Bell Pensioners' Group

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Submitted via email to: Mr. Mark Schaan
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The following is submitted on behalf of the Bell Pensioners' Group (BPG), in response to the federal government's Consultation Document entitled "Enhancing Retirement Security for Canadians". BPG is pleased to participate in this important initiative, and thanks the government for turning its attention to an area where improvements are sorely needed.

BPG represents the interests of pensioners and survivors with defined benefit (DB) pensions from Bell Canada and several of its affiliates. The federally regulated Bell Canada plan is the largest of these plans, with approximately 35,000 pensioners and survivors and average annual pension payments of approximately $23,000. BPG is a membership-based organization, with over 10,000 paying members.

BPG is also a founding member of the Canadian Federation of Pensioners (CFP) which currently represents about 250,000 Canadian pensioners who belong to DB plans that have a further 340,000 active members. BPG has reviewed and fully supports the comments submitted by CFP in this consultation.

BPG welcomes the federal initiatives to strengthen the Canada Pension Plan (CPP), which is available to almost every working Canadian. The CPP enhancements will not, however, provide increased security for Canadians who have already retired. Additional measures are required to address the retirement security needs of Canadian retirees.

According to Statistics Canada, in 2016 over 1.2 million Canadians were earning federally-regulated or provincially-regulated defined benefit pensions from private sector sponsors[1]. Statistics on aggregate numbers of retirees benefitting from those plans are not readily available, but if Bell Canada's pension plan is typical, the number of retirees and survivors would be at least three times the number of plan members who are still in the work force.

Ensuring that employers meet their pension promises is central to the integrity of the employer-employee relationship in many Canadian workplaces. Employees uphold their end of the relationship throughout their working years – in many cases, over two or three decades. In exchange, employers promise, as part of the employees' compensation package, and in the specific case of DB pensions, a

[1] Statistics Canada, Pension Plans in Canada, as of 1 January 2017, 27 June 2018; https://www150.statcan.gc.ca/n1/daily-quotidien/180627/dq180627e-eng.htm?CMP=mstatcan

lifetime pension in their retirement years. In this regard, the Consultation Document alludes to this key principle:

> "In order to ensure that all pension benefits are afforded equal protection regardless of whether the plan is ongoing or terminated, the legislation could be clarified to provide explicitly that entitlement to pension benefits cannot be made conditional on the continued operation of the plan."[2]

The federal government can play an important role in ensuring that these pension promises are honoured, regardless of the ongoing status of the employer.

Solutions to Retirement Security within Federal Jurisdiction

The federal government has promoted the integrity of federally-regulated pensions through the principled adherence to rules designed to encourage plans to meet an objective of 100% solvency funding. This approach to pension plan funding is to be applauded. However, more can and should be done to promote retirement security for Canadians.

The most significant issue in pension plan funding is what happens to pensioners when a plan sponsor becomes insolvent at a time when the pension plan is not fully funded. From the perspective of the pension funding regime, there is one important step that the federal government can take to ensure the security of the pensions that it regulates: the establishment of a pension insurance plan. At this time, Ontario's Pension Benefits Guarantee Fund is the only such insurance plan in Canada (though, in BPG's view, the coverage levels in the Ontario plan require improvement).

Canada's retirement security regime lags behind that of other of its major trading partners when viewed as a whole. For instance, other countries such as the US and UK have guaranty - or insurance - funds to protect against pension shortfalls. The implementation of a fund that protects all earned pension amounts should be a priority in Canada, as it would be the most effective means of addressing retirement security. Moreover, a fully funded pension insurance plan can be implemented at no cost to taxpayers and at a very small cost to employers.

Employers who criticize solvency-based funding requirements argue that such requirements, in effect, require every employer to insure its pension plan against the employer's own business failure, which failures are rare events in practice. An insurance plan, on the other hand, would allow employers to pool and share the risk of these rare events amongst a large group, thereby lowering the cost to everyone. Indeed, funding an insurance plan need not introduce new costs for plan sponsors, since funding targets or special payment schedules could be eased to reflect the implementation of the

[2] Consultation Document, page 6

insurance plan, resulting in savings for plan sponsors – a portion of which could be directed to the insurance plan. The implementation of a pension insurance plan can thus represent a win-win situation for employers and pensioners. With the implementation of an insurance plan, many of the other issues associated with retirement security become moot. BPG therefore urges the government to take steps to implement such a plan for federally regulated pension plans and as a best practice example for the provinces.

BPG recommends that the federal government develop a pension insurance plan that will top up any federally-regulated pension plan that is being wound up while being less than fully funded, so that all earned pensions under that plan can be fully paid.

The design of a federal pension insurance plan necessarily must take into account the broad regime applicable to federally-regulated pensions including, most notably, funding targets, provisions for special payments, and provisions for pension deficits in bankruptcy and insolvency. In short, the stronger that the provisions are in these related areas, the smaller such an insurance plan would need to be. The plan should be funded by plan sponsors, with premiums that are proportional to the risk of default and magnitude of the funding deficit of their respective pension plans. With such an insurance plan in place, current and future retirees can feel secure in the knowledge that their promised pension will be delivered, regardless of the future status of their plan sponsor.

Although the development of a federal pension insurance plan will establish pension security for individuals whose pensions are federally regulated, this initiative will have no direct impact on the many plans that are regulated provincially. However, the federal government is in a position to take positive measures that would add to the retirement security of Canadians through its responsibility for insolvency law.

As noted above, the most important issue for the security of workplace pensions is what happens to pensioners when a plan sponsor becomes insolvent at a time when its pension plan is not fully funded. It is well documented that the current insolvency regime fails to protect workers and retirees - an obvious gap if the goal is to have a regime that ensures retirement security. Given that this is an area of federal jurisdiction, actions taken in this area can improve retirement security for all pensioners in Canada.

The protection of pensions when a plan sponsor enters bankruptcy is not merely an academic concern. Information available from pension regulators demonstrates the risks facing pensioners. The OSFI data cited above show that, despite a regime that is based on a goal of 100% solvency funding, and despite significant improvements since 2011, 13% of federally-regulated plans still have a solvency ratio of 80% or less. A solvency ratio of 80% means that, if the plan's sponsor goes into bankruptcy proceedings, the plan's pensioners stand to lose 20% of the pensions they have been promised. This loss could be even greater if the market value of the plan's assets at wind-up is lower than the multi-year average assumed in the solvency calculations. Further, plans can remain underfunded for a long time. Current regulations allow a plan to be underfunded for five years, though in some provinces it is even longer (in fact, Ontario no longer requires plans to aim to be fully funded). Over such long periods, the risk of the employer entering bankruptcy while the plan is still underfunded is very real. The current plight of Sears Canada's pensioners is just one example of the very real risks faced by pensioners.

If the goal is to provide greater retirement security – in the absence of a pension insurance plan or as part of a broader solution that includes a pension insurance plan – a positive step that the federal government can take is to give pension deficits a higher priority when a plan sponsor becomes insolvent. Current regulations provide that pension contributions reflecting the in-year "normal" costs of the plan have a high priority; a good solution would be to extend that higher "super priority" status to in-year and future special payments that are owed to the plan in order to restore it to fully funded status. To avoid any feared shocks to the financial community, this could be phased in over a multi-year period; for instance, in the first year, just the scheduled in-year "special payments" could be granted super-priority. The amounts subject to super-priority could then be increased in subsequent years until the full plan shortfall has super-priority status.

BPG recommends that the federal government amend its insolvency and bankruptcy legislation to provide "super-priority" for unfunded pension liabilities.

The Consultation Document specifically identifies a number of other measures that could be taken to improve retirement security for Canadians. BPG endorses CFP's specific comments on each of those measures, with the overall perspective that, although those measures would be directionally positive, each could be characterized as "baby steps" in terms of addressing retirement security.

To summarize, BPG recommends that the federal government implement two measures, each of which would be highly effective in addressing retirement security:

1) the establishment of a pension insurance plan for federally-regulated pensions; and
2) the granting of "super-priority" status for unfunded pension liabilities in cases of bankruptcy or insolvency of the plan sponsor.

BPG understands that the full implementation of those two measures would not be immediate; however, the thoughtful development of a pension insurance plan and a phased-in approach to providing super-priority status for pension funding shortfalls should be viewed as key elements in fully addressing the needs of Canadians for secure and dignified retirements.

Yours truly,

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