The Experience of Retirees with Pensions

To be old 100 years ago was synonymous with being poor. Thanks to the efforts of many people since then, cases of abject poverty for almost all seniors in Canada have been eliminated. Edward Whitehouse's paper "Canada's retirement-income provisions: An international perspective" posted on the Ministry's web site makes the point that Canada has been relatively successful in the case of low-income earners:

> On adequacy of revenues for future retirees, the paper shows that the overall replacement rate for average Canadian earners is relatively high compared to other countries…a replacement rate that exceeds the OECD average for low earners….
> In Canada, the Netherlands and New Zealand, old-age poverty rates are significantly below those for the population as a whole.

The success of Tier 1 and Tier 2 government programs was complemented by workplace plans negotiated by unions. These plans enabled workers to retire not just with the bare minimum but with dignity. To cite one example, Jim retired at the age of 54 with 27 years service from the City of Winnipeg with not only OAS and CPP but also a defined benefit plan from work which was indexed. His wife received OAS. His workplace plan enabled them to live comfortably in their own home, undertaking renovations to the home when needed and being an aid to their grandchildren rather than a burden on their children.

One might wish to see this happy state of affairs extended to all retirees. If one were to legislate that all workplaces had to set up a defined benefit plan for the owners and their employees, there would be the immediate cries of outrage over cost from the usual sources such as the Canadian Federation of Independent Business. We would agree with them only to the extent that a myriad of small plans is not a cost-efficient way to tackle this issue. We would not agree with them in their view that everyone should provide for themselves through some version of RRSP or other savings vehicles. Indeed, the 2% management fee common on most RRSP funds means that almost 40% of a person's contributions over 35 year period would go to fees according to Whitehouse's analysis. Whitehouse notes that legislating a top fee of 0.5% would increase net benefits by more than 40%. While a lower fee would assist those able to invest, we strongly believe that a better solution would be to improve the Canada and Quebec Pension Plans.

Jim's happy story is one that fewer workers in the future are likely to experience for several reasons. The first is that employers with indexed defined benefit plans are moving out of them into defined contribution plans where they can. A decade ago 85% of people with a Registered Retired Plans had Defined Benefit Plans (DB), today only 75% do. Retiree benefits are a real source of conflict in negotiations. The recent VALE INCO strike was a brutal example of this.

Betty in Saskatchewan is an example of what happens when an employer decides to move from defined benefit to defined contribution plan. Employees contributed to the DB Plan understanding that indexing funds would be kept in a separate fund and be used to allow retirees to keep up to the cost of living. The employer cancelled the indexing and is attempting to terminate the DB Plan. The employer has brought in a Define Contribution Plan (DC) and new employees contribute to the DC Plan. The DB Plan was not fully funded so she and others are in court today as they face a 33% cut in the workplace pension, loss of the indexing and a significant shrinkage of funding to the DB Plan which threatens its long term viability.

Iva in Manitoba worked at Burns Meats which was sold to Maple Leaf. At the time of the sale, Iva was laid off and had earned a defined benefit pension of $ 515.70 per month that she could take at age 65. This was reduced to $ 319.09. The reason given is that the plan is a targeted defined benefit plan. The real reason is that bad and illegal investments were made. People have been charged with mismanagement but Iva's pension has been reduced by almost 40% and may even be cut further. To make ends meet, she has taken on a home care job to pay her bills.

One of the realities that many workers have faced is a loss in benefits when firms go bankrupt or transfer their operations. Leo worked for 25 years for Coldstream in Winnipeg. Over the years, the workers in the plant often took no wage increase in order to have decent defined benefit plan. Prior to negotiating a pension, there had been a profit sharing plan. The firm then shut its operations in Winnipeg, filed for bankruptcy protection and moved its production to a sister operation, Coldmatic Refrigeration, in Toronto. At that point in 2003, Leo began receiving a pension of $ 256 a month at age 63. He and his wife moved back to New Brunswick where he was born. Five years later that pension was reduced by 30% because the company had not met its pension obligations.

The company continued to make extra payments to strengthen the solvency position of the plan until January 2008 at which time an application for Creditor Protection was filed At the time of the wind-up the Pension Plan had a solvency deficiency ratio of 70%. (i.e. the assets of the Pension Plan were capable of covering only 70% of its liabilities.) In accordance with the Pension Benefits Act of Manitoba all pension payments were reduced accordingly.

A sadder case was a 74 year old senior who had worked 37 years at Gainers in Edmonton where he should have been able to retire with a decent pension. Alas he had to continue working as a janitor in volunteer agencies because when Peter Pocklington skipped town there was no money for any pension for him.

The reality of bankruptcy laws is that retirees can face sudden, unanticipated loss in income when firms declare bankruptcy. There are many examples of this. One is the Nackawic pulp mill that was owned Parsons & Whittemore (P&W), a private American company owned by the Landegger family. Since P&W is a private company that doesn't trade on the stock exchange, it's difficult to know much about the specifics of its financial affairs. This much we do know, however - P&W is one of the largest pulp producers in the world and they have more than $1 billion in annual revenue. We also know that over the years P&W has made hundreds of millions of dollars of profits at Nackawic.

Because of a legal system that works for big corporations rather than ordinary people, P&W has been able to declare bankruptcy <u>only</u> in its Nackawic location. There were two secured creditors in this selective bankruptcy. The first is P&W itself, through a company it owns, St. Anne's Industries.

When the shutdown occurred P&W owed Nackawic mill workers $31.8 million in pension benefits, post-retirement benefits, vacation pay and other compensation. But the law did not consider workers secured creditors.

After much lobbying of the New Brunswick government and searching for other firms to invest, the mill is back operating and is financially viable. However retirees and former employees all lost 30% or more of their pension they were entitled too. The plant is now operating under a new owner with the pension plan frozen and in the control of the government. As people retire they will get some pension money, but it is unknown how much at this time.

Not only do workers lose under bankruptcy proceedings relative to others but the process often takes years to settle in the courts with constant appeals. An example is the case of the Bowater Mill in Dalhousie, NB which closed in December 2008. Employees, some one month from retirement, were told that they had lost all pension benefits. After both an arbitrator and a judge had ruled in favour of these workers, Bowater appealed the decision in May 2010.

In Quebec, «Les aciers inoxydables atlas» [Atlas Stainless Steels] in Sorel-Tracy owned by the Ontario company Slater Steel was placed under the protection of the Companies' Creditors Arrangement Act in June 2003. The plant ceased operations in June 2004. As a consequence, there was a loss of 440 jobs and pensions were reduced for retirees by 25 to 30 %

In Nova Scotia, Bill who worked for 44 years at the Halifax Shipyard and retired in 1999 has a workplace pension of $66.00 a month. His CPP is $790.00 a month. Bill was a member for over 30 years in a defined contribution plan when Hawker Sidley owned the Shipyard. When they sold it, the defined plan ceased and the benefit amounted to only $66 a month.

Trenton Works in Nova Scotia was another case. When the plant closed in 2007, there was not the money to fully pay the pensions. Even though the government passed legislation to deal with this situation retroactively, the workers did not fully regain their accrued pensions. Canadian Benefits on their web site made the following observation:

> Paradoxically, these legislated solutions appear to be least effective in the situations of the greatest risk that they are meant to address. There is, as yet, no solution to the problem of windup situations involving insolvent employers.

The fallacy of investing for yourself is shown in the case of workers at Maritime Electric in PEI. In the 1960's, they had a pension plan based on 50 – 50 cost sharing between workers and employer. In seventies, they negotiated a pension plan base on a defined benefit base on 2% for each year of service based on one's best 5 years with contributions by each side. In eighties, the company convinced the employees to change to a defined contribution plan with each employee choosing their own investment. Some of the employees as a group hired an investment counselor who put all the money into Nortel. Today these workers have no pension plan from their workplace.

Island Telephone in PEI had a similar situation except their employees had a non-contributory plan for everyone with 10 years of service or more. Leo asked for and received a leave of absence to go on staff of the Congress and was reassured that his years of service would give him a pension at 65. Several years later when doing his retirement planning he found out that the Board of directors of Maritime Tel and Tel had decided to cancel all pensions for those who were no longer employed by them. MT&T was the parent body of Island Tel. The reason given was that women who hired on as operators stayed with the company for about 10 years then quit once they married. There were getting to be too many of them so the company terminated their right to a pension. Leo was one such employee and got no pension for 13 years of service.

Nortel not only harmed pension funds that invested in it but even more the workers who worked for it or its associated companies. Len worked for the Nortel Cable Plant in Kingston which was sold to a company called Cable Design Technology (CDT). Because of the sale, Nortel had to wind up their pension plan.

Nortel offered all Workers the choice of leaving their Pension with Nortel or take the "Cash Surrender Value of their Pension". Approximately 85% took the Cash Surrender Value which was approximately $85 to $90 thousand dollars. The majority of the people who took their Cash Surrender Value invested their money back into Nortel, after all the company was doing well. **One year later, they lost everything!** When the plant closed, about 3 years later, everyone had to go out and look for a job. So much for Retirement. CDT 's pension plan paid all workers who qualified a meager pension of less than $300.00 a month. Otherwise, retirees had to live on CPP, OAS and GIS.

For the Nortel workers who kept their Pension with Nortel, they now look forward to loosing a minimum of 30% of their Pension and it is quite possible they could lose more, up to at least 50% or more plus the loss of Health Care Benefits and Life Insurance plans. They to will have to live on CPP, OAS and GIS if they qualify.

Bankruptcy of firms often causes extreme hardship to retirees through no fault of their own. A pension guarantee fund can lessen the hardship faced by these workers. The employees of Swansea Works of Stelco are a good example of this. In the late eighties Stelco began restructuring and consolidating plants and subsequently Swansea Works was closed. Through the efforts of the union, employees were allowed to transfer to Brantford Works of Stelco with full benefits and the continuation of pension credits for accumulated service. Subsequently Stelco decided to sell Branford works to a company called Genfast and severed the pension plan from Stelco. It transferred the assets and liabilities to Genfast as part of the sale of the business. After a few years Genfast went bankrupt with the subsequent loss of jobs for all employees . Pensions and benefits for all retirees were also lost for past as well as present employees, causing great hardship for those affected. Retirees had to find alternative benefit coverage at their own cost and had it not been for the Ontario Pension Guarantee Fund many others would have lost their retirement income completely. We would note that such a fund should exist nationally and the limit raised to $ 2,500 per month as suggested in the Arthurs report.

Many of our current members were able to find work upon leaving school with an employer who paid reasonable wages and had defined benefit plan. The percentage working today who will have this experience is declining. Coverage of people working in the private sector who have even a defined contribution plan is declining.

To some like Catherine Swift, the answer is to do away with defined benefit plans, especially ones in public sector, and let everyone fend for themselves. We find this unacceptable. We know what a purely voluntary approach to pension coverage would get us – very low coverage especially among younger workers. Whitehouse estimates that 34% had a voluntary plan associated with work. In the private sector that figure drops to 25%. If the law were to mandate the existence of a plan but not specify it, we are most likely to witness tragedies similar to those that have befallen people of our generation.

An expanded CPP allows employers large and small to meet their obligations in the most efficient and least costly way possible. We believe that it will not only be good economics but also assist in lessening workplace tension as employers resist paying for plans that are more costly to administer.

Bernard Dussault, the former chief actuary for CPP, has made the case to increase CPP to 70% with a higher Yearly Maximum Pensionable Earnings. It could be done but we are asking for a more modest increase to 50%. We believe that it could be phased in as were the original CPP & QPP.

The Ministers of Finance have not specified what the targeted increase will be but we would urge you to be bold in the modest way we are suggesting. Go for the increase to 50% and negotiate the phase-in.

We have focused on getting the long-run solution right but there will be need of action now to assist those near the poverty line

Our Newfoundland and Labrador Executive member reports that since the Provincial announcement of the deal with the oil companies regarding the pending development and production of the Ben- Nevis Oil Field the cost of housing and rental in the province has gone through the roof as they say in Newfoundland and Labrador.

Our Federation continually get calls from pensioners and seniors asking if anything is happening in relation to an increase in Pensions at all levels, both Provincial, Federal and

Private. In many cases the cost of the renting has increased by as much as 100%. The cost of housing for people to purchase a home has increased by almost 25% in each of the last 4 years, making it almost impossible for pensioners and seniors to obtain a private dwelling. The end result of this is that many of those people are going to end up either homeless, couch surfing with families and friends or ending up in long term care facilities making it much more expensive on the public treasury. Each person they talk say that they need an increase in their pension income and that the indexation that they presently receive isn't keeping up.

An increase in the GIS and OAS would assist those most in need and we would support that. We would add the calculation of GIS benefit something that Revenue Canada should do automatically. It should not be up to a poor pensioner to try to figure out if they qualified for GIS.