MGEU

Manitoba Government and General Employees' Union

Head Office
601-275 Broadway
Winnipeg, Manitoba
Canada R3C 4M6

ANY QUESTIONS?
Call the Resource Centre:
204-982-MGEU (6438)
1-866-982-MGEU (6438)
Fax: 204-942-2146
TTY: 204-982-6599
TTY: 1-866-982-6599
www.mgeu.ca

The Pas
10 -11th Street W
(Box 1859)
The Pas MB R9A 1L6

Dauphin
322 Main Street S
Dauphin MB R7N 1C6

Brandon
1665 Parker Blvd.
Brandon MB R7A 7P7

Portage la Prairie
214 Saskatchewan Ave. E
Portage la Prairie MB
R1N 0K9

Selkirk
413 Main Street
Selkirk, MB R1A 1V2

Thompson
19 Elizabeth Drive
Thompson MB R8N 1S7

Steinbach
B-98 Brandt Street
Steinbach, MB R5G 0V6

February 21, 2018

Office of the Superintendent – Pension Commission
Room 1004 - 401 York Avenue
Winnipeg, MB R3C 0P8

Recommendations for Reforms to the Manitoba Pension Benefits Act (PBA)

The Manitoba Government and General Employees' Union represents 40,000 working Manitobans. MGEU members live and work throughout Manitoba and in a wide variety of workplaces — roughly 14,000 are employed directly by the Province of Manitoba, while others work in crown corporations, universities and colleges, health care facilities, social service agencies, and arts and cultural organizations.

The majority of MGEU members are contributors to Defined Benefit pension plans such as the Civil Service Superannuation Fund (CSSB), Healthcare Employees Pension Plan (HEPP), Winnipeg Civic Employees Benefits Plan (WCEBP) and Community Agencies Benefits Plan (CAB), while others are members of Defined Contribution pension plans, such as the Home Care Pension Plan, and Group RRSP programs.

Introduction of New Pension Plan Designs

We are deeply concerned with the recent announcement of recommendations made by the Manitoba Pension Commission for reforms to the Manitoba Pension Benefits Act (PBA). We are concerned that the introduction of Target Benefit and Shared Risk legislation opens the door to enable the conversion of pre-existing Defined Benefit pension plans to these less secure pension designs that have the ability to erode accrued pension benefits and shift investment and longevity risk disproportionately onto the shoulders of employees. Members have worked hard and deserve stable and predictable income in retirement.

Other regions have struggled with the introduction of these alternative pension plan designs. New Brunswick's Public Pension Plan, as noted in the recommendations presented by the Pension Commission, has three (3) outstanding legal challenges associated with the conversion of their public pension plan to a Shared Risk model. The conversion of that pension plan resulted in increases to pension contributions with the potential for lower pension entitlements. Unreduced early retirement provisions were removed and the plan shifted from a best five (5) year average to a career average model, which generally results in lower pension entitlement for those who progress up the wage scales in their career. Cost of living adjustments accrued are at risk of being reduced or eliminated depending on the plan health. This is of notable concern given the inability for retirees to supplement their pension income when faced with unforeseen reductions. We question the urgency to introduce such legislation in

Manitoba when we have yet to see the resolution to the challenges in New Brunswick.

In 2014, Alberta introduced similar legislation pertaining to Target Benefit/Shared Risk pension plan designs. Bill 9 *"Public Sector Pension Plans Amendment Act"* contained provisions that could reduce early retirement subsidies and remove guaranteed cost-of-living increases. Bill 10 *"Employment Pension Plans Act"* would permit conversion of accrued defined benefits to target benefits. The Alberta government retreated on these radical changes after they were vigorously opposed by workers and members of pension plans.

In 2016, the Federal Government introduced Bill C27 which would allow for federally regulated employers to convert Defined Benefit pension plans with Target Benefit Pension Plans, resulting in losses to plan recipients. Workers and their unions have advocated against the progression of this bill. As a result, the bill has not progressed beyond its first reading in October 2016.

The introduction of legislation in Manitoba fostering Target Benefit and Shared Risk plans would not automatically result in the uptake of new employer sponsored pension plans. Instead, it would enable employers to convert pre-existing Defined Benefit pension plans to far less secure models to alleviate themselves of fiduciary responsibility of their employees' secure retirement. We are seeing a growing trend in Defined Benefit plans converting to defined contribution or hybrid models which jeopardize many of the positives that Defined Benefit plans provide to employees, communities and the economy:

- Studies have shown that Defined Benefit pension plans, like the Civil Service Superannuation plan, play a significant role in powering economies, supporting growth and creating confident consumers whose spending is vital to the health of our economies. With 4.5 million active members and 3.5 million beneficiaries living across Canada, the benefits paid out by DB plans ultimately take many forms. This includes consumer spending and taxes, generating business growth, employment and revenues for all levels of government.[i]
- Defined Benefit pension recipients are less reliant upon federal and provincial supplementary benefits such as the Guaranteed Income Supplement (GIS) and Manitoba 55 Plus. 10-15% of DB recipients collect GIS versus 45-50% of other Canadian retirees.[ii]
- Defined Benefit pension plans are less costly to manage than Defined Contribution or hybrid pension plans such as Target Benefit and Shared Risk plans. Shared Risk pension plans require more frequent and costly actuarial analysis than Defined Benefit pension plans.
- Secure and predictable pensions provided by Defined Benefit pension plans are even more important for women, who tend to have a longer life expectancy and are more likely to have gaps in their earnings due to leaves of absence from the workplace such as maternity/parental leave and raising children.[iii]

A recent study by CCPA Manitoba[iv], authored by pension specialist Hugh Mackenzie, demonstrates that DB plans have lower fees, better returns, and lower overall risk than Defined Contribution (DC) plans, and consistently outperform DC plans on a comparable basis. In pooling longevity and asset risk, DB plans do a better job of protecting pension plans and benefits for plan members. In examining the fallout from Saskatchewan's decision to convert the pension plan for its employees from a DB to DC plan, Mackenzie demonstrates that conversion did not deliver savings for government, severely weakened benefits for employees, and may actually end up increasing costs for the employer. The CCPA study also reflects on the unfortunate reality that private sector workers are especially under-represented in terms of workplace pension plans, and especially under-represented in terms of DB plans.

We do not agree with the introduction of legislation supporting the conversion of Defined Benefit pension plans to Target Benefit and Shared Risk pension plans in Manitoba. We disagree with any changes that could weaken the pension that our members and the public have worked hard for and planned their retirement on. We do not approve of legislation that would enable the conversion of Defined Benefit pension plans without the approval of both Unions and members. The Pension Benefits Act must make a distinction between public and private pension plans if it intends to introduce such legislation. We expect the Premier to keep his commitment that no changes would be made to public pension plans, particularly changes that would downgrade pensions and shift risk disproportionately to employees.

Solvency Deficiency Funding

With respect to plans with solvency requirements, government is positioning the current 100% requirement as placing an undue burden on plan sponsors, leading to the wind-up or conversion of DB plans into DC plans, with inferior benefits for plan members. There is no doubt that market fluctuations have presented challenging circumstance for some pension plans with respect to solvency.

However, eliminating solvency requirements altogether could open the flood gates to plans running chronic deficits, thereby putting current and future pension incomes at greater risk. We would urge that government work cooperatively with any pension plan that may find itself in temporary distress due to market fluctuations to provide appropriate solvency relief options, subject to approval from plan members. This approach has served Manitoba plans well in the years since the 2008 global financial crisis.

Locking-in Provisions

Workers are generally better off if they leave their retirement income locked-in until retirement. This is especially true with respect to pension benefits. Unlocking retirement funds can be very dangerous, leaving workers exposed to inadequate retirement income in their later years. Unlocking funds from Defined Benefit pension plans can have a negative effect on the plan as a whole, particularly when large groups of members opt to remove their commuted values.

We acknowledge that there may be cases of severe financial hardship which may warrant some unlocking. However, we urge the government to educate plan members about the financial advantages of leaving retirement funds in place for retirement, and only permitting unlocking of retirement funds in cases of extreme financial hardship.

We are unequivocal that any changes to unlocking provisions would have to meet a high threshold for determining the existence of financial hardship, and that labour would have to be a part of the determination of what constitutes financial hardship.

Compulsory Plan Membership

We are concerned that the Pension Commission and the Provincial Government are raising this topic for discussion. It has been a long-standing principle that compulsory membership in workplace pensions is a requirement for pension plans. The benefits to pooling of pension funds would be lost if membership was discretionary. Pensions are deferred wages and are crucially important to the well-being of workers and their families in retirement.

Canada is currently experiencing a pension crisis, with fewer than 40% of Canadian workers having access to workplace pension plans. In the private sector, that number drops to less than 25%, and for workers under the age of 29, just 13%. Fewer employers are offering workplace pensions and more workplace pensions are seeing reduced benefits. Conditional membership would only serve to intentionally erode the viability of defined benefit pension plans.

Division of Pensions on Relationship Breakdown

Currently under The PBA, where there is a court order under the Family Property Act or a written agreement regarding the division of family property, administrators must divide the pension or pension benefit accumulated during a marriage or common law relationship on a 50/50 basis. This provision was put in place to try to protect both spouses, and especially women who tend to have less pensionable earnings, in their retirement.

This is an extremely important objective, and we are concerned that in proposing to change this rule, the government is not proposing safeguards to ensure that:

- Both spouses clearly understand the full value of the pension(s) in question;
- Pension plans are required to provide pension value calculations free-of-charge to plan members; and
- Spouses are not pressured, bullied or manipulated into trading pension benefits for lesser value assets, exposing them to inadequate retirement income in the future.

In closing, we would like to remind the provincial government that it made a clear commitment, in writing, to our members before the last provincial election that it would not make any changes to public pension plans. Our members are counting on the government to keep this commitment.

Sincerely,

M Gawronsky

Michelle Gawronsky
MGEU President

---

[i] "Retirement Income Crisis: Inevitable or Avoidable? The Economic Reality" (Healthcare of Ontario Pension Plan - March 2014

[ii] "New analysis confirms that defined benefit pensions provide significant benefits to Canadian economy" (Ontario Teacher's Pension Plan - October 2013 https://www.otpp.com/news/article/-/article/701993

[iii] "Women at greatest risk of poverty in senior years" (Healthcare of Ontario Pension Plan – August 2017)

[iv] "Pensions in Manitoba: What's Working, What's Not, What's a Solution and What's Not" Hugh Mackenzie (Canadian Centre for Policy Alternatives CCPA – September 2017)
https://www.policyalternatives.ca/publications/reports/pensions-manitoba