this change lowers the solvency rate of DB plans under its jurisdiction by seven percentage points.[7] The solvency of plans hasn't changed as much as the method of calculating that solvency.

These external factors had been compounded by massive restructuring and layoffs in large workplaces in the manufacturing sector with long-established DB plans.

The growth in the average age and service of the active workforce, coupled with significant increases in the number of retirees compared to active workers, has added further pressures on the funding of DB plans; although this has been widely foreseen and has been compensated for in plan funding.

• • • Jointly Trusteed DB Pension Plans Are Better Managed and Funded

Although there are funding deficits in both public sector and private sector DB plans, those plans that are jointly trusteed, especially in the public sector, have not faced nearly the same level of difficulty.

In a jointly trusteed pension plan, the responsibility for the financial health of the plan is shared equally between the employer and the union representing its members. Jointly sponsored DB plans in fact contribute, in an important way, to improved funding because they reduce the level of employer exposure to deficiencies.[8] In jointly trusteed plans both the employer and workers (through their union) are responsible for funding half of any deficiencies that arise with respect to their plans.

Components of the National Union were among the first unions in Canada to gain joint control of members' pension funds. The first major victory in this area was with OPSEU where after 10 years of campaigning on the issue, OPSEU was able in 1994 to achieve joint trusteeship of their public service plan, one of the largest pension plans in Canada.

Since then BCGEU, HSA BC and MGEU have fought hard for, and achieved, joint trusteeship of some or all of their members' pension plans.

There is a commitment from the governments of PEI and Newfoundland and Labrador to move to joint trusteeship of their employees' plans.

Active campaigns by Components of the National Union are used to achieve joint trusteeship in Nova Scotia, New Brunswick and Alberta. It is therefore likely that the joint trusteeship model of plan governance will be the dominant model within the public sector in the next decade.

Jointly trusteed plans make it much more difficult for employers to shed their responsibilities for liabilities in plans. In fact, joint trusteeship obligates trustees to deal with liabilities in the near future and not decades from now. The move in several provinces to joint trusteeship over the last decade has therefore been a significant factor in reducing liabilities of public sector pension plans.

For example, the OPSEU Pension Trust, which has $12 billion in assets, is in its 11th year as a jointly trusteed plan and is the only public sector plan in Ontario that has not had to increase contributions. Another example is the jointly trusteed Manitoba Health Employees Pension Plan that has a requirement that in the event the plan is not adequately funded, there must be either a decrease in benefits or an increase in contributions. In order to deal with an underfunding problem in 2005, a deal was reached through collective bargaining to increase contributions by 1.8% for both employer and employees.

It also should be noted that the four large public sector plans in British Columbia are jointly trusteed and remain in a significant healthy position. In a jointly trusteed plan, employers and workers share the risk of underfunding and the benefit of surplus. This sharing reduces the scale of any underfunding that an employer must confront and therefore reduces the volatility of their pension liability.[9]

Joint trusteeship of a pension plan ultimately leads to a more secure and stable funding situation.

• • • The Pension Funding Cupboard Isn't Bare

In the public sector, the financial health of pension plans has greatly improved in the last three years as Canada's provincial governments have taken advantage of an improved budgetary position to bolster their contributions. A July 2006 report from CIBC World Markets notes that special payments being made against pension liabilities, in many cases with borrowed money, have placed public sector plans on a firmer long-term footing and have helped to trim future debt-servicing costs.[10]

The current focus on pension shortfalls coincides with a generalized improvement in provincial finances, according to the CIBC World Markets report. In the past, budget deficits constrained government efforts to shore up pensions, but today's improved fiscal situation of governments provides a more accommodative backdrop for special pension payments.[11] The report notes that solid investor demand for high quality provincial bonds has allowed governments to make debt-financed pension payments without unduly pressuring provincial interest rate spreads.[12]

The report cites the governments of Newfoundland and Labrador, New Brunswick, Prince Edward Island, Quebec and Manitoba for making special payments against pension liabilities in the last year.

With respect to private sector pension plans, any claim that pension plans in Canada are facing a *'funding crisis'* is getting less persuasive by the day.

First and foremost, corporate profits in Canada have reached record levels as a percentage of GDP, ridiculing the notion that the great majority of plan sponsors are without means to address financial shortfalls in their pension plans. In fact, a study in the April 2006 edition of the *Canadian*

Economic Observer documents the growth of a massive corporate surplus in Canada, reaching a *"record net lending position of $80.6 billion by 2005"*.[13] The study explains that Canadian non-financial corporations are holding massive stores of liquid cash in their accounts, often at the expense of capital improvements and shortfalls in pension funding.[14] ***These companies may not have funded their pension plans, but it's certainly not because they can't afford to.***

Secondly, astounding growth in pension fund assets, and pension investment returns, certainly don't help reinforce the pension industry's position that the pension plan cupboard is essentially bare.

During the last several years the assets in Canadian pension funds have undergone fairly healthy growth. In fact, the rising asset value of pension plans in Canada outweighed the impact of the increase in liabilities experienced in the last five years.

Statistics Canada reported in September 2006 the value of trusteed pension funds was $836.8 billion during the first three months of 2006, a 4.7% rise over the fourth quarter of 2005. Since 1995, fund assets have more than doubled in value, while in the last five years they have grown more than 30%.[15]

Fund revenues during the first quarter of 2006 amounted to just under $28 billion and expenditures $9.5 billion, for a net cash flow of $18.9 billion.[16] Contributions were at $9.9 billion, of which $7.6 billion was made by employers, the result principally of special payments for unfunded liabilities.[17] Employer contributions have been on the rise since 2001. Up to that time many employers had been taking a contribution holiday because their pension fund investments were doing very well. For the third straight year, annual contributions have exceeded benefits paid out.

In its April 2006 issue, *Benefits Canada* reported the value of all Canadian pensions recently eclipsed the $1 trillion mark. Further still, the rate of return on pension investments has increased, averaging 9% in 2005 and 2004, double the rates during the '*bear market'* years of 2001 and 2002.[18]

••• The Extent of Defined Benefit (DB) Pension Coverage in Canada

The pension and investment industry often quotes the fact that the DB plans are in decline in Canada. The Association of Canadian Pension Management (ACPM), representing over 700 pension plan sponsors and managers, cites that during the period from 1992 to 2003, the percentage of the Canadian workforce covered by DB plans, declined from 44% to 34%.[19]

It's very clear that the percentage of the workforce that is covered by a pension plan has declined – from 45.1% in 1992 to 39.9% in 2003.[20]

If we look at the decline of DB plan coverage by sector for the same period, coverage for Canada's public sector employees fell from 91.5 % to 79% and coverage for Canada's private sector fell from 28.7% to 20.5%.[21] Much of the large decline in DB pension plan coverage in the public sector during that period can be attributed to massive government restructuring causing direct public sector employment in Canada to shrink by 10% in 10 years through outright cuts, offloading and privatization. There were 2.8 million public service employees in 2002, compared with 3.1 million in 1992.[22]

What the pension and investment industry fails to mention is that since 1992, the proportion of DB plans of all pension plans rose steadily – from 67.7% in 1992 to 73.4% in 2002 to 76.7% in 2004.[23] In fact the number of DB plans jumped by a third within two years, from 2,234 in 2002 to 2,929 in 2004.

The number of workers covered by DB plans in Canada also increased by nearly 11% – from 3,620,000 in 1992 to 4,012,000 in 2004. While the actual number of workers covered by DB plans increased by nearly 400,000, the proportion dropped – from 94% in 1992 to 87% in 2004. The reason for this has been the growth of the Canadian workforce, especially with respect to the number of contingent workers and in those sectors which generally are not unionized and have not traditionally provided pension coverage.

During that period (1992 to 2003), Canada's total workforce grew by 2.7 million workers, or 25% – with the majority of new jobs being part-time, temporary or other forms of contingent work. ***Over one third of the Canadian workforce is now employed in contingent work and it is estimated that approximately only 15% of those contingent workers participate in a workplace pension***.

In comparison the proportion of DC plans as a percentage of all pension plans dropped from 31.3% in 1992 to 17.1% in 2002 to 13.8% in 2004 even though the actual number of plans rose from 521 plans to 530 plans from 2002 to 2004. The number of workers covered by DC plans increased by 22% during the period from 1992 to 2004. However in actual numbers, this only represented an increase of 41,000 workers – from 187,000 in 1992 to 228,000 in 2004. The proportion of workers covered by DC plans has remained steady at about 5% since 1998.

Year	*Defined-Benefit*					*Defined-Contribution*				
	Plans	**%**	**Members '000**	**%**	**Assets ($millions)**	**Plans**	**%**	**Members '000**	**%**	**Assets ($millions)**
1992	2,300	67.7	3,620	94.7	244,489	1,054	31.3	187	4.9	7,585
1993	2,210	68.0	3,672	94.4	298,231	926	28.5	136	3.5	6,523
1994	2,302	71.4	3,668	93.6	296,979	767	23.8	139	3.5	6,734
1996	2,316	73.1	3,565	93.1	397,533	672	21.2	147	3.8	9,919
1998	2,228	75.2	3,378	90.3	478,928	514	17.4	178	4.8	13,270
2000	2,354	73.7	3,537	88.0	553,658	554	17.4	196	4.9	15,378
2002	2,2234	73.4	3,930	88.1	512,223	521	17.1	226	5.1	17,713
2004	2,929	76.7	4,012	87.1	631,606	530	13.8	228	4.9	18,062

Source: *Trusteed Pension Plans* in **Perspectives on Labour and Income** (Statistics Canada: January 2006, Vol. 7, no. 1).
Note: Other types of pension plans (i.e. – a combination of both DB and DC) are not included in this table.

The biggest crisis is not the gradual disappearance of DB plans, but the declining pension coverage for new members of the Canadian workforce. If this trend continues it is going to place increased pressure on our public pension system as the primary source of income for a growing proportion of Canadian seniors. This really points out the critical need for a national policy focus on how best to ensure all Canadians have financial security in retirement.

••• Conclusion

The evidence and current data available certainly contradicts the claim that Canadian pension plans are in a state of crisis.

Pension plans went through a rough period in the first part of the decade, but the high rate of return on investment in the last three years certainly has helped bridge the pension funding gap. In many cases employer and employee pension contributions have increased in recent years. However, much of these increases have been necessitated by employer contribution holidays taken in the 1990s. We are not out of the woods yet in terms of dealing with funding shortfalls of DB pension plans. The dramatic growth in pension assets and corporate profits indicates, however, that today's pension shortfalls are manageable and will be resolved in due course.

For the most part, the so-called *'funding crisis'* of pensions in Canada is a manufactured crisis. Many large corporate employers are using this manufactured crisis to abrogate responsibility to provide quality pension plans for their employees so that they have some guarantee of financial security in retirement. They are failing to be part of the solution to ensuring Canadians can retire with financial security and dignity.

This manufactured crisis is nothing more than a smokescreen to avoid the **real pensions crisis in Canada – the increasing percentage of a growing Canadian workforce that has no pension coverage**. As previously noted, less than 40% of Canadian workers are covered by a pension plan.

The debate in Canada must focus on the *real pensions crisis*. It's not acceptable for a large segment of corporate Canada to offload its responsibility onto individual workers for their financial security in retirement. This ultimately will lead to having more and more working Canadians living in poverty in their retirement years and will place increased pressure on our public pension system. A secure, enjoyable retirement should be the right earned by workers for decades of contributions to one's community and Canada's economy.

The labour movement must re-commit itself to achieving pension plans for workers not covered by a workplace pension plan, and where there are pension plans, they must be defended. Any attack on workplace pensions must be seen as an attack on the wages of workers. Workplace pensions are not a 'gift' from employers; they are owned by workers in that pensions are deferred wages of workers.

Access to a workplace pension is a critical factor in overcoming seniors' poverty and DB plans are the best type of pension plans to achieve this. DB plans therefore should be promoted and encouraged through public policy.

It's critical that unions continue the push for joint control over our members' pension plans. We have proven that having an equal voice at the pension governance table is the surest way of ensuring that members' pension plans are protected and secure.

Consideration should also be given to the expansion of our public universal workplace pension plan, the Canada Pension Plan. CPP is one of the largest and most healthy pension plans in the world; by 2010 it's anticipated to become the largest pension plan in the world. Contributions to the plan are expected to exceed benefits paid until 2022, providing a 16-year period before a portion of the investment income from the CPP reserve fund is needed to help pay CPP benefits. CPP certainly has the capacity to provide a greater proportion of Canadians' retirement income beyond the 25% of their average annual earnings and increase benefits beyond the current maximum of 25% of the average Canadian industrial wage ($44,900 in 2008) as it does now.

An increasing percentage of working Canadians are coming closer to retirement as the bulging baby boom generation ages. ***If we as a society do not soon address the private sector's failure to provide decent workplace pensions for Canadians, then we will be guilty of manufacturing a real and a bigger pensions crisis than what is purported to exist now.***

[1] Service Employees International Union, *The Attack on Defined Benefit Pension Plans* http://www.seiu.org/mbe/retirement_security/db_vs__dc.cfm#Attack_on_DB_Plans
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[3] Office of the Superintendent of Financial Institutions Canada, *November 2005 Pension Update*. (Ottawa: November 2005).
[4] *Same source.*
[5] Shareholder Association for Research and Education (SHARE), *Taking A Holiday: The Impact of Employer Contribution Holidays on the Funding of Defined Benefit Pension Plans.* (Vancouver: June 2005).
[6] Office of the Superintendent of Financial Institutions Canada, *November 2005 Pension Update*. (Ottawa: November 2005).
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[8] Murray Gold, *Current Pension Issues and Trends,* Koskie Minsky LLP (Toronto: 2005) p. 7.
[9] *Same source, p.7.*
[10] CIBC World Markets, *Canadian Financing Quarterly.* July 27, 2006.
[11] *Same source.*
[12] *Same source.*
[13] A. Thomas, *Recent Trends in Corporate Finance,* (Canadian Economic Observer) April 2006.
[14] Canadian Labour Congress, *Submission to the Federal Finance Department on the Proposed Federal Solvency Funding Regulations for DB Pensions.* (Ottawa: July 2006).
[15] *Employer Pension Plans (Trusteed Pension Funds*) Statistics Canada. (September 22, 2006). www.statcan.ca
[16] *Same source.*
[17] *Same source.*
[18] See: Caroline Cakebread, "*Top Forty Money Managers Report: Trillion Dollar Baby*", Benefits Canada. (April 2006).
[19] Association of Canadian Pension Management (ACPM). *Back from the Brink: Securing the Future of Defined Benefit Pension Plans* (August 2005) page 2.
[20] Statistics Canada. *Pension plans in Canada.* January 2005.
[21] Association of Canadian Pension Management (ACPM). *Back from the Brink: Securing the Future of Defined Benefit Pension Plans*. (August 2005) page 2.
[22] Statistics Canada, *Public Service Statistics* http://142.206.72.67/04/04a/04a_009_e.htm#t01
[23] The data in this section is contained in *Trusteed Pension Plans* in **Perspectives on Labour and Income** (Statistics Canada: January 2006, Vol. 7, no. 1).

APPENDIX 1

The Language of Pensions – A Glossary

••• A •••

Accrual of Benefits In the case of a defined benefit pension plan, the process of accumulating pension credits for years of credited service, expressed in the form of an annual benefit to begin payment at normal retirement age. In the case of a defined contribution plan, the process of accumulating funds in the individual employee's pension account.

Accrue When actuaries say that pension benefits, actuarial costs and actuarial liabilities have accrued, they ordinarily mean that the amounts are associated, either specifically or by a process of allocation, with years of employee service before the date of a particular valuation of a pension plan.

Accrued Benefit For any retirement plan that is not a defined benefit pension plan, a participant's accrued benefit is the balance in his or her plan account, whether vested or not. In the case of a defined benefit pension plan, a participant's accrued benefit is his or her benefit as determined under the terms of the plan expressed in the form of an annual benefit commencing at normal retirement age.

Active Management A style of investment management that seeks to attain above average risk-adjusted performance.

Actuarial Accrued Liability The actuarial accrued liability of a pension plan at any time is the excess of the present value, as of the date of valuation, of total prospective benefits of the plan (plus administrative expenses if included in the normal cost) over the present value of future normal cost accruals, determined by the actuarial cost method in use.

Actuarial Adjustment The result of offsetting the actuarial gains and losses in an annual actuarial valuation.

Actuarial Assumptions Factors that are taken into account by actuaries regarding future experience of defined benefit pension plans in order to estimate the future cost of pension benefits. They include such things as mortality, salary levels and increases, investment return, employee turnover, early retirement provisions and inflation protection.

Actuarial Gain or Loss The effects on actuarial costs of deviations or differences between the past events predicted by actuarial assumptions, and the events that actually occurred. An actuarial gain results where the actual experience under the plan is more favourable than the actuary's estimate, while an actuarial loss reflects an unexpectedly adverse deviation.

Actuarial Reduction The reduction in the normal retirement benefit that offsets a cost increase to the plan when a participant retires ahead of schedule.

Actuarial Table A tabular listing of assumed rates of decrement for death, disability, retirement and withdrawal from service according to age and sex. The table may consist of mathematical functions derived from the rates of probability combined with an interest discount factor.

Actuarial Valuation An assessment of the financial health of a pension plan by an actuary to determine the present value of future benefits to assess plan assets and to determine the level of contributions required to maintain solvency.

Actuary A person professionally trained in the technical and mathematical aspects of insurance, pensions and related fields and, in Canada, a member of the Canadian Institute of Actuaries. The actuary estimates how much money must be contributed to a pension fund each year in order to support the benefits that will become payable in the future.

Ad Hoc Adjustments Adjustments of pensions being paid or of accrued pension benefits on an irregular basis and not as a result of a prior commitment or contract. (See Indexing.)

Additional Voluntary Contributions Voluntary employee contributions made to a pension plan to purchase extra benefits. They are in addition to required contributions. The employer assumes no additional cost.

Administrator The party responsible for managing the pension fund and administering the plan in accordance with the plan's terms and prevailing legislation.

Alpha The premium a fund would be expected to earn if the market rate of return were equal to the Treasury bill rate, that is, a premium of zero for the market rate of return. A positive alpha indicates that a fund has earned on the average a premium above that expected for the level of market variability. A negative alpha would indicate that a fund received on the average a premium lower than that expected for the level of market variability. Sometimes alpha is used as a performance indicator or as a surrogate for selectivity.

Ancillary Benefit A benefit that is in addition to regular retirement pension benefits, such as, inflation protection, bridging benefits and disability pensions.

Annuitant A person entitled to receive payments under an annuity; a person receiving such payments.

Annuity A payment of money under a contract made periodically (usually monthly) commencing at a predetermined time or event and continuing for the lifetime of an individual (the annuitant). The series of predetermined payments may be for a fixed or variable amount and may continue, usually at a lower rate, to the beneficiary's spouse or for a specified period after the annuitant's death. Usually purchased with a lump sum of money.

Annuity Rate The price charged by a seller of annuities to provide a dollar of annuity per month to an individual based on the person's age, interest rates and conditions specified in the contract.

Approved Plan A pension, deferred profit-sharing or stock bonus plan that meets the requirements of the applicable Revenue Canada regulations. Such approval qualifies the plan for a favourable tax treatment. Approval of a pension plan does not indicate any judgment regarding the plan's actuarial soundness.

Asset Allocation Decision A process that determines the optimal distribution of funds among various types of assets that offer the highest probability of consistently achieving investment objectives within the confines of a predetermined level of risk. The process often includes the use of a computer model program to assist in the processing of a myriad of data.

Asset Consultant A person who assists and advises in the investment of fund assets. Areas of expertise include investment policy and asset allocation, investment strategies, selection of investment managers and custodians and performance evaluation.

Auditor A professional accountant who prepares an audit of the transactions affecting the pension plan and / or pension fund and verifies the financial statement.

Average Industrial Wage (AIW) Average earnings for the Industrial Composite of Wages and Salaries, measured by Statistics Canada. Although used to represent an annual average wage for all Canadians, it does not take into account these industries: agriculture, fishing and trapping, private household services, religious organizations and military services. Used in determining the Year's Maximum Pensionable Earnings under the CPP / QPP.

••• B •••

Back End Load A sales charge due upon the sale, transfer or disposition of securities, partnership interests, annuities, life insurances or mutual funds.

Balanced Funds Investment companies that diversify their portfolio holdings over a wide list of common stocks, bonds and / or preferred issues.

Bankruptcy A condition characterized by the inability to repay debts in full because the liabilities (amounts owed) exceed the assets. Legally, a bankrupt is an individual or corporate debtor that is judged insolvent by a court.

Basis Point A measurement of fluctuation in the current yield equal to 1/100 of 1% on bonds or bills.

Bear Market A market where prices decline sharply against a background of widespread pessimism, growing unemployment and business recession. The opposite of bull market.

Beneficiary With reference to a pension plan, a beneficiary is the person(s) who, on the death of a current or former plan member, is entitled to a benefit under a pension plan.

Benefit Generally, any form of payment to which a person may become entitled under the terms of a pension plan; often refers specifically to the normal pension provided by the plan benefit formula.

Best or Final Average Earnings A defined benefit pension formula which applies the unit of benefit credit for each year of service to the plan member's average earnings for a specified period of the highest earnings, such as, best five of the last 10 years of service or to the plan member's average earnings for a specified period of time just prior to retirement, such as, final three years of service.

Birth Rate The number of live births per 1,000 population.

Blue Chip The stock of a leading company that is known for excellent management and a conservative financial structure.

Bond A certificate of debt (i.e. an IOU or promissory note) issued by such entities as corporations, municipalities and the government and its agencies, in multiples of 1,000 to 5,000 that represents a part of a loan to the issuer, bears a stated interest rate and matures on a stated future date. A bondholder is a creditor of the issuer and not part owner as is a stockholder. Short-term bonds, issued for five years or less, are often called notes.

Bond Fund An investment company that holds corporate, municipal or Treasury bills. Such companies concentrate variously on high grade bonds, medium grade bonds, convertible bonds or a combination of bonds and preferred stocks. Their main objective is securing the principal with as much income as possible.

Bond Yield The rate of return on bonds.

Bridging Benefit A temporary benefit paid to ease the recipient's difficulties during a relatively short transitional period; or, in the case of retirement before age 65 under a workplace pension plan, additional amounts paid until the person reaches age 65 when OAS and CPP / QPP benefits will commence.

Bull Market An advancing stock market. The opposite of bear market.

Buyback of Past Service Special payments by an employer and / or employee to the employee's pension fund to cover a period of service before becoming a member of the pension plan.

••• C •••

Canada Pension Plan / Quebec Pension Plan (CPP / QPP) The two major social security programs in Canada. The provisions of these two government-administered plans are virtually identical. Both are funded by employee and employer contributions on a partial pay-as-you-go basis. The Quebec Pension Plan operates in the province of Quebec; the Canada Pension Plan operates in the rest of Canada.

Canadian Association of Pension Supervisory Authorities (CAPSA) Consists of senior government officials (provincial and federal) responsible for the administration of pension legislation in each jurisdiction.

Career Average Earnings Formula A defined benefit pension formula which applies the unit of benefit to average earnings over the whole period of coverage under the plan for each year of service.

Carry Forward The portion of an RRSP deduction entitlement unused in a particular year may be carried forward for the following seven years. The amount carried forward is in addition to the regular RRSP contribution for that current year.

Cash Out A pension plan may provide for the forfeiture of an accrued benefit where the plan provides for a cash out of an employee's benefits by making a lump sum distribution to the employee. The cash out applies only to the employee's non-forfeitable interest upon termination of service prior to retirement.

Cash Profit Sharing Plan A compensation plan that is not registered and is funded with reference to the profits of the employer. Benefits are taxed as employment income to the member.

Certified Financial Planner (CFP) A designation granted by the Financial Planners Standard Council of Canada to individuals who complete a series of educational requirements, courses and examinations in the areas of personal financial and retirement planning and who pledge to a code of ethical standards and continuing education.

Child-Rearing Dropout A provision under CPP / QPP to make allowance for periods in which no (or low) contributions were made while the contributor was raising children under the age of seven.

Claw Back (or Tax Back) Refers to a reduction in Old Age Security benefits because of income (individual or family) from other sources.

Commuted Value The value of a pension, a deferred pension, a pension benefit or an ancillary benefit as of a fixed date, which is estimated to be equal in value to a series of future payments.

Compound Interest Interest upon principal credited to an investor at a specified rate and on specified dates.

Compulsory Retirement Where the employee must retire when he or she reaches a given age. Now prohibited under Canadian Charter of Rights and Freedoms if based solely on age, except for certain executives or where public safety outweighs individual protection (e.g. airline pilots). Also known as automatic or mandatory retirement.

Consumer Price Index (CPI) An index compiled by Statistics Canada reflecting cost-of-living changes during a specified period of time and achieved by measuring the price of a fixed basket of goods and services relative to its price in an earlier base year.

Continuous Service Period during which an employee is continuously employed by the same employer; may be defined in a pension plan (or by law) so as to include certain periods of absence and service with an associated or predecessor employer. To be distinguished from credited service.

Contribution The transfer of funds by either an employer or an employee to an employee retirement plan.

Contribution Holiday The use of surplus in a pension plan to reduce or eliminate employer and / or employee contributions to the plan for a specified period of time.

Contributory Pension Plan A pension plan under which both the employees and their employer make contributions. The employees' contributions are usually related to their earnings and made by payroll deduction. Employees must contribute to this plan to qualify for benefits.

Contribution Rate In a contributory pension plan the contribution rate is the ratio of required contributions to the covered earnings. The term can apply to either the employee or the employer.

Cost Certificate The certificate of an actuary, based on an actuarial valuation, setting out costs and contributions required under an employment pension plan. Under pension benefits legislation, a cost certificate must be filed when a plan is established and at least every three years thereafter and when the plan is amended.

Cost-of-Living Adjustment (COLA) An across-the-board increase (or decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).

CPP See Canada Pension Plan.

Credit Splitting A provision in a pension plan or legislation entitling a spouse, on divorce or breakup, to a share of pension credits earned by the other during the marriage or thereafter.

Credited Service Periods of employment counted in calculating the amount of a pension. May also be used as the basis for qualifying for a particular benefit.

Cumulative Rate of Return A compound rate of return covering more than one period or year.

Custodian A company (usually a trust or insurance company) or person performing functions related to the administration of the pension fund, including: safekeeping of assets and security certificates; maintaining accounts and records; providing regular statements of fund transactions and holdings; receiving plan contributions and investment earnings; making payments to beneficiaries and paying expenses as directed; and settling trades with investment dealers on instructions from the investment manager(s).

••• D •••

Death Benefit The amount payable (usually as a lump sum) from a plan to the beneficiary or estate of a member of the plan who dies before or after retirement.

Deferred Compensation Arrangements by which compensation to employees for past or current service is postponed until some future date. Pension and profit-sharing plans are tax-favoured deferred compensation plans.

Deferred Profit Sharing Plan (DPSP) A money purchase plan which is defined in the Income Tax Act and funded out of annual profits by an employer for the benefit of employees. Tax on employer contributions and investment income is deferred until the plan member receives a benefit. Employee contributions are not permitted.

Deferred Wages Compensation for current services is deferred and received in the future in the form of pension benefits.

Defined Benefit Plan A pension plan that specifies the pension to be provided (based on service, average earnings, fixed dollar amount, etc.) but does not specify the total contributions. If the plan is contributory, the rate of the employee contributions may be specified, with the employer required to pay the balance of the cost.

Defined Contribution Limit The maximum contributions and additions an employer may make on behalf of a pension plan participant.

Defined Contribution Plan A pension plan that specifies contributions made by the employer and employees but does not specify the benefits payable under the plan. The contribution level is usually a fixed percentage of the employee's salary. Accumulated contributions and investment earnings are used to purchase annuities for retirees. The value of annuity varies with the state of the market. Benefits depend entirely on investment earnings and annuity rates at the time of retirement. Also referred to as Money Purchase Plan.

Deflation A phase of the business cycle during which consumer spending is seriously curtailed, bank loans contract and the amount of money in circulation is reduced. (Antonym: inflation)

Dependent Child's Benefit Under the Quebec Pension Plan (QPP), a monthly amount payable to each dependent child of a disability pensioner or deceased contributor.

Disability Benefit Periodic payments, usually monthly, payable to participants under some retirement plans if such participants are eligible for the benefits and become totally and permanently disabled prior to the normal retirement date.

Disability Pension Any pension payable to an employee totally and permanently incapacitated by physical or mental disability prior to the normal retirement date.

Drop-Out Periods A provision under CPP / QPP to make allowance for periods of no (or low) earnings. In addition to the CHILD-REARING DROPOUT, the CPP / QPP allows 15% of the contributory period (the time contributions could have been made between the ages of 18 and 65) to be ignored in calculating the average earnings on which the contributor's pension is based. Also, periods during which a contributor was receiving a CPP / QPP disability pension are not included.

••• E •••

Early Retirement Provision in a pension plan for retirement earlier than the normal retirement age. The pension to be paid may be reduced according to a formula based on the gap between the retiree's age and normal retirement age. The plan may also provide for an unreduced pension if certain conditions are met, such as length of service or service combined with age.

Early Retirement Age An age, established by the terms of an employee pension benefit plan, that is earlier than normal retirement age, at which a participant may retire and receive benefits (usually reduced) under the plan.

Earned Income With reference to RRSPs, includes employment income, alimony and maintenance received, net rental income from real property, CPP / QPP disability benefits and LTD benefits (if any part of the premium is paid for by the employer), but excludes pensions such as CPP / QPP and OAS, retiring allowances, death benefits, payments from RRSPs, taxable payments from DPSPs (i.e. withdrawals), investment income, alimony and maintenance paid, UIC benefits and severance monies.

Earnings Money acquired from employment or self-employment. In some pension plans, certain forms of pay that are not regularly received may be excluded such as overtime pay and shift premium.

Economically Targeted Investing (ETI) Investing the plan's money in an investment vehicle that directly affects the employment environment of the industries in which the participants of the plan are employed. (See Socially Responsible Investments.)

Eligibility Any conditions such as age or length of service that must be met before an employee is permitted or required to join a pension plan.

Employee Profit Sharing Plan (EPSP) A plan which is defined in the Income Tax Act and funded with reference to the profits of the employer. Employer contributions and investment income are taxable income to the plan member in the same taxation year in which they are allocated rather than tax liability being deferred until benefits are actually received. Employee contributions are not tax deductible.

Employer Sponsored Pension Plan A pension plan offered by an employer or supported by a group of employers for the benefit of employees.

Employment Insurance (EI) The successor to Unemployment Insurance (see separate definition below). EI is similar in nature to UI, the main difference being that unemployed workers and others now find it more difficult to obtain and retain benefits.

Equity A form of investment which involves ownership (e.g. stocks, real estate and venture capital) as opposed to fixed income bearing securities (e.g. bonds).

Excess Earnings Earnings from investments of a pension fund in excess of an assumed or expected rate of return. When a pension fund's investments do better than expected, the fund can have a higher balance than expected and may produce a surplus in the fund beyond the resources required to cover pension obligations.

••• F •••

Fiduciary Indicates the relationship of trust and confidence where one person (the fiduciary) holds or controls property for the benefit of another person, for example, the relationship between a trustee and the beneficiaries of the trust.

- Any person who (1) exercises any discretionary authority or control over the management of a plan or the management or disposition of its assets, (2) renders investment advice for a fee or other compensation with respect to the funds or property of a plan, or has the authority to do so, or (3) has any discretionary authority or responsibility in the administration of a plan.
- One who acts in a capacity of trust and who is therefore accountable for whatever actions may be construed by the courts as breaching that trust.

Final Average (Earnings) Formula A defined benefit formula that applies the unit of benefit credited for each year of service to the employee's average earnings for a specified number of years just prior to retirement.

Fixed Annuity An annuity contract in which the insurance company makes fixed (or guaranteed) dollar payments to the annuitant for the term of the contract (usually until he or she dies).

Fixed Income Fund A mutual fund that invests in corporate, government or other issuer bonds. Despite the name, annual income is rarely fixed or guaranteed.

Flat Benefit Pension Plan A specific kind of defined benefit pension plan which usually specifies the pension to be provided based on a fixed (or flat) dollar amount of pension per year of service irrespective of the level of earnings of the plan member, e.g. $20 per month pension per year of service.

Flex pensions A provision approved under the Income Tax Act that allows a plan member to make additional contributions to purchase enhanced ancillary benefits, such as full inflation protection or improved survivor benefits.

Fluctuations Variations in the market price of a security up or down. If a stock advances or declines three points, it is said to have experienced a three point fluctuation.

Foreign Securities Investment in the securities issued by a company that is incorporated outside of Canada and generates a major portion of its business outside Canada, or securities issued by governments other than the Canadian government.

Front End Load With reference to mutual funds, a system of sales charge for contractual plans that permits up to 50% of the first year's payments to be deducted as sales charges. Investors can withdraw from the plan, but there are some restrictions if this occurs.

Funded To set aside money on a systematic basis in advance to provide future benefits.

••• G •••

Group Annuity Plan A pension program underwritten and administered by an insurance company. Normally uses the unit benefit method of funding. Plan participants are covered under one contract; the employer pays premiums on their behalf.

Growth Fund A type of diversified common stock fund that has capital appreciation as its primary goal. It invests in companies that reinvest most of their earnings for expansion, research or development. The term also refers to growth income funds that invest in common stocks for both current income and long-term growth of both capital and income.

Growth Income Fund A mutual fund that seeks both capital growth and current income. The assets of these funds may be balanced (consist of both equities and bonds) or stock funds whose assets are invested in high yielding common stocks.

Guaranteed Annual Income System (GAINS) Plan introduced by some provinces to aid low income retirees. The plan is in addition to OAS, GIS, CPP / QPP and other taxable income, up to a guaranteed level of income. (See Guaranteed Income Supplement; Spouse's Allowance.)

Guaranteed Annuity An annuity that will be paid for the lifetime of a person, but in any event for a minimum period; e.g. if annuity is guaranteed for five years and the annuitant dies after three years, payments will be continued to a beneficiary or the estate for two more years.

Guaranteed Income Supplement (GIS) An income tested supplemental benefit program for low-income recipients of the Old Age Security (OAS) pension.

Guaranteed Investment Certificate Evidences a deposit made with a financial institution. Maturities range from one to five years for amounts of at least $1,000. It is issued in registered form on an interest bearing basis.

••• H •••

Hedge Fund Finances its portfolio partially by issuing securities other than common stocks. Some take short positions in stocks or write options; others issue debt.

Hybrid A pension plan with both defined benefit and defined contribution features in which the pension is typically the greater of one type subject to a minimum of another type, e.g. defined contribution with a defined benefit minimum or defined benefit with a defined contribution minimum.

••• I •••

Immediate Vesting That form of vesting under which rights to vested benefits are acquired by a participant, commencing immediately upon his or her entry into the plan.

Income Fund A mutual fund whose primary objective is current income. Such funds usually invest their assets in corporate or other bonds. Some income funds may include high yielding common stocks in their portfolios.

Income Test Any method by which a person or family's income is used in determining eligibility for payment under certain government programs, e.g. GIS. The higher the income, the lower the benefit payable. (See Means Test.)

Index Fund An investment fund (or account) composed of securities the characteristics of which will produce a return that will replicate (or substantially replicate) a designated securities index.

Indexing Automatic adjustments of pensions being paid or of accrued pension benefits in accordance with changes in an index such as the Consumer Price Index. (See Ad Hoc Adjustments.)

Individual Pension Plan (IPP) A registered defined benefit pension plan with one member.

Inflation An increase in the average level of prices for goods and services.

Integrated The pension formula of a defined benefit employment pension plan co-ordinates under plan contributions and / or benefits with those payable under a government-sponsored plan, i.e. CPP / QPP. Integrated plans usually provide a lower level of contributions and / or benefits on all or part of a plan member's earnings up to the Year's Maximum Pensionable Earnings or provide for pensions to be reduced by all or part of the CPP / QPP benefit. (See Stacked.)

Interest Periodic cash payments made by a borrower to a lender for the use of borrowed funds.

Investment Broker / Dealer A company or person performing the function of matching buyers and sellers of securities, who also provides research for investment managers.

Investment Manager A company or person that decides how to invest fund assets and select securities on a day-to-day basis within the discretion determined by the plan sponsor, usually in the form of an investment policy statement or manager mandate. The investment manager may be an independent counsellor, an insurance company, a trust company or a bank (or their investment subsidiaries).

Investment Objectives Long-term, risk-return targets developed principally from careful consideration of plan sponsor factors, investment factors and a forecast of the future. Critical in the adoption of investment objectives is the asset allocation decision.

Investment Policy Statement The statement of policy is the communication of a risk policy to the fund's investment manager(s). It states unambiguously the degree of investment risk that fiduciaries are willing to undertake with pension trust assets. A statement of investment policy differs importantly from a statement of investment objectives. An investment policy prescribes an acceptable course of action; a policy can be acted upon, implemented. An investment objective (such as a performance standard) is a desired result. A manager cannot implement an objective; a manager can only pursue a course of action, consistent with investment policy, which the manager believes offers a reasonable likelihood of realizing the objective. Therefore, in drafting instructions for an investment manager, primary emphasis should be on stating the investment, or risk, policy clearly.

Investment Strategy Quest of active management to achieve additional return that more than compensates for the additional risk assumed. Generally, investment strategy relates to the intent of permissible portfolio changes within a broader policy context. Investment policy, including short-term strategy investment decisions, effectively implemented, helps achieve the long-term investment objectives.

••• J •••

Joint Administration Provision for a union-management committee or board of trustees to assume supervisory functions relating to administration of an employee benefit plan.

Joint Life and Survivor An optional form of pension payable in a reduced amount until the death of the retired employee and continuing thereafter (usually in a still further reduced amount) to the surviving spouse until that person's death.

••• L •••

Legal Advisor Provides legal advice and interprets plan provisions, pension legislation and regulations.

Liabilities Amount of money required to meet obligations to members of a pension plan.

Life Annuity A series of payments under which payments, once begun, continue throughout the remaining lifetime of the annuitant. Under this form of annuity, there is no further benefit payment of any kind after the death of the annuitant.

Life Expectancy Number of years a person of a given sex and age is expected to live. The number of years is a statistical average based on mortality tables showing the rate of death at each age and does not predict the life span of a particular individual.

Locking-in A legislated provision that means the plan member cannot withdraw either their own or their employer's contributions in cash and can only use them to provide a pension at retirement. The date at which contributions are locked in varies by jurisdiction and is determined by attainment of a certain age and / or completion of a specified period of service or plan membership.

Locking-In Provisions (45 and 10 Rule) Pension benefit legislation requires that covered employees vest in the pension accrued to date of termination of employment if the employee has reached age 45 and has 10 or more years of service with the employer (or membership in the pension plan).

Long-Term Disability (LTD) Plan A benefit plan that provides income payments to a disabled individual after the expiry of short-term disability benefits.

Lump Sum Payment of a plan member's benefit(s) in a single amount that is estimated to have the same present value as the benefit(s) being replaced.

••• M •••

Management Fee The amount paid by a mutual fund to the investment adviser for its services. The average fee industry-wide is about one-half of 1% a year of the fund's assets.

Mandatory Retirement A provision which requires a person to retire at a certain age.

Maximum Pension Benefit Regulations established by Revenue Canada limiting the maximum pension benefits payable under a defined benefit plan or a hybrid plan with a defined benefit component.

Means Test Any method by which a person's or family's assets are used in determining eligibility for payment under certain government programs, e.g. General Welfare Assistance. Benefits are reduced as the current asset position, as well as the income position, of the recipient improves. (See Income Test.)

Money Market That segment of the securities market that deals in short-term (less than one year) debt and equity issues.

Money Market Fund A mutual fund that seeks maximum current income through investment in securities whose maturities are less than one year. Such securities may include bank CDs, bankers' acceptances, T-bills, repurchase agreements (repos) and commercial paper.

Money Purchase Plan An occupational pension plan that lacks the specific guarantees of retirement income that are found in defined benefit plans. When members of money purchase plans retire, whatever money has been built up over the years in their names is used to buy them annuities.

Mortality An actuarial assumption involving the probability of death at given ages used in estimating the cost of benefits payable under defined benefit pension plans.

Multi-Employer Pension Plan A pension plan covering employees of two or more independent employers, whose employees are engaged in similar types of jobs within a specified geographic area. A multi-employer plan recognizes service with one or more employers in determining pension benefits. Usually the plan is established by agreement with a union or group of unions.

Mutual Funds (Investment Companies) Companies or trusts that use their capital to invest in the securities of other companies, with the two principal types being the closed end and the open end trust. Shares of closed end funds are often listed on the Toronto Stock Exchange, and are traded like any other security. Capitalization of these funds remains fixed for the most part.

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Net Asset Value (NAV) The value of a mutual fund share determined by deducting the fund's liabilities from the total assets of the portfolio and dividing this amount by the number of shares outstanding. This is calculated once a day based on the closing market price for each security in the fund's portfolio.

Net Replacement Ratio Measurement of adequacy of retirement income by relating it to income immediately before retirement, taking into account income taxes, tax credits, etc.

Non-Contributory Plan A pension plan in which all required contributions are made by the employer.

Normal Retirement Age The age set out in a plan at which plan members would normally retire and be entitled to full retirement benefits. Where actual retirement age is more than or less than normal retirement age, the retiree's pension will be actuarially increased or reduced.

••• O •••

Occupational Pension Plan A pension plan sponsored by an employer, labour union or professional organization. Occupational plans are sometimes called private pension plans, company pension plans, registered pension plans or employer-sponsored pension plans.

Old Age Security (OAS) Federal program providing a universal, taxable, flat rate pension to all residents aged 65 and over, regardless of need (although high income earners will have this benefit clawed back). Also provides income-tested supplements. Benefits are indexed quarterly to the increases in the Consumer Price Index.

••• P •••

Past Service Period of service accrued by an employee prior to becoming a member of a pension plan. In some plans, the employees can buy back or pay the premiums for past service in order to improve their pension benefits.

Pay-as-you-go Pension arrangements where benefits are paid out of contributions currently being paid by and on behalf of active members, where assets are only held for the purpose of short-term liquidity. The payments might be made by an autonomous body, funded by the members and / or the employer or paid directly by the employer out of its own finances. Until recently, the Canada Pension Plan was entirely pay-as-you-go, with payments being made by the federal government out of its budgetary revenues.

Pension Generally, any regular periodic payment, usually for life, to a person who has retired from the service of an employer or has met certain age or other conditions for payments under a government pension program. Payments may also be made in the event of disability or death.

Pension Adjustment (PA) An amount, calculated annually, used in determining the maximum annual RRSP contribution. The adjustment reduces the allowable annual contribution by taking into account the assessed value of pension benefits earned or contributions made (as applicable) during the year under a registered pension plan or a deferred profit sharing plan.

Pension Commission A provincial government authority established under pension laws to protect employees' rights and entitlements under pension plans. For plans subject to federal laws, the governing body is the Office of the Superintendent of Financial Institutions (OSFI). For jurisdictions without a commission, a superintendent is responsible for performing this role.

Pension(s) Committee Group of persons designated according to the terms of a pension plan to oversee the administration of the pension plan.

Pension Consultant A person who assists and advises the plan sponsor, unions or other employee groups, in the management of the pension plan. Areas of expertise may include plan design, documentation, compliance with an interpretation of pension legislation, preparation of employee benefit statements and other communications, calculation of plan member benefit entitlements and administration.

Pension Plan A plan organized and administered to provide a regular income for the lifetime of retired members. Payments may also be provided in the event of disability or death.

Pension Trust A fund consisting of money contributed by the employer and / or the employee plus earnings to provide pension benefits.

Pensionable Service That part of a plan member's total service used to calculate pension entitlement.

Performance Measurement Purveyor A company or person performing the function of calculating rates of return and related statistics to measure and compare the performance of the fund.

Plan Document (Text) This document sets forth the benefits available under an employee benefit plan and the eligibility requirements. This document is often separate from the trust agreement in order to allow plan modifications without frequent trust agreement amendments.

Plan Sponsor An employer, union or other entity that establishes and maintains a pension plan for the benefit of plan members.

Plan Termination Discontinuance of an employment pension plan either on a voluntary or involuntary (e.g. as in bankruptcy) basis. The wind-up procedure is regulated by pension benefits legislation.

Portability The ability to transfer earned pension credits from the pension plan of one employer to the pension plan of another employer when changing jobs.

Portfolio The mix and composition of an investor's holdings among different classes of securities such as bonds, mortgages and common stock.

Portfolio Mix A combination or selection of investments, including stocks, bonds, real estate and selected limited partnership interests.

Postretirement Benefits All forms of benefits, other than retirement income, provided by an employer to its retirees.

Present Value Amount of money which, if invested today at a given rate of compound interest, would provide a defined benefit commencing at a specified future date.

Profit Sharing Pension Plan (PSPP) A registered money purchase plan that is funded with reference to the profits of the employer subject to an annual minimum employer contribution of at least 1% of the remuneration of plan members to be made even in years of little or no profit.

Prospectus A legal document setting forth the complete history and current status of a security issue, which must be made available to all interested purchases in advance of a public offering.

Proxy A written authorization given by a shareholder to someone else to vote his or her shares at a stockholders annual or special meeting called to elect directors or for some other corporate purpose.

Public Sector Pension Plan Occupational pension plan established by an employer covering employees of governments and public agencies including civil servants, municipalities, school boards, universities and colleges, hospitals, crown-owned corporations, boards of health, etc. It does not include statutory plans for citizens at large, such as OAS, GIS, CPP / QPP, etc.

Public Safety Occupations A provision in the Income Tax Act which allows employees in public safety occupations to retire with an unreduced pension earlier than other employees; i.e. age 55 (60 for others); 25 years of service (30 for others); or age plus years of service total 75 (80 for others). The public safety occupations are firefighter, police officer, corrections officer, air traffic controller and commercial airline pilot.

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Quebec Pension Plan (QPP) A public earnings-related plan operating in the province of Quebec, introduced together with the Canada Pension Plan (CPP) in 1965, for all Quebec workers between the ages of 18 and 70. The two plans are similar but not identical. Financing is on a partial pay-as-you-go basis with only a small asset base relative to future liabilities.

••• R •••

Rate of Interest The charge made by a borrower to a lender for use of the latter's money, expressed as a percentage upon the principal and usually in terms of one year's charges – unless otherwise stated. Thus, if the interest rate is 5%, $5 is paid for the annual use of $100.

Real Interest Rate The nominal interest rate minus the rate of inflation.

Reciprocal Agreement An arrangement made between two employers such that an employee moving from one employer to the other may transfer their earned pension credits.

Registered Pension Plan (RPP) An employment pension that, on meeting the registration requirements of the applicable pension benefits legislation (either federal or provincial), has been accepted for registration under the Income Tax Act, thereby qualifying for favourable tax treatment.

Registered Retirement Income Fund (RRIF) An investment vehicle permitted under the Income Tax Act, which provides for a pay out of funds accumulated in an RRSP. Assets are withdrawn from the fund according to a prescribed formula whereby the assets are paid out in total in the year that the individual reaches 90 years of age. It provides an alternative for RRSP holders who do not want a life annuity.

Registered Retirement Savings Plan (RRSP) A personal retirement savings vehicle permitted under the Income Tax Act that allows tax sheltering by deferring tax on contributions and investment income until the savings are withdrawn as an annuity or RRIF.

Replacement Rate Amount of post-retirement income needed in relation to pre-retirement income, taking into account factors such as income tax, tax credits, expenses, etc.

Retirement Withdrawal from the active workforce because of age; but may also be used in the sense of permanent withdrawal from the labour force for any reason, including disability.

Retirement Allowance An amount paid by an employer to an employee (or former employee) upon retirement from office or service in recognition of long service or in respect of loss of office or employment.

Retirement Compensation Arrangement (RCA) An arrangement between an employer and employee(s) where contributions by the employer are used to pre-fund a retirement benefit in excess of the maximum pension benefit allowed by the Income Tax Act, generally used as stand alone or top-up pension for executives or other high income earners. These arrangements are not registered and not tax sheltered.

Risk Management A scientific approach to the problem of dealing with the pure risks facing an individual or an organization in which insurance is viewed as simply one of several approaches for dealing with such risks.

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Segregated Fund Assets of a pension plan held by an insurance company for investment management only. Funds are segregated from assets of the insurance company, and principal and interest are not guaranteed.

Shareholder Activism This is a way that shareholders (the members of pension plans) can collectively claim their power as pension fund owners to influence a corporation's behaviour on pension fund investment policies. Shareholder activism involves a whole range of approaches to influencing corporate behaviour ranging from writing letters, to drafting resolutions for annual meetings, to pulling shares – all in an attempt to hold corporations accountable.

Socially Responsible Investments Refers to adopting social or ethical goals in addition to the rate of return objective in pension fund investing. This can include investments that are otherwise equal to other investments when compared by traditional financial analysis but have favourable social or ethical characteristics; and may or may not include investments that carry a lesser rate of return and / or less liquidity but have more favourable social or ethical characteristics and / or create employment for plan members.

Solvency The ability of a pension plan to meet its present and future obligations.

Spouse's Allowance (SPA) An income tested supplemental benefit payable to the 60 to 64 year old spouse, widow or widower, of a recipient of the Old Age Security (OAS) pension.

Spouse's Benefit Payments to the surviving spouse of a deceased employee, usually in the form of a series of payments upon meeting certain requirements and usually terminating with the survivor's remarriage or death. (See Joint Life and Survivor.)

Stacked The pension formula of a defined benefit employment pension plan does not take the benefits payable by the CPP / QPP into account. Stacked plans will define the total benefits payable under the provisions of the employment pension plan and the CPP / QPP benefits will be added on top. (See Integrated.)

Surplus The amount, if any, by which the assets of a pension plan exceed the plan's estimated liabilities (that is, the value of the benefits earned) as determined by an actuary.

Survivor Benefit Any benefit payable to the surviving spouse or dependent of a pension plan member who dies.

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Tax Deferral Provision in the Income Tax Act whereby certain pension and similar contributions are tax deductible and employer contributions and investment income are not included in a member's current taxable income; but benefit payments are considered income for tax purposes in the year in which they are received.

Termination Benefit Any benefit to which a member of a pension plan is entitled upon terminating membership in the plan for any reason other than death or retirement.

Termination of Plan See Wind-up.

Treasury bill (T-bill) Government of Canada T-bills are issued in denominations ranging from $1,000 to $1,000,000. New issues are sold by public tender at a discount. T-bills with terms to maturity of 3, 6 or 12 months are auctioned on a bi-weekly basis, typically on Tuesday for delivery on Thursday. From time to time, shorter-term cash management bills are also auctioned. The difference between the purchase price and the face amount represents the return to the investor.

Trust A legal entity that is created when a person or organization transfers assets to a trustee for the benefit of designated persons.

Trust Agreement An agreement setting out the duties and responsibilities of a trustee or trustees under a pension plan.

Trust Fund A fund whose assets are managed by a trustee or a board of trustees for the benefit of another party or parties. Restrictions as to what the trustee may invest the assets of the trust fund in are usually found in the trust instrument and in applicable state and federal laws.

Trustee A person, trust company or insurance company, who accepts the duties and responsibilities of holding legal title to and dealing with fund assets over which they have control for the benefit of other persons, in keeping with the terms of a trust agreement.

Trusteed Pension Plan A pension plan in which the employer's (and employee's) contributions to the plan are placed in a trust for investment and reinvestment, as distinguished from a plan in which the benefits are secured by life insurance.

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Unfunded Liability The value of all future liabilities of a pension plan, less plan assets, as determined by an actuary.

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Vesting This is an employee's right, on termination of employment before retirement, to the benefit that has accrued under the normal benefit formula of a defined benefit plan or the accumulated contributions held on his / her behalf in a defined contribution plan, up to the date of termination of employment. The benefit is often payable as a deferred annuity commencing at normal retirement age. In other words, vesting enables a plan member to qualify for pension credits without remaining a plan member until retirement. Without vesting, plan members would only receive their own contributions plus interest when they change jobs. Required conditions for vesting are outlined in the plan document and must, at a minimum, meet the requirements of the applicable pension benefits legislation (either federal or provincial) which determines vesting by attainment of a certain age and / or completion of a specified period of service or plan membership.

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Wind-up Discontinuance of an occupational pension plan either voluntarily or involuntarily, e.g. as in bankruptcy. Wind-up procedures including distribution of the assets are regulated by the applicable pension benefits legislation (either federal or provincial).

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Year's Basic Exemption (YBE) The minimum earnings from employment below which contributions cannot be made to the CPP / QPP during the year. The YBE was frozen at $3,500 in 1998 and is not expected to be increased in the foreseeable future, as it was in the past.

Year's Maximum Pensionable Earnings (YMPE) The maximum earnings from employment on which CPP / QPP contributions and benefits are calculated. Often, referred to as the earnings ceiling. It is calculated each year according to a formula related to the average industrial wage. For the year 2008 the YMPE is $44,900.00.

APPENDIX 2

Pension Acronyms

ADB Accidental Death Benefits
AD&D Accidental Death and Dismemberment
A&I Accident and Indemnity

BFOQ Bona Fide Occupational Qualification
CAC Consumers' Association of Canada
CAPSA Canadian Association of Pension Supervisory Authorities
CRA Canadian Revenue Agency
CFP Certified Financial Planner
CMV Current Market Value
COLA (1) Cost-of-Living Adjustment
(2) Cost-of-Living Allowance
CPC Certified Pension Consultant
CPI Consumer Price Index
CPP Canada Pension Plan
CPP/QPP Canada Pension Plan / Quebec Pension Plan
DPSP Deferred Profit Sharing Plan
EPSP Employees Profit Sharing Plan
ESOP Employee Stock Ownership Plan
EVA Economic Value Added
F/S Financial Statement
GAINS Guaranteed Annual Income System
GDP Gross Domestic Product
GIC Guaranteed Investment Certificate
GIS Guaranteed Income Supplement
GRRSP Group Registered Retirement Savings Plan
HRDC Human Resources Development Canada
IFEBP International Foundation of Employee Benefit Plans
ITA Income Tax Act
J&S Joint and Survivor (Annuity)
LCI Lifestyle Cost Index
LTD Long-Term Disability
LUAC Life Underwriters Association of Canada
MET Multiple Employer Trust
NRD Normal Retirement Date
OAS Old Age Security
OSFI Office of the Superintendent of Financial Institutions
PBGF Pension Benefits Guarantee Fund
QPP Quebec Pension Plan
RAF Risk Adjustment Factor
RPP Registered Pension Plan
RRIF Registered Retirement Income Fund
RRSP Registered Retirement Savings Plan
SDP Survivor's Death Benefit
STD Short-Term Disability
XRA Expected Retirement Age
YBE Year's Basic Exemption
YMPE Year's Maximum Pensionable Earnings

APPENDIX 3

Major Public Sector Workplace Pension Plans Covering National Union Members

Multi-Component

Canadian Blood Services National Defined Benefit Pension Plan
(Jointly Trusteed)
This is a jointly trusteed defined benefit plan with about 1,500 active members who are Canadian Blood Services (CBS) employees represented by 30 union locals across the country. It also has about 100 pensioners and about 100 inactive members. The plan is jointly sponsored between CBS and 12 unions including HSABC and OPSEU. It is administered by an eight-member Board of Trustees representing both CBS and the participating unions. The four union appointed trustees serve three-year terms and are rotated through each of the 12 participating unions. Third-party administration services for the plan are provided for the trustees by Morneau Sobeco. The plan covers members of the participating unions and those other unionized and non-unionized employees of CBS who are eligible, and elect to join (employees have the choice to join either the CBS DB plan or the CBS DC plan). The plan has approximately $110 million in assets.

Members from the National Union Components – HSABC, HSAA, MGEU, OPSEU, NSGEU and NAPE – belong to this pension plan.

Website: https://cbs.hroffice.com/en/retirement/dbplaninfo.asp

Canadian Blood Services National Defined Contribution Pension Plan
This is a defined contribution plan available to approximately 3,000 Canadian Blood Services employees represented by 30 union locals across the country. The plan is administered by Canadian Blood Services. Contributions to the plan are invested in funds made available to employees through Manulife Financial. Third-party administration services for the DC pension plan are provided for CBS by Morneau Sobeco. The plan covers members of the participating unions and those other unionized and non-unionized employees of CBS who are eligible, and elect

to join (employees have the choice to join either the CBS DC plan or the CBS DB plan).

Members from the National Union Components – HSABC, HSAA, MGEU, OPSEU, NSGEU and NAPE – belong to this pension plan.

Website: https://cbs.hroffice.com/en/welcome2.asp

Newfoundland & Labrador Association of Public and Private Employees (NAPE/NUPGE)

Public Service Pension Plan (PSPP)
There is a negotiated agreement to establish a committee of the parties "to identify and resolve any matters required to implement joint trusteeship by April 1, 2008".

There are approximately 26,300 plan members in the PSPP, a defined benefit plan, including employees of crown corporations, healthcare organizations, school boards and a variety of other organizations owned or controlled by government. There are approximately 10,900 pensioners. Overall administration of the PSPP is the responsibility of the Pensions Administration Division of the Department of Finance, in cooperation with the employers who participate in the plan.

Website: http://www.fin.gov.nl.ca/fin/pensions/pspp1.asp

Uniform Services Pension Plan (USPP)
There are 620 plan members in the USPP, a defined benefit plan, including members of the Royal Newfoundland Constabulary, the St. John's Fire Department and Her Majesty's Penitentiary. There are approximately 550 pensioners. Overall administration of the USPP is the responsibility of the Pensions Administration Division of the Department of Finance, in cooperation with the Department of Justice, the Royal Newfoundland Constabulary and the City of St. John's Fire Department.

Website: http://www.fin.gov.nl.ca/fin/pensions/uspp1.asp

Government Money Purchase Plan (GMPP)
The GMPP is a defined contribution plan where members make contributions that are matched by their employer and deposited into individual accounts with Group Retirement Services, the plan custodian. There are approximately 22,400 plan members, including employees of crown corporations, healthcare organizations, school boards, substitute teachers and a variety of other organizations owned or funded by government. Members may select from several investment options and, with the assistance of trained professionals, can develop a personal investment strategy suited to their goals and expectations.

Website: http://www.fin.gov.nl.ca/fin/pensions/gmpp1.asp

Prince Edward Island Union of Public Sector Employees (PEIUPSE/NUPGE)

Civil Service Pension Plan
An agreement was negotiated in the last collective agreement that the government "shall consult with the Union for the purpose of investigating the feasibility of establishing a Joint Trusteeship" prior to March 31, 2007.

This defined benefit plan covers employees of the PEI Civil Service as well as the health & community services system and is administered by PEI's Provincial Treasury Department (approximately 4,000 UPSE members). It is governed by the Civil Service Superannuation Act and is administered by PEI's Provincial Treasury Department.

Holland College Faculty Pension Plan
This defined benefit plan covers employees of Holland College and is administered by PEI's Provincial Treasurer Department.

Website: not available

Nova Scotia Government and General Employees Union (NSGEU/NUPGE)

Public Service Superannuation Plan (PSSP)

This defined benefit plan covers employees of the Nova Scotia Civil Service as well as employees in 22 agencies, boards and commissions and in nine district health authorities. As of December 31, 2005, it has approximately 26,000 members (15,189 active members, 254 deferred and 10,700 pensioners). It is governed by the Public Service Superannuation Act and administered by the Nova Scotia Pension Agency, a special agency of the provincial Finance Department. In January 2006, the Minister of Finance, as sole trustee, established a joint Public Service Pension Committee composed of four labour representatives, one retiree representative, and five government and employer representatives to provide advice and recommendations to the Minister. As of December 31, 2005, it has approximately $3.5 billion in assets. The PSSP is the single biggest plan for NSGEU members.

Website: http://www.novascotiapension.ca/AbsPage.aspx?id=3

Nova Scotia Association of Health Organizations (NSAHO) Pension Plan

The NSAHO defined benefit pension plan covers approximately 25,000 health system employees at over 80 different workplaces represented by five different unions. As of December 31, 2005, it has 20,216 members, 395 deferred and 4,560 pensioners. This plan, with fund assets in excess of $2 billion, is managed by a 20-member Board of Trustees representative of employers, employees, retirees, plus two trustees who have particular expertise in pension plan investment or administration. Only four of the 20 trustees represent the unions involved. It is the second biggest plan for NSGEU members.

Website: http://www.nsahopensionplan.ca/index.aspx

Dalhousie University Staff Pension Plan

This defined benefit plan covers all full-time employees and regular part-time employees of Dalhousie University. Statutory part-time employees may elect to join the plan following completion of two consecutive calendar years of employment during which, in each of the calendar years, their earnings were at least 35% of the Canada Pension Plan YMPE, or their hours worked were at least 700. As of June 30, 2005, there are approximately 3,400 members of which 2,787 are active members, 126 are deferred and 505 are pensioners. There is an Advisory Committee which consists of representatives of interested bargaining units (including two representatives of the Dalhousie Faculty Association) and representatives of the Board. The number of representatives named by the Board shall not exceed those named by the bargaining units. The Advisory Committee shall consider any matter relating to pensions and the administration of the plan referred to it by the Board, the Dalhousie Faculty Association, other bargaining units or staff groups. As of June 30, 2005, it had $575 million in assets.

Website: http://humanresources.dal.ca/personne_4290.html

Halifax Regional Municipality Pension Plan (Jointly Trusteed)
This defined benefit plan was established in 1998 following the establishment of the Halifax Regional Municipality. This plan covers all full-time and other employees with the Municipality, the Halifax Regional School Board and other local participating employers provided they earn at least 25% of the YMPE from their employment or work at least 700 hours with the municipality in the immediately preceding 12 months of continuous employment prior to joining the plan. As of December 31, 2005, there were approximately 8,000 members of whom 5,123 are active members, 382 deferred members and 2,537 pensioners. As of December 31, 2005, the plan had $882 million in assets. The plan is governed by a joint labour management HRM Pension Committee composed of five management representatives, five union representatives, one non-union representative and one retired member.

New Brunswick Union (NBU/NUPGE)

The Public Service Superannuation Plan (PSSP)
The PSSP is the main public sector defined benefit pension plan of the province and includes all NBU members employed under Part I of the Public Service Labour Relations Act (PSLRA) as well as employees of NB Power; NB Liquor; Workplace Health, Safety and Compensation Commission; non-academic employees of the University of New Brunswick and non-bargaining employees of NB School Districts and Regional Health Authorities. The plan has approximately 19,500 active members (employees) and 10,000 retirees. The plan is governed by the Public Service Superannuation Act (PSSA) and is administered by the NB Investment Management Corporation (NBIMC), which reports only to the cabinet. NBIMC has

been established as both the trustee of the plan and as the investment manager of the plan; this creates a very obvious conflict of interest. Although the PSSA has established an advisory committee to the plan, this committee plays an extremely limited role. The plan has $4.3 billion in assets.

Website: http://www.nbimc.com/PSSA-Echo-Vol2-2004.html

Certain Bargaining Employees (CBE) of NB Hospitals Pension Plan
(although not technically Jointly Trusteed, it operates as such)

The CBE defined benefit pension plan covers full-time employees of NB Regional Hospital Corporations. Members of the NB Nurses Union, NBU Paramed and SHCP bargaining units are eligible to participate. The plan has approximately 5,500 active members (employees),1,000 retirees and 1,000 inactive members. Although the plan is not jointly trusteed, it does have a Pensions Committee which performs functions specifically assigned with respect to the operation of the pension plan, e.g. establish investment policy, monitor performance and act accordingly, select fund consultants, investment managers, an actuary and advisors. The Pensions Committee is composed of five management representatives and five union representatives. The Fund has approximately $675 million in assets.

Website: Not available

General and Service Employees Pension Plan (Joint Trusteeship)
This is a province-wide defined benefit pension plan that covers all permanent full-time and permanent part-time employees of New Brunswick Nursing Homes.

Website: not available.

Part-Time and Seasonal Pension Plan
This plan is the only defined contribution plan in the government sector. The plan is voluntary and plan members have three contribution rates to choose from (2.0%, 3.25% and 4.5%). The government matches the plan member's contribution.

Website: http://www.gnb.ca/0163/pension/7/PT&SBookletE.pdf

Ontario Public Service Employees Union (OPSEU/NUPGE)

OPSEU Pension Plan (Jointly Trusteed)
This defined benefit plan has approximately 45,000 active members from bargaining units in the Ontario Public Service and certain agencies, boards, commissions and foundations, and 22,000 current pensioners. In addition, the plan has 10,000 deferred pensioners and members with a deferred entitlement. The plan is administered by the OPSEU Pension Trust (OPTrust), an organization separate and distinct from both the plan's sponsors (the Government of Ontario and OPSEU). As plan sponsors, the Government of Ontario and OPSEU each appoint five trustees to OPTrust's Board of Trustees. The plan had assets of $12.5 billion.

Website: http://www.optrust.com/Home/p_home.asp

College of Applied Arts and Technology (CAAT) Pension (Jointly Trusteed)
The CAAT pension plan is a multi-employer, defined benefit pension plan for the employees of the 25 Community Colleges of Ontario, Ontario College Application Services (OCAS) Inc. and for the employees of the CAAT Pension Plan. It operates under the joint sponsorship of the Boards of Governors of the 25 Colleges, the Ontario Public Service Employees Union (OPSEU) and the Ontario College Administrative Staff Association (OCASA). A Board of Trustees, appointed by the sponsors, is responsible for the overall administration of the plan's assets and benefits. The plan serves 16,000 members, 9,000 pensioners and 1,000 inactive members. It has about $5 billion in assets.

Website: http://www.caatpension.on.ca/

Hospitals of Ontario Pension Plan (HOOPP) (Jointly Trusteed)
HOOPP is a multi-employer jointly trusteed plan serving 148,000 active members who work at 331 health care and related organizations in Ontario. HOOPP also serves more than 59,000 pensioners and has about 14,000 inactive members. Four unions have trustees on the plan – OPSEU, ONA, CUPE and SEIU. The Board of Trustees has a rotating Chair and Co-Chair. Each organization selects its trustee and each trustee serves at the pleasure of the appointing body. HOOPP has over $25 billion in assets.

Website: http://www.hoopp.com/

The Ontario Municipal Employees Retirement System (OMERS)
The plan covers about 355,000 active and retired members and almost 900 employers. Some 1,114 municipalities, local boards and school boards participate in the OMERS Plan and close to 70% of its members are CUPE members. OMERS is not jointly trusteed but has a similar governance structure. OPSEU has a representative on the Board of the Sponsors Corporation of OMERS and is seeking permanent representation on the plan's Board of Trustees.

Website: http://www.omers.com/scripts/index_.asp

Manitoba Government and General Employees' Union (MGEU/NUPGE)

The Civil Service Pension Plan (CSPP)
(a commitment from government to move to Jointly Trusteed)

The CSPP is the main public sector defined benefit pension plan of the province and includes all MGEU members employed or retired from the Civil Service. The plan is governed by the Civil Service Superannuation Act, and is administered by the Civil Service Superannuation Board. It has $3.6 billion in assets and serves over 43,000 members. There is no trust document but the plan will operate as if it were jointly trusteed. MGEU recently negotiated a Memorandum of Agreement with the government that gave the union the right to elect amongst its membership three trustees.

Website: http://www.cssb.mb.ca/index.shtml

Health Employees Pension Plan (HEPP) (Jointly Trusteed)
HEPP is administered by an independent Board of Trustees, with half of the 12-member Board appointed by participating unions, and the remaining six members appointed by employers through the Regional Health Authorities. Non-union and retired members are also represented. It has over 44,000 members and $3.0 billion in assets. HEPP is governed by independent Boards of Trustees made up of both union and employer participants.

Website: http://www.hepp.mb.ca/pension/index.shtml

Home Care Employees Pension Plan (MGEU is Plan Sponsor)
This is a defined contribution plan established by MGEU for home care workers in the province. Both employees and participating employers contribute to the plan. The plan has approximately $40 million in assets.

Website: Not available

Saskatchewan Government and General Employees' Union (SGEU/NUPGE)

Public Service Superannuation Plan (PSSP)
This defined benefit plan is governed by the Public Service Superannuation Act and the Act is administered by the Public Service Superannuation Board. The Public Employees Benefits Agency (PEBA) has responsibility for the operation, administration and management of the PSSP. The plan covered provincial government employees as well as employees of the Anti-Tuberculosis League and the Saskatchewan Transportation Company. The plan however was closed to new members as of October 1, 1977. As of April 2006, it had 1,452 active members, 130 inactive members and 5,988 retired members.

Website: http://www.peba.gov.sk.ca/pophome.htm

Public Employees Pension Plan (PEPP)
The PEPP, a defined contribution pension plan, has more than 100 participating employers and over 43,000 members. PEPP employers include the Government of Saskatchewan, certain crown corporations, agencies, boards and other institutions. The plan is governed by the Public Employees Pension Plan Act. That Act establishes the Public Employees Pension Board as Plan Trustee and the Board consists of nine members, with four members appointed by government on behalf of employers and four members appointed on behalf of employees (SGEU appoints one of the trustees). The Board retains the Public Employees Benefits Agency (PEBA), a branch of the Finance Department, to provide day-to-day administration of the plan. As of March 2006, the PEPP had 29,571 active members, 13,639 inactive and retired members and had $3.8 billion in assets.

Website: http://www.peba.gov.sk.ca/pepphome.htm

Municipal Employees' Pension Plan (MEPP)
MEPP is a defined benefit pension plan and is governed by the Public Service Superannuation Act. It is administered by the Municipal Employees' Pension Commission (MEPC). MEPC is a 10-member Board appointed by government with five employer representatives and five employee representatives (although only one of them is a union representative. Members of MEPP are employees of school divisions, urban and rural municipalities, regional colleges, regional public libraries and other local authorities within the province. As of December 2005, it had 11,656 active members, 1835 inactive members and 3,803 retired members and had $1.25 billion in assets.

Website: http://www.peba.gov.sk.ca/mepphome.htm

Saskatchewan Health Employees Pension Plan (SHEPP) (Jointly Trusteed)
SHEPP is the largest defined benefit pension plan in Saskatchewan with over $2.5 billion in assets. SHEPP has over 40,000 members and is in over 83 healthcare and related organizations in Saskatchewan. The plan is jointly trusteed. The Board is made up of eight trustees. Four trustees are appointed by SAHO and four unions each appoint one trustee: CUPE, SEIU, SUN and HSAS.

Website: http://www.shepp.ca

The Liquor Board Superannuation Plan
This defined benefit plan is provided to employees of the Saskatchewan Liquor Board. It is governed by the Liquor Board Superannuation Act and the Act is administered by the Liquor Board Superannuation Commission, which consists of three members appointed by government; one is nominated as Chairman. At least one of the members shall be an employee and representative of the employees of the Liquor Board.

Website: Not available

Health Sciences Association of Alberta (HSAA/NUPGE)

Public Service Pension Plan (PSPP)

The PSPP is a contributory defined benefit pension plan for employees of the Government of Alberta, its agencies, boards, commissions and other public bodies. It is governed by the Public Sector Pension Plans Act (PSPPA) and the Public Sector Pension Plans (Legislative Provisions) Regulation (A.R. 365/93). The Minister of Finance is the trustee of the plan and is governed by a six-member Board comprised of employer and employee nominees and is administered by Alberta Pensions Administration (APA) Corporation. The plan served 27 employers, 58,272 active members and pensioners, and 10,038 deferred members as of December 31, 2005. The PSPP Fund is approximately $5.05 billion.

Website: http://www.pspp.ca

Local Authorities Pension Plan (LAPP)

LAPP is a contributory defined benefit pension plan for employees of local authorities in Alberta including health authorities, cities, towns, villages, municipal districts, colleges, school boards and many other public sector organizations. The Alberta Minister of Finance is the legal trustee of the LAPP. LAPP has its own legislation and is not covered by the Pensions Benefit Act. It is governed by a 14-member Board of Trustees, all of whom are appointed by government. Seven represent the employers and seven represent the various unions. The unions nominate their representative and the government has always appointed those nominees. (HSAA has one member on the Board.)

Website: http://www.lapp.ab.ca/

British Columbia Government and Service Employees' Union (BCGEU/NUPGE)

Public Service Pension Plan (PSPP) (Jointly Trusteed)

The PSPP is a defined benefit plan with nearly 50,000 members currently making contributions to the plan, and almost 31,000 retired members collecting their pensions. The plan has $16 billion in assets and is jointly trusteed between the provincial government and the B.C. Government and Service Employees' Union

(BCGEU). These partners and other organizations representing plan employers and plan members are responsible for nominating and appointing the trustees. The 14-member Board of Trustees is responsible for the management of the pension plan, including asset investment and plan administration. The BC Pension Corporation provides benefit administration services as an agent of the Board of Trustees. The BC Investment Management Corporation (BCIMC) provides investment management services as an agent of the Board of Trustees.

Website: http://www.pensionsbc.ca

BC College Employees Pension Plan (CEPP) (Jointly Trusteed)
The CEPP is a defined benefit plan for senior administrators and faculty members of most of BC's Colleges and Institutes. The plan serves 16,053 members, including 10,651 active plan members and 2,890 retired members. The plan has $2 billion in assets and is jointly trusteed, with four plan partners: the B.C. Government and Service Employees' Union (BCGEU), the Federation of Post-Secondary Educators of BC (FPSE), the Post Secondary Employers' Association (PSEA) and the provincial government. The partners are responsible for appointing the trustees. The 12-member College Pension Board of Trustees (the Board) is fully responsible for the management of the pension plan, including the investment of the assets and the administration of the plan. The BC Pension Corporation provides benefit administration services as an agent of the Board of Trustees. The BC Investment Management Corporation (BCIMC) provides investment management services as an agent of the Board of Trustees.

Website: http://www.pensionsbc.ca

BC Municipal Pension Plan (MPP) (Jointly Trusteed)
See HSABC below.

BCGEU Defined Contribution Plan (Basically solely trusteed by BCGEU)
This is a multi-employer defined contribution plan sponsored by the B.C. Government and Service Employees' Union (BCGEU). Eligibility to join the plan is determined by the various collective agreements and is also subject to the legislation and regulations of the BC Pension Benefits Standards Act (PBSA). The plan currently has 1,072 active members and 108 inactive members. It has $135 million in assets.

Health Sciences Association of British Columbia (HSABC/ NUPGE)

BC Municipal Pension Plan (MPP) (Jointly Trusteed)
The MPP is one of the largest defined benefit plans in the country with 204,823 members from 594 employers. Membership is open to all eligible employees of municipalities, schools, the health sector, police and fire fighters, and many others in the community health and social service sectors (129,862 active plan members, 27,310 inactive plan members and 47,651 retired plan members). The plan has $22 billion in assets and is jointly trusteed between the provincial government, the Union of Municipalities, the BC Public Schools Employers' Association, the Health Employers Association of BC Municipal Employees' Pension Committee (the former union advisory committee) and the six unions representing members of the plan (HSABC is one of the trustees). There are also trustees to represent the approximate 20 smaller unions who have members in the plan, retired members and excluded members (managers).

The 16-member Board of Trustees is responsible for the management of the pension plan, including asset investment and plan administration. The BC Pension Corporation provides benefit administration services as an agent of the Board of Trustees. The BC Investment Management Corporation (BCIMC) provides investment management services as an agent of the Board.

Website: http://www.pensionsbc.ca

national
union

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
of Public and Private Employees

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The National Union of Public and General Employees is an affiliate of the Canadian Labour Congress and a member of the Public Services International