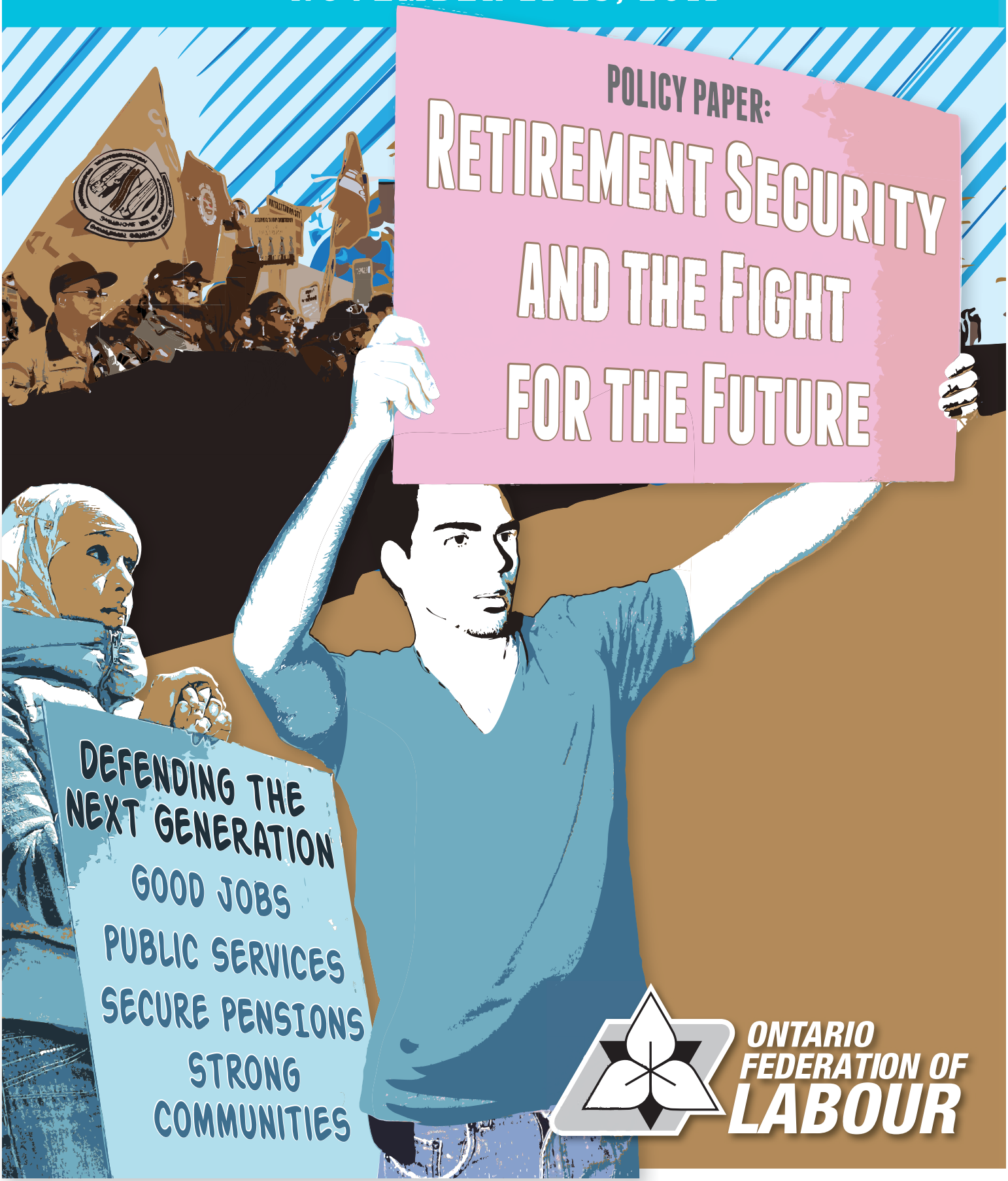
2011 OFL CONVENTION

NOVEMBER 21-25, 2011



ONTARIO FEDERATION OF LABOUR

The Ontario Federation of Labour (OFL) represents 54 unions and one million workers.
It is Canada's largest provincial labour federation.

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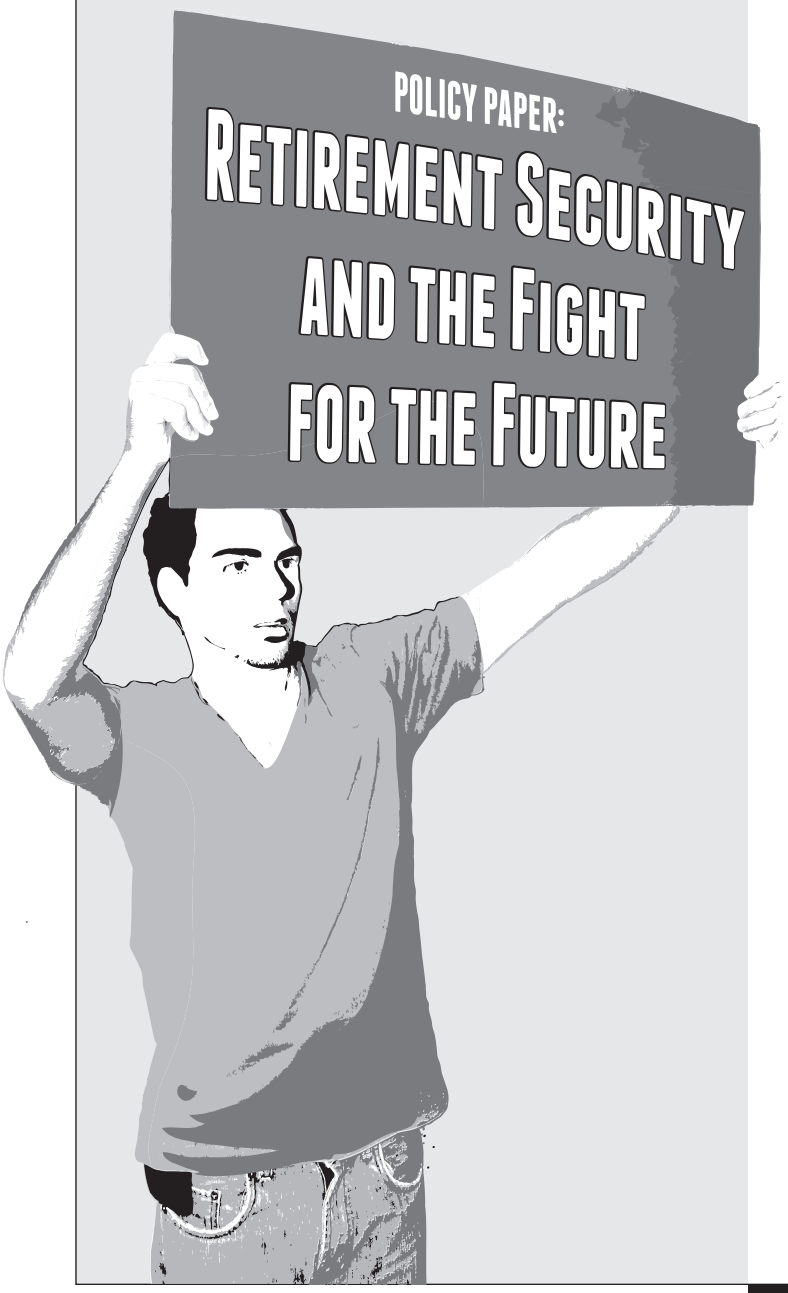
2011 **OFL** CONVENTION

Retirement Security and the Fight for the Future

POLICY PAPER

Table of Contents

Executive Summary



There are many urgent reasons for pension reform and the creation of an expanded, secure, and adequate retirement income for all Ontarians.

Pensions have a huge positive economic impact, bringing seniors out of poverty and raising purchasing power across the country. As our population ages, decent pension incomes will be increasingly important to sustaining the economic health and wellbeing of Ontario communities.

The ratio of seniors to working-age Canadians is growing steadily, and without action to ensure retirement security for everyone, municipalities and the Ontario government will have to bear the brunt of the costs of a growing population of low-income seniors.

Currently, municipalities provide a number of assistance programs and subsidies to low-income seniors, and Ontario taxpayers pay for additional provincial programs. If future seniors have better pensions, the pressures on municipal, provincial and federal budgets arising from population aging will be significantly reduced.

Not only do decent pensions reduce the need for support programs for low-income seniors; they also provide the incomes and purchasing power vital to healthy local economies. A recent massive U.S. study showed that expenditures from public and private sector pension plans have had a huge economic impact, supporting millions of jobs, and providing billions in annual federal, state, and local tax revenue.

Here in Canada, we have a three-pronged system of retirement savings consisting of government programs, employer sponsored programs and private savings. The Canadian Pension Plan (CPP), Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) make up the system of government programs.

Most workers depend on these public pensions for the majority of their retirement income, and unfortunately, these public pensions only bring most seniors up to the poverty line. Workers need workplace pensions and RRSPs in order to achieve an above poverty-level retirement.

However, recent experience has shown us that private savings for retirement has serious limitations. In the recent financial crisis, many RRSPs lost a huge chunk of their value, and many employers failed to deliver on pension promises that workers had paid for, and thought that they could count on.

All of the evidence shows that people do not save enough in RRSPs in any case, and mutual funds carry such high Management Expense Ratios, that the industry pockets substantial amounts of their investors' hard earned savings. Workers savings end up going into profits for banks and investment companies.

As for workplace pension plans, a changing labour market has reduced the prevalence of employer-sponsored programs. More and more Ontarians are working in precarious jobs – temporary, contract and part-time work, juggling two or three jobs without employment benefits or workplace protections.

Others, who have secure jobs, will not keep them for 30 years like some of our generation was able to, and portability of workplace pension plans continues to be a problem. Future generations of workers will also be worse off as a result of employers moving increasingly from defined benefit plans to defined contribution plans.

The Ontario Federation of Labour (OFL) fully endorses the campaign of the Canadian Labour Congress (CLC) for a phased-in doubling of Canada Pension Plan benefits. We believe that our retirement income system should provide workers with an income they can count on through the years they spend after leaving work.

The CPP is recognized as one of the most stable pension plans in the world. It covers 93% of employed Canadian workers, and operates independently at no cost to government. It is safe, secure, and actuarially sound for the next 75 years. It has very low overhead costs, is portable, and provides workers with a defined benefit that is indexed to inflation.

The OFL also supports the CLC's proposal to immediately increase the Guaranteed Income Supplement for all recipients, as well as improvements to the Pension Benefits Guarantee Fund, which guarantees pension benefits in the event of the insolvency of a plan sponsor.

We oppose the federal government's initiatives to create Pooled Retirement Pension Plans (PRPPs) as an alternative to increasing the CPP. The reality is that PRPPs are not true pension plans, but rather a voluntary, privately administered scheme for companies without a pension plan and their employees, as well as for the self-employed.

PRPPs will not protect workers' savings from market turbulence, and will not provide retirement security. There is no guarantee that any of these plans will be large enough to be sustainable. There are no uniform rules, and there is no federal oversight.

In addition, we have great concerns about the idea of pension products being offered by the financial services sector, whose primary focus is to make a profit. The same rip-off artists who brought us the financial meltdown are to be rewarded with increasing opportunities for windfall profits based on investments of the savings of the working people of Ontario.

We need to modernize the retirement income system for the next generation. And, we have to do it in the most efficient way. We need cost-efficient reform, so the benefits of the savings go to retirees, and not to the financial services industry.

Security of pension savings and an adequate, transparent, and accountable governance system for new pension options is crucial for Ontarians. The working women and men of Ontario are looking for an expansion of the existing system and a complement to the secure pension system that currently exists in Ontario/Quebec and Canada.

Action Plan

1. The OFL will continue to participate in the CLC campaign for a phased-in doubling of Canada Pension Plan benefits, and will oppose the establishment of Pooled Retirement Pension Plans (PRPPs) as an alternative.

2. The OFL will continue to support the CLC's proposal to immediately increase Old Age Security and the Guaranteed Income Supplement

3. The OFL will lobby the Ontario government to introduce regulations to better enable employers to improve existing plan benefits, and to create an Ontario Pension Agency which would establish measures to improve portability and administer and invest terminated pension funds.

4. The OFL will lobby the Ontario government for an extension of solvency funding relief to Multi-Employer Pension Plans (MEPPs) with for profit and not-for-profit employers.

5. The OFL will lobby for improvements to the Ontario Pension Benefits Guarantee Fund, as well as *Bankruptcy Act* changes at the federal level.

6. The OFL will continue to oppose all efforts by employers to convert Defined Benefit plans to Defined Contribution plans, including the establishment of DC plans for new hires.

Retirement Security

PENSIONS AND THE CHALLENGE OF AN AGING POPULATION

Unions have traditionally negotiated for pensions and security of retirement income in their collective bargaining contracts. They have been successful in achieving employment-based pension coverage for their members and are also engaged in pension issues through collective bargaining, as trustees on pension plan boards, and in regulatory authorities on pension legislation and policy.

There are many urgent reasons for pension reform and the creation of an expanded, secure, and adequate retirement income for all Ontarians. Pensions have a huge positive economic impact, bringing seniors out of poverty and raising purchasing power across the country. As our population ages, decent pension incomes will be increasingly important to sustaining the economic health and wellbeing of Ontario communities. We owe it to the next generation of retirees to fight for these improvements.

Between 2011 and 2036, the number of persons aged 65 and over in Ontario will increase by 114% to over four million, and the proportion of seniors in Ontario's population will rise. Ontario's old age dependency ratio (the ratio of individuals aged 65 and over to those aged 18 to 64 years) – currently about 20% – is projected to increase to approximately 38% by 2036. In other words, today there are 20 seniors for every one hundred 18-64 year-olds, but this will rise to nearly 38 seniors per 100 working-age individuals 25 years from now.

Without action to ensure retirement security for everyone, cities and the Ontario government will have to bear the brunt of the costs of a growing population of low-income seniors.

Poverty, including poverty in old age, imposes enormous costs on individuals but also society as a whole. Currently, municipalities provide a number of property tax assistance programs to low-income seniors, including full or partial tax deferral. There are also municipal water rebate programs, public transportation subsidies, homeowner grants, and medical, dental and vision sub-

sidies to low-income seniors. In addition to municipal supports for low-income seniors, Ontario taxpayers pay for provincial programs such as the Senior Homeowners' Property Tax Grant and the Reduced Ontario Drug Program Co-Payment for Seniors.

Federally, the number of recipients of GIS and the Allowance beneficiaries is projected to increase nearly 80% over the next 20 years, growing from $.85 million in 2011 to $3.32 million by 2030, before rising further to $3.63 million in 2050. GIS and Allowance expenditures are expected to climb from $9.2 billion in 2011 to $23.6 billion in 2030 and $39.7 billion in 2050. The cost of Ontario's Guaranteed Annual Income (GAINS) can be expected to rise as well. If future seniors can expect better pensions than they will receive under current arrangements, the pressures on municipal, provincial and federal budgets arising from population aging will be significantly reduced.

Not only do decent pensions in retirement reduce the need for support programs for low-income seniors; they also provide the incomes and purchasing power vital to healthy local economies. A recent U.S. study found that 2009 expenditures from public and private sector pension plans had a total economic impact of $756 billion; supported more than 5.3 million American jobs; and supported more than $121.5 billion in annual federal, state, and local tax revenue.

CANADA'S RETIREMENT INCOME SAVINGS GAP

Here in Canada, we have a three-pronged system of retirement savings consisting of government programs, employer sponsored programs and private savings. The Canadian Pension Plan (CPP), Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) make up the system of government programs.

Sadly, the current system of public pensions plans (CPP plus OAS and the GIS) provides a maximum of only about 40% of previous earnings in theory, and about one-third on average. Most workers depend on public pensions for the majority of their retirement income, and unfortunately, these public pensions only bring most seniors up to the poverty line. Workers need workplace pensions and RRSPs in order to achieve an above poverty-level retirement.

Contributing to RRSPs has been promoted over the years as the method of achieving financial security in retirement. However, experience has shown us that private savings for retirement has serious limitations. In the recent financial crisis, many RRSPs lost a huge chunk of their value, and many employers failed to deliver on pension promises that workers had paid for, and thought that they could count on.

In any case, all of the evidence shows that people do not save enough in RRSPs. RRSPs tend to benefit high income earners the most. Less than one in three workers pays into an RRSP each year, and the majority of contributions to RRSPs are made by individuals earning more than $80,000 per year. In fact, the highest-earning 12% of Ontarians contribute more to RRSPs than the bottom 88% of tax filers. In 2009, 7.8 million Ontarians had $229 billion in unused RRSP contribution room. Average RRSP savings of an older worker nearing retirement are only about $60,000 — enough to pay for an annuity of less than $300 per month.

An additional problem with RRSPs is that Management Expense Ratios (MERs) for mutual funds in Canada sits at 2.87% of assets – which means that the industry pockets, over a 40-year investment period, over half of their investors' hard earned savings. Workers' savings end up going into profits for banks and investment companies.

As for workplace pension plans, a changing labour market has reduced the prevalence of employer-sponsored programs. Only 34.5% of Ontario workers belonged to an employer pension plan in 2010. More and more Ontarians are working in precarious jobs – temporary, contract and part-time work, juggling two or three jobs without employment benefits or workplace protections.

Others, who have secure jobs, will not keep them for 30 years like some of our generation was able to. The econ-

omy shifts much more quickly today. People will work in different jobs, in different industries and with different employers. That makes single employer pension plans a less effective means of retirement savings. Future generations of workers will also be worse off as a result of employers moving increasingly from defined benefit plans to defined contribution plans.

As a consequence of the retirement savings shortfall, half of baby boomers born between 1945 and 1970 with average career earnings between $35,000 and $80,000 are likely to face a drop in their post-retirement standard of living of at least 25%. And without action today, the problem will grow worse.

THE NEED FOR AN EXPANSION OF THE CPP, OAS AND GIS

The OFL fully endorses the campaign of the CLC for a phased-in doubling of Canada Pension Plan benefits. We believe that our retirement income system should provide workers with an income they can count on through the years they spend after leaving work. Most experts agree this means they should get 60% - 70% of their previous earnings for life, fully indexed to inflation.

The CPP is recognized as one of the most stable pension plans in the world. It covers 93% of employed Canadian workers, is financed exclusively by workers and their employers and it operates independently at no cost to government. It is safe, secure, and actuarially sound for the next 75 years. It has very low overhead costs, is portable, and provides workers with a defined benefit that is indexed to inflation. However, even the maximum benefits are not enough to maintain a decent standard of living if that is your only income.

Like the CLC, the OFL favours a doubling of CPP benefits from 25% to 50% of average earnings on a pre-funded basis. We must be clear that doubling the benefits does not mean doubling premiums. A 100% increase in future benefits can be achieved with only a 60% increase in contributions. A gradual doubling of future CPP benefits can be paid for by a modest increase in contributions, spread out over seven years. This would mean increasing what everyone contributes to their CPP savings by 0.43% of pensionable earnings each year for seven years.

The result would be to double the average earnings replaced by CPP pension benefits to a maximum of $1,920 a month. It would benefit future generations the most, as new workers would make greater contributions over more of their work life. The Canadian public agrees with this approach to retirement security: mayors and city councilors meeting at the Federation of Canadian Municipalities in May 2010 called unanimously for improvements in the CPP, and an Environics poll in October 2010 found 78% of respondents support increasing CPP benefits.

The OFL also supports the CLC proposal to immediately increase the Guaranteed Income Supplement for all recipients. Although the last federal budget increased the GIS marginally, the plan is still inadequate to really help lift all seniors out of poverty.

THE NEED FOR IMPROVEMENTS TO EXISTING EMPLOYER PENSION PLANS

With respect to existing employer pension plans, the Ontario government proposed to limit the ability to improve plan benefits by requiring that any improvement be funded more quickly than is now the case. In particular, the government proposed eight-year going concern funding for benefit improvements in the normal course, and where a plan's funded ratio is 85% or less, an immediate lump sum payment followed by a five-year amortization period. While these rules have merit in cases where the cost of the improvement is large in comparison to the underlying sponsor's payroll or financial capacity, these rules are unnecessary in other cases, and may indeed unduly restrict the ability of a plan to provide decent pension benefits to its members.

Portability has long been recognized as a problem with defined benefit pensions. The commuted value approach to termination amounts can be problematic in some

economic circumstances, as there is no projection of salary, and it is highly contingent on the level of interest rates. In the current economic environment, commuted values are relatively high and the payment of full commuted values from underfunded pension plans presents the opposite problem – that of depleting the pension fund in favour of those who terminate membership.

Target benefit Multi-Employer Pension Plans (MEPs) are one of the important success stories of the employment based pension world. While they have been buffeted by the financial crisis – as have all plans – the incidence of wind-up in the MEP sector has been very low and coverage levels have been maintained, or increased. The OFL supports the extension of solvency funding relief to MEPs with for profit and not-for-profit participating employers. We see no relevant distinction between these types of employers for purposes of pension funding.

Target benefit plans are proposed to be subject to stricter disclosure requirements. These are welcome. MEPs have greatly improved their disclosure over the course of the past decade. On the other hand, it is also important that other pension arrangements – especially those sponsored by the insurance industry that may directly compete with MEPs – also be required to make a full disclosure as to their costs and risks. It would be tragic for the successful MEP sector of Ontario's pension industry to be subject to onerous disclosure and risk reporting, while inferior products offered by the financial services sector are not required to disclose their costs or the adequacy of the benefits that their products may deliver.

Changes are being recommended with regards to payment of commuted values. Commuted values will be paid out to terminating members of target benefit MEPs to a level that reflects the funded ratio of the plan. This is an appropriate change, but the OFL would recommend that since the commuted value amount is itself a solvency based amount, that the appropriate percentage of the commuted value to be paid out should reflect the plan's solvency funded ratio or its wind-up funded ratio rather than its going concern funded ratio.

PENSION BENEFITS GUARANTEE FUND

There is a crucial need for improvements to the Pension Benefits Guarantee Fund. The fund guarantees the pension benefits of Ontario members and beneficiaries under a covered single-employer defined benefit plan, up to a specified maximum and subject to specific exclusions, in the event of the insolvency of the plan sponsor. Currently, the PBGF covers over 1,500 defined benefit plans with members and beneficiaries in Ontario.

The 2008 Report of the Expert Commission on Pensions (ECOP) supported continuation of the PBGF for at least five years. In addition, the ECOP recommended that benefit improvements granted over the last five years be excluded, and that coverage be increased to $2,500. The ECOP also recommended that the fund be self-financing, be allowed to borrow from the government on a commercial basis, and be adjusted at regular intervals in terms of both benefits and levies. In addition, the ECOP recommended that a study of the PBGF be undertaken in order to evaluate the sustainability of the current PBGF structure, quantify risk exposures, and consider alternatives.

At the federal level, changes are needed to the *Bankruptcy Act*, and a national pension insurance fund is necessary to ensure that workers' defined benefit pensions are not at risk when employers go under.

THE ATTACK ON PUBLIC SECTOR PENSIONS

In 2010 an initiative by the provincial government for temporary solvency funding relief for the University Sector was introduced. This initiative was a step in the wrong direction, as the government had already initiated a reasonable temporary measure in 2009 which set out a form of solvency relief and was conditional on obtaining the consent of plan members. This measure was successful, and plan members, including those represented by trade unions, agreed to provide the required consent to make the measure work.

On the other hand, the new initiative, contains a 'metrics' proposal for approving solvency relief and the provision of sustainability plans by the universities to the Ministry. Apparently, the universities would then be committed to implement these plans to reduce costs and plan liabilities. In effect, this proposal means forcing changes to collective agreements or other contracts that might inhibit or proscribe the implementation of the cost-cutting plan. This is a serious infringement of the independent collective bargaining process for pensions and an unfair change that would favour employers at the expense of workers in this sector. It is also a departure from the government's prior position on such matters. One also has to wonder if perhaps this is an indication of similar measures to come for other public sectors.

A far better approach would be a judicious combination of targeted financial assistance to those university plans with the most serious problems, and a return to the 2009 solvency relief measure that has been a proven success. In this way, the pension promises within the plans in this sector, could be secured without inflicting permanent harm on current and future retirees.

POOLED RETIREMENT PENSION PLANS

In late July 2011, the federal government launched a campaign to convince Canadians that Pooled Retirement Pension Plans (PRPPs) are a better alternative for providing retirement security than increasing the CPP. Ted Menzies, Minister of State for Finance, embarked on a cross-country tour to sell PRPPs as giving Canadians "access to a low-cost private pension for the very first time." But the reality is that PRPPs are not pension plans, but rather a voluntary, privately administered scheme for companies without a pension plan and their employees, as well as for the self-employed. PRPPs will not protect workers' savings from market turbulence, and will not provide retirement security. How much a person collects in retirement will depend on the size of their contributions, the performance of that particular fund, and the fee they are charged by the investment dealer managing it. There is no guarantee that any of these plans will be large enough to be sustainable. Each province will decide whether or not employers in their jurisdiction without their own pension plans will have to enroll their employees. Then each individual business will decide whether or not to match their employees' contributions. After that, each individual will decide how long to remain in the plan. There are no uniform rules, and there is no federal oversight.

The labour movement also has great concerns about the idea of pension products offered by the financial services sector, whose primary focus is to make a profit. These are the same rip-off artists who brought us the financial meltdown, and now they are to be rewarded with increasing opportunities for windfall profits based on investments of the savings of the working people of Ontario. Management Expense Ratios (MERs) for mutual funds in Canada sits at 2.87% of assets – which means that the industry pockets, over a 40-year investment period, over half of their investors' hard earned savings.

Conflicts of interest arise when companies that sell mutual funds and other investment products also provide retirement benefits. The current regulatory environment does not provide sufficient protections against conflicts of interest. In addition, the current system lacks the necessary oversight to ensure that service providers are properly qualified and are acting in the best interests of plan members.

Legislatively granting large financial services institutions new powers to initiate 'multi-employer' pension plans raises new questions about the role played by large, for-profit commercial operations in pension plan design, marketing, governance and the regulation of pensions. The introduction of such plans may open up new risks, such as employers with more secure defined benefit plans seeking to close them down and transfer over to the new plans. This initiative contradicts the intention of the Ontario Expert Commission on Pensions, which recommended a more secure defined benefit approach to retirement income.

We have yet to see what Regulations governments are proposing for these private sector pension products. However, it is our firm conviction that no matter what might be contained in Regulations, a voluntary defined contribution arrangement is not an acceptable solution to the long-term coverage and income adequacy problem.

THE SHIFT FROM DEFINED BENEFIT TO DEFINED CONTRIBUTION PLANS

Twenty-five years ago, the majority of the largest companies in North America had established Defined Benefit (DB) pension plans, which provide lifetime retirement income to employees, with potentially a survivor pension for the employee's spouse. The amount of the payout to the retiree depends on factors such as salary, age, and years of service with the company. DB plans provide workers with the security of knowing exactly what their pensions will be upon retirement and enable them to better plan for their futures. In a DB plan, the worker assumes no risk – the employer is responsible for making up any losses in the pension fund.

Over the years, however, the proportion of large employers with DB plans for new employees has dropped to less than 20%. The remaining 80% of companies that still have pension plans have switched to Defined Contribution (DC) plans. Closing traditional pension plans to new hires has become an increasingly popular way for employers to curb increasing funding obligations. Air Canada and Canada Post both proposed the idea in high-profile labour disputes earlier this year, and numerous other employers are also taking steps to close their traditional defined-benefit employee pension plans. Typically, new workers are then enrolled in defined-contribution plans, which do not pay a guaranteed level of retirement income, so employers are not required to fund shortfalls.

Defined Contribution plans are considered "registered pension plans" by Statistics Canada, but are really tax-sheltered investment plans with zero guarantees. In DC plans, money goes into the plan and gets invested by a portfolio manager into the often volatile stock and bond market, and any gains are tax-deferred until the income is received. DC plans do not provide workers with the same economic security, as payouts are not guaranteed. The retiree does not know how much money, if any, will be available upon retiring. The employer bears no responsibility in the performance of the fund or the amount of money in the fund upon retirement.

However, contrary to the thinking of many employers, this conversion to DC plans is not a quick fix. It can take decades for funding costs to start to come down. The Saskatchewan government was one of Canada's first employers to close its pension plans to new hires, starting in 1977, and switch new workers into DC plans. Thirty-four years later, there are still 1,000 active employees in the old plans who have not yet retired. It is estimated that it will take well over 80 years until the last remaining members of the DB plans have died and the plans can be wrapped up.

A study of pension plans that converted to the DC model in the 1990s found most of them are still not saving money. That is partly because the remaining DB plans have seen costs soar in the current low-interest-rate environment, and partly because they are incurring new costs to run their DC plans. But financial considerations are pushing wind-ups, despite their drawbacks. Since the downturn in 2008, the trend has escalated as companies face growing pension plan deficits and significant obligations to add cash to fund plan shortfalls. Statistics Canada data show membership in DC plans climbed almost 8% between 2006 and 2010, to 961,000 people, while the number of employees in DB plans fell by 1.6%. And those who are members of both DB and DC plans - often due to plan conversions - climbed from just 40,000 people to 392,000 over the same period.

This trend continues despite the fact that according to the U.S. study referred to earlier, defined benefit pension plans are 46% more efficient in providing benefits than defined contribution plans, because of risk-pooling and lower management fees. The savings are certainly even greater in Canada because of our higher investment management fees.

Conclusion

We need to modernize the retirement income system for the next generation. And, we have to do it in the most efficient way. If we do it efficiently, each dollar goes farther for retirees. Efficient retirement savings require that we take advantage of economies of scale and risk pooling.

We need cost-efficient reform, so the benefits of the savings go to retirees, and not to the financial services industry. Private savings plans are costly. Most mutual funds have management expense ratios of between 2% and 3%, much higher than the CPP management cost of less than 1/2 of 1%. The greater rate of return to saving through the CPP of at least 2% per year makes a huge difference to how much pension can be earned over a working lifetime.

We need risk sharing. It will provide for an investment strategy with higher returns. As important, it will ensure that individuals do not bear the risks associated with how long they live, or, where the stock market is when they retire. Security of pension savings and an adequate, transparent, and accountable governance system for new pension options is crucial for Ontarians. The working women and men of Ontario are looking for an expansion of the existing system and a complement to the secure pension system that currently exists in Ontario/Quebec and Canada.

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