Bill 8
The Pension Benefits Amendment Act

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Manitoba Federation of Labour
Fairness For Everyone

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Bill 8: *THE PENSION BENEFITS AMENDMENT ACT*

The Manitoba Federation of Labour (MFL) is Manitoba's central labour body, representing the interests of more than 100,000 unionized workers. Every worker has the right to live in dignity after they retire from working life. Canada's pension system is set up to combine workplace pension plans with the Canada Pension Plan (CPP), Old Age Security (OAS), and Guaranteed Income Supplement (GIS) in supporting Canadians after they have retired from working life. Together, this system has made a profound impact on lowering senior poverty rates in Canada. The labour movement has always fought for expanded retirement supports like the CPP as well as to protect and extend workplace pension plans. We believe that the government should be pursuing three overarching goals in securing greater retirement stability for working families.

1. They should protect existing workplace pension plans in both the public and private sectors and ensure that any legislative changes do not allow employers to convert existing pension plans to weaker ones;
2. Enhance retirement security by extending strong pension plans to more Manitoba workers; and
3. Ensure that Manitoba advocates for national approaches to strengthening retirement security for all workers.

Working families in Manitoba are increasingly worried about making ends meet and saving enough to live a good life when they retire from their working lives. We also know that without robust retirement security options, retired workers are often forced to rely on social supports like the GIS, which increase the costs borne by government. And senior women are twice as likely to live in poverty as men. Some 30% of senior women living on their own live below the poverty line – this is atrocious, and speaks to the need to dramatically strengthen our retirement security system. Women are also far more reliant on OAS and GIS than men. In 2011, 30% of senior women's total income was from OAS and GIS, compared to only 18% for senior men.

At a time of rising economic inequality and worries about the future, governments should be doing what they can to increase retirement stability and security for working families. Unfortunately, this bill does the opposite; it will weaken retirement security for Manitoba workers.

This bill follows the release of the Pension Commission Report over two years ago, a review which raised a number of very troubling proposals. We are pleased to see that this government has listened, somewhat, to the labour movement, and chosen not to pursue some of the recommendations to weaken retirement security for Manitoba workers contained in that report. For instance, we are glad to see that the government has dropped the idea - floated in the pension commission's review – of allowing for the conversion of strong defined benefit pension plans to weaker target benefit plans. We are also encouraged to see that the Pallister government is not pursuing the idea of ending universal participation in workplace pension plans.

However, we do have some concerns with this bill that I want to raise. The first is the reduction in the plan solvency requirement to 85 per cent. This represents a significant change from Manitoba's current requirement of solvency funding at a 100 per cent ratio level, a rule in place to protect workers' future pension benefits. This is the wrong approach, and we are firmly opposed to this across-the-board reduction in solvency requirements. Weakening solvency requirements could open the flood gates to allowing plans to run chronic deficits, putting current and future pension incomes at great risk. There is no doubt that market fluctuations have presented challenging circumstance for some pension plans with respect to solvency, but this would be better dealt with through individual plan exceptions, rather than weakening solvency requirements across-the-board. The MFL urges the provincial government to instead work cooperatively with any pension plan that may find itself in temporary distress to provide appropriate solvency relief options, subject to approval from plan members.

Because we have seen with companies like Sears and Nortel that the interests of workers and pensioners are put at the back of the line when companies go under. The money paid into pension plans by workers are deferred wages, ones which workers have already earned and are owed upon retirement. We encourage the Government of Manitoba to work proactively with other provinces and the federal government to create a Canada-wide mandatory pension insurance system so that people who have paid into a workplace pension plan are not robbed of their retirement security when companies go bankrupt.

Our other main concern has to do with the introduction of greater ability for workers to unlock their retirement savings, in whole and in part, prior to their retirement. As a rule, workers are almost always financially 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 to individual plan members, leaving workers exposed to inadequate, or even poverty-level retirement income in their later years. While we certainly acknowledge that there may be specific cases of severe financial hardship which could warrant some unlocking of retirement savings, the risks associated with depleting one's retirement income prematurely and the required investment and financial planning knowledge required to mitigate such losses would likely not be available to the average person should they choose to unlock their pension. We recommend that the government act to educate working people 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. There are a number of excellent financial literacy organizations here in Manitoba who could assist on developing resources, including SEED Winnipeg and Community Financial Counselling Services.

Making it easier for workers to unlock these funds raises the likelihood that retirement income may not extend as planned through retirement. We have concerns that the government's motivation for the expansion of unlocking is rooted more so in freeing up a larger portion of secure pension funds for access by the private investment industry and shifting financial liabilities away from government and employers.

The MFL is unequivocal that changes to unlocking provisions meet a high threshold for determining the existence of financial hardship, and that labour - including worker representatives with pension expertise - be engaged to define what constitutes financial hardship to ensure that the rules are in the best interests of workers. In the exceptional circumstances when unlocking is to be permitted, we urge government to provide a clear path for workers to be able to "buy-back" any lost time and re-qualify for future benefits. Government should consider a low cap on unlocked funds so as to help ensure that workers are not sabotaged for the future.

But this bill goes beyond just allowing greater flexibility for workers to unlock retirement savings in cases of financial hardship. In fact, it will allow workers to unlock 100 per cent of their pension savings at the age of 65 – a provision which carries extreme financial risk. By allowing workers to withdraw 100 per cent of the funds and place it in a private savings vehicle, the government is putting people at risk of losing significant amounts of their savings in the case of market decline or recession, at a time in their life when they are unlikely to have the ability to recover from a major financial loss.

There is also the elephant in the room that Canadians pay the highest mutual fund fees in the world, and moving one's retirement savings to private savings funds means exposing more of the money earned by working people to these fees. In fact, according to research by pension expert Hugh McKenzie, if you consider the accumulation of a typical balanced investment portfolio (60% equities, 40% fixed income) over a working lifetime invested in typical Canadian mutual funds, you would see roughly 45% of the retirement savings invested in your portfolio ending up in the hands of mutual fund managers rather than in the hands of the original saver. Compared with keeping your money in a workplace pension plan, I don't think anyone can justify that it is a good deal for workers to pay nearly half of your savings to mutual fund managers.

Finally, I want to raise an issue which could result from this bill as it currently stands. Employment and Income Assistance advocates are concerned that making it easier to unlock pension benefits, particularly for those experiencing severe financial hardship, could lead to EIA offices encouraging workers to unlock their pension benefits before qualifying for EIA - on the ground that EIA is intended to be a benefit of last resort. We are concerned that the proposed rules around loosening unlocking provisions due to financial hardship will encourage the consideration of retirement savings as potential disposable income to be exhausted prior to EIA eligibility. We assume that this is not the intent of the proposed unlocking changes in the bill, and we have raised this as a potential issue that could impact people seeking EIA with Department of Finance officials. We would be happy to work with the Ministers of Finance and Families on a solution. This would likely involve some formal change to the EIA regulations to specifically exempt pension benefits in the calculation of an applicant's financial resources.

I would like to thank the labour movement in Manitoba for strongly opposing the troubling aspects of the Pension Commission's report, and I want to acknowledge this government for listening to some of labour's concerns and refusing to act on certain proposals. That being said, this bill still needs some improvement in order to ensure a stronger pension plan system for Manitoba workers when they enter their well-earned retirements.

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