Save Defined Benefit Pensions. Stop C-27!

C-27 Backgrounder

Bill C-27 – Who does this affect?

Everyone who supports Defined Benefit pension plans should be opposed to this proposed legislation. The federal government has jurisdiction over two major labour relations regimes: (1) the federal sector (Crown Corporations, banks, telecoms and transportation companies etc); and (2) the federal public service (Treasury Board and Separate Agencies). Bill C-27 directly impacts the former but not the latter. However, the federal sector covers numerous members across various jurisdictions and changes to existing legislation would have a broad national impact. Bill C-27 does not currently affect any member under the Public Service Superannuation Act (PSSA), however we see that this legislation does set a dangerous precedent for all Canadians by removing DB plans from retirement planning. If these proposed sweeping changes take effect in one regulatory area, a powerful trend will be set in motion and pressure will increase to make changes in the other.

Bill C-27 and the Pension Benefits Standards Act (PBSA)

Bill C-27 proposes sweeping changes to the Pension Benefits Standards Act (PBSA). The PBSA applies to federally-regulated employers such as Crown Corporations, banks, telecoms and transportation companies. The PBSA was originally put into effect fifty years ago to protect workers and workplace pensions by forcing employers to keep their promises. The legislation guarantees employees the benefits they have already earned and forces employers to set aside appropriate resources to fund these commitments. Bill C-27 weakens the PBSA and provides employers with an opportunity to avoid their obligations to pensioners.

Target Benefit Plans vs. Defined Benefit Plans

Bill C-27 formally and legally introduces a new pension framework into the federal jurisdiction – Target Benefit Plans. On top of introducing this new pension structure, the legislation also provides a process for employers to convert Defined Benefit Plans into Target Benefit Plans.

Most PIPSC members enjoy a Defined Benefit (DB) plan which provides secure and stable income during retirement and predictability during one's working life. In a DB plan, the employer assumes responsibility for funding shortfalls. To address these, they may raise contribution rates but the benefit almost never changes. While terms can change, when an individual makes a contribution for a period of time, the benefits received for that period are secure (except in case of employer bankruptcy).

Target Benefit (TB) plans are similar to DB plans except that risk is passed on to plan members, who assume responsibility for deficits or unfunded liabilities. Safeguards and protections that currently protect employees are transferred over to the employer. While the latter's contributions do not change, employee benefits and contributions may rise and fall.

Converting Defined Benefit Plans into Target Benefit Plans.

The new legislation will not automatically convert all Defined Benefit plans into Target Benefit plans. Conversion cannot be made unilaterally by the employer, as plan members must agree to the changes. An employer could also wind up an existing DB plan and open up a new TB plan, or run both plans in parallel.

Bill C-27 defines a process for employers to "exchange" one plan for the other and provides a mechanism for moving from a DB to a TB plan. This includes the notice process to be followed by the employer for DB plan members to surrender the benefits they have already accrued.

This provision is extremely dangerous. It provides employers with a goal that benefits them at the expense of workers and provides a blueprint for how to achieve it.

Converting Defined Benefit Plans into Target Benefit Plans. (continued)

If the legislation comes into effect, we expect employers to aggressively push for these changes at the bargaining table and force workers to choose between either a lengthy lockout or accepting the irreparable erosion of this vital and long-standing benefit.

The New Brunswick Example

In 2012, New Brunswick's Conservative Government brought in legislation allowing employers to avoid past commitments and bring in what they termed "Shared Risk" pensions. The term "Shared Risk" is misleading because all risk is actually shifted from the employer to the plan members – including people who are already retired.

The provincial example was more extreme because it forcibly imposed this system on thousands of workers, but it also allowed for workers to make the change voluntarily. The preliminary results of these actions have been troubling. Those who did voluntarily convert their pension felt they were misled with inaccurate or misleading information. Plan members were told that the terms of their new pension were "virtually guaranteed" when, in reality, by converting their pension over, they had just given up their legal guarantee.

In the short period of time since the New Brunswick law came into effect, the number of people with a DB pension in the province has dropped by over 14%.