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Daryl Watch (18)

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UNIFOR the Union

The Conciliator

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Special Pension Edition

With the labour issues between Canada Post and the Canadian Union of Postal Workers (CUPW) being in the news lately, people all over are watching closely to see where this round of bargaining for them settles out. One of their largest issues revolves around their pension plan. Canada Post wants to place their new hires into a Defined Contribution (DC) plan, while the Union wants all workers to remain in their current Defined Benefit (DB) plan.

The CUPW is not the first Union to be attacked with this issue, nor will it be the last. While our Company has yet to provide this local with its Monetary Bargaining Proposals, it is no secret that our DB pension plan will be at least one of their focal points. The Company has broached the idea of placing new hires in a DC plan several times in the past, and the Union has steadfastly rejected that proposal.

"Converting a DB plan to a DC plan is NOT better for the plan member, however, it is better for the Company."

So why have we continually rejected the idea of having two different pension plans? I'm sure everyone has heard people telling others how good a DC plan is because of reasons like "You can take the money with you if you leave," or "You can't get any money out of a DB plan if you quit." Companies worldwide are trying to get out of DB pension plans and convert to DC pension plans. They continue to sell this idea as being "better," but fail to clarify "whom they are better for." Converting a DB plan to a DC plan is NOT better for the plan member, however, it is better for the Company.

Why you ask? The answer has two components.

1) It costs the Company less money.
2) It puts all of the risk on the worker instead of on the Company.

In order to understand these answers, I need to explain a bit about how both types of plans work, and how they are funded.

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- **SHOP STEWARDS**

Section IA:
Nathan Kraemer
Section IB:
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Section II:
Chad Gettle
Section III:
Curtis Baht
Section IV:
Avery Riche & Travis Parker
Section V:
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Mike Fink & Ray Strueby
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Ryan Dzioba
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Jon Javorik
Welders:
Jim Milton
Scaffolders:
Nelson Wagman
Construction:
Mike Pelzer
Boilerhouse:
(vacant)
Insulators:
Kris Atkinson & Luke McGeough
PDD Office:
Susanne Carpenter
PDD Loading:
Dean Warnke
Packing & Blending, Warehouse:
(vacant)
Administration:
Amy Wisniewski

Pension

In a DC plan, a set amount of money is placed into the plan regularly (usually every pay period). Typically both the Employer and Employee contribute a portion of that amount. That money is kept separate from the Company, and is invested in the markets to (hopefully) grow and be available to use for your retirement. The actual amount of money available to use is completely dependant on the returns on what it is invested in. If you have the misfortune of wanting to retire just after a downturn in the stock market (as we have seen several times over the years), it is a very real possibility that your retirement savings could be greatly reduced, and you are faced with either retiring several years later, or retiring with significantly less money. Any other retirement savings you might have would also likely be affected by this same market fall. People often respond to this statement with "Yes. But when the markets are doing really well, we can make a lot of money." That is true, but do you really want to risk your retirement security on the whims and unpredictability of the stock market? I have heard so many stories of people who planned to retire, only to find their savings decimated by a downturn in the markets, and have to work for several more years in order to retire. Keep in mind that every month your retirement is delayed, is one month less that you have to enjoy it, and no-one knows when that time will end.

In a DB plan, a set amount of money is also put away regularly, again often every pay period. This money is also kept separate, and invested to (hopefully) grow and fund your retirement as well. In many plans, both Employers and Employees pay into this plan, but ours is fully funded by the Employer. The major difference with a DB plan is that you, as an employee, are guaranteed to be provided with a specific retirement benefit (pension) that doesn't depend on how well the stock market is performing when you want to retire. With DB pension plans, the law requires that every 3 years a financial analysis, called an actuarial valuation, is done on the pension plan and its assets. This valuation takes into account a large number of factors including the amount of money in the plan, the number of employees covered by the plan, the employee ages, marital status, expected wage increases, expected rates of return of the investments, life expectancy tables, and many other items to calculate how much money is needed to fund the plan in order to provide the pension for the members of that plan.

If the actuarial valuation report determines that more contributions are needed to fund the plan, the Company is required to increase the contributions accordingly. It is the Company who must take the risk associated with swings in the stock market, not the plan member. Keep in mind that, even in the "difficult" years with lower than budgeted profits, our Company has made several hundreds of millions of dollars in profits, and are FAR better positioned to absorb a stock market downturn than you or I.

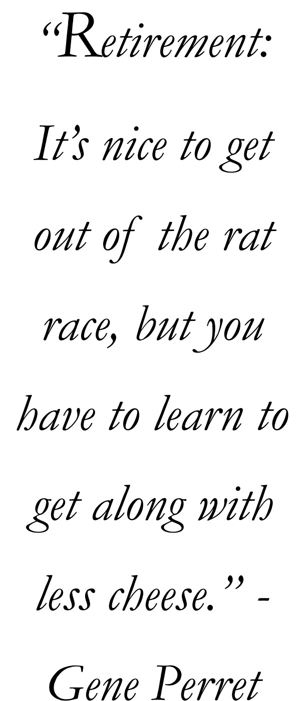
Actuarial valuations make two kinds of funding assessments, and Companies are required to meet any under funding (based on these assessments) over a period of time. The first type of funding assessment is called the solvency basis. This means, if the plan were to wind up or close right now, is there enough money in the plan to meet all of the obligations the plan faces (i.e. will everyone receive the pension they are promised)? If the answer is no, the Company must increase its funding to eliminate this under funding over a 5 year period.

The second type of funding assessment is called the ongoing liability basis. This means, if the plan continues to exist as it is now with new members coming in and other members retiring, is there enough money coming in to cover all the anticipated pensions? If the answer is no, then the Company must increase the funding to cover the shortfall over a 15 year period.

Now that you know a bit about the difference in the types of plans, let's look at some specifics. In 2007, the Company changed the Pension Plan for Management members, and all new hires (off the street) were placed into a DC plan. At that time, the Company would contribute 6% of a members' pensionable earnings, then the member could contribute up to an additional 4% of their own money which the Company would match. This total of 14% is about on par with DC plans in our industry. As of the last actuarial valuation at the end of 2013, the cost to provide our DB pension benefit is approximately 20% of payroll (assuming there are no under funding issues that require extra payments. Since our plan is funded solely by the Company, they are putting in approximately 20% of your pensionable earnings to cover the cost of your pension. This is far greater than the 10% they contribute to the Management DC pension plan. While the Company has never given us any specifics of what a DC plan for new hires would look like, we can clearly see what they are providing for new out of scope staff. So in comparing the two pension plans, if it costs about 20% of your income to fund your current pension, there is no way that putting in 14% of your income will provide you with the same pension benefit. Keep in mind that if you are contributing 4% of that 14%, you have effectively taken a 4% pay cut to get a smaller pension. Better for you? I think not!

The other myth being spread is about "taking your money with you if you leave." Yes, with a DC plan you can "take your money with you," at least sort of! You may not be eligible to take the Company's entire portion of their contributions, depending on the vesting requirements (vesting is essentially how long their contributions have to be in the plan before they become yours.) The other thing to remember is that you DO NOT get to take that money as cash. It must go into another pension vehicle or plan. If you could get it as cash, you would immediately lose a large portion of it as taxes, so that would be a bad idea even if it were allowed.

What most people do not understand is that if you leave under a DB plan, you can forward the cost of your pension (called a commuted value) to another pension vehicle, just like with a DC plan. This commuted value is calculated by the Pension Plan Administer (not the Company) when a plan member leaves. The amount varies from person to person, and depends on their age, years of service, pensionable earnings, and is greatly affected by interest rates at the time. The lower the interest rate, the higher the commuted value. This commuted value is the "seed money" that, with interest over time, will grow to provide you the pension benefit you have earned and would be payable once you turn 65. So, in both cases, you get to "take your money with you," but in neither case will you actually get access to your money until you retire without a huge tax penalty.



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Pension

Another question that comes up often is, "What's so bad about new hires going into a different pension plan?" The short answer is, that is the first step down the road to losing your DB pension plan. It will not take very many years before the number of members in the lower cost, lower benefit DC plan, outnumber the members in the higher cost, higher benefit DB plan. When the Company comes and says it wants to end the DB plan, who will stand up for you? Why would the majority fight to keep a pension for a minority that they will never receive? If you think this will take "forever" to happen and it will never affect you, just look at how the management staff has changed over the last 9 years. How much has the management staff grown since 2007 when all of the new hires off the street were put into the DC plan? The only management staff still in our DB pension plan are those who were hired before 2007, or those who were in-scope before they took out of scope positions. If you look, I think you will agree that the DC plan members out-number the DB plan members already. Could the same thing happen to you? You better believe it!

What else is "so great about our pension?"

- Our pension formula provides a 2% calculation, which is at the highest rate in industry. This means your pension is 2% times your years of service times your average 3 best years of pensionable earning.
- Our average earnings is our best 3 years, not our best 5 years, or 10 years, or lifetime average, all of which would reduce our benefit.
- Our plan provides indexing at 75% of the Consumer Price Index for Saskatchewan. Without indexing, it would be like never getting a raise for the rest of your life. The older you get, the less spending money you would have!

Our pension plan is by far the best in our industry, and one of if not the best in Canada. This is one area where our Company is not happy with being a leader, even if they do use the pension as a recruiting tool. In my 35 years here, our plan has progressed to where it is today because of so many people before now who have fought to make it happen.

It is, simply put, the best. Is the best worth fighting to protect? I say absolutely! What do you say?

In Solidarity,

Dan Josephson, Negotiating Chairperson

Last Laugh

Staying Connected

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General Meetings. Fourth Tuesday of every month at the Union Hall.