Comments on Bill 68 allowing the establishment of target benefit plans in Quebec

Presented by the Canadian Federation of Pensioners at the special consultations and public hearings with the Committee on Public Finance

(Translated from the original French submission)

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Introduction

The Canadian Federation of Pensioners (CFP) represents more than 285,000 retirees across Canada represented by 22 pension associations from all jurisdictions including Quebec and federally. The CFP's mission focuses on promoting defined benefit pension plans to ensure the financial security of retirees and active employees when they retire.

The CFP maintains that defined benefit plans are the best plans to guarantee pensioner benefits. We consider benefits to be deferred wages resulting from an agreement to hire employees guaranteeing stable and lifetime retirement benefits based on known parameters and contracted between the employee and the employer.

For several years, defined benefit plans have been weakened by historically low interest rates, inflating plan actuarial liabilities and leading to lower investment returns in a context where investment risk must be controlled. In addition, financial market volatility exposes pension plans to changes in asset values that, combined with low interest rates, have a negative impact on capitalization and solvency ratios. This puts a lot of pressure on companies that are forced to pay down deficits. However, Quebec Bill 29, which was implemented in 2016, has given companies substantial leeway in reducing their obligations by changing the way they are financed, from a solvency basis to a capitalization basis.

TARGET BENEFIT PENSION PLANS

Despite the relief provided by Quebec legislation, the number of defined benefit plans is unlikely to increase. The closure of existing defined benefit plans and access to defined contributions by new employees is an increasingly likely trend.

While defined contribution plans offer the opportunity to raise funds to provide an annuity in retirement, they do not offer the coverage offered by defined benefit plans. Target benefit plans offer a middle ground between defined benefit and defined contribution plans. They have often been wrongly called "shared risk" when in fact all the risk rests on the shoulders of the participants and beneficiaries. Nevertheless, they represent an improvement for those who benefit from defined contribution plans because, rather than managing funds accumulated over the course of a career individually, target plans offer the opportunity to pool investment and longevity risks. Thus, while they guarantee a lifetime annuity, it is variable and depends on the financial health of the plan.

CONVERTING DEFINED BENEFIT PLANS INTO TARGET BENEFITS

Defined benefit plans are deferred wages and are a promise of a stable, ongoing and life-long annuity for defined benefit beneficiaries who subscribe to such plans. The CFP has always emphasized the need for legislation in Quebec and across Canada to protect the pensions of participants and beneficiaries.

Unfortunately, and this is not the purpose of this brief, this is not the case, and one example is the benefit cuts caused by a loss-making plan when a company goes bankrupt.

The CFP is pleased that Article 7 of the Bill prohibits converting existing defined benefit plans (which we assume are Single Employer and Multi-Employer) into target benefit plans. This provision protects the past service and the future service on which the benefits of active employees and beneficiaries are calculated, thus ensuring their financial security. This portion of the bill would have been completely unacceptable as a whole if the conversion of existing defined benefit plans into target benefits had been permitted.

CONVERSION OF CERTAIN MULTI-EMPLOYER PLANS

However, while the conversion of defined benefit plans is not possible as stipulated in Article 7 of the Bill, it indicates the possibility of converting a certain type of Multi-Employer plan.

The bill adds to Chapter X.2 of the Act , "Special provisions for certain Multi-Employer Pension Plans" whose scope applies to "negotiated contributions" plans, Section VI entitled "Transformation into a Targeted Benefits Plan »."

We interpret, perhaps incorrectly that, by exception, some Multi-Employer plans with defined benefit and defined contribution components and certain conditions can be converted to a target benefit plan. In our view, this is inconsistent with the deferred wage commitments of the defined benefit component of the plan from the administering companies.

It is not clear in the bill that the conversion of newly formed Multi-Employer plans from several defined benefit plans would not be permitted. This would be a way for companies administering a single employer defined benefit plan to form a multi-employer plan, then convert it into target benefit plans and thus free themselves from the financing constraints associated with the defined benefit plan.

For this reason, and especially because of non-compliance with the commitment of a predictable and lifetime annuity, the Canadian Federation of Pensioners opposes the possibility of converting these specific Multi-Employer plans into target benefit plans.

Finally, we mention in passing that even if this conversion was considered beneficial for the participants and beneficiaries covered by this particular type of scheme, we find it unacceptable that the recommendation to convert this type of plan is not based on the individual consent of the participants but rather on the fact that the conversion can be carried out if 30% or less of the participants and beneficiaries oppose it. This goes against the commitment that the company made when hiring each participant individually. The concept of freedom and individual choice to change a commitment should then be respected by the company.

Conclusion

The Canadian Federation of Pensioners welcomes the section of the bill on the inability to convert existing defined benefit (single-employer or Multi-Employer) plans. As stated previously, they offer members and retirees an alternative to defined contribution plans.

However, we object to the possibility of converting certain specific Multi-Employer plans to "negotiated contributions." Retirees benefiting from such plans should have the same rights as retirees in a defined benefit plane that is part of a single-employer or Multi-Employer defined benefit plan. These two types of beneficiaries have had the same type of pension commitment and should not be treated differently. They should retain their acquired rights within their plan.

Kind regards,

On behalf of the Canadian Federation of Pensioners, their retired and volunteer representatives are:

Denis Bernard and Jean-Paul Joanisse