



TEAMSTERS CANADA RAIL CONFERENCE DIVISION 320



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Subject: National Pension Reforms

Dear Brothers and Sisters,

Sent to you for your information, as posted on TCRC National site.

In Solidarity,

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Pension reforms get tepid response from pensioners

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The federal government has moved to head off mounting anger among Canada's pensioners, announcing a series of reforms designed to put plans on a sounder footing and extend protections.

But while the measures were viewed as a positive step, analysts, political critics and pensioners noted they do little to address the current problem of underfunding that is putting many workers and retirees' pensions at risk.

Most of the new measures also only affect the plans that are under federal jurisdiction, such as airlines, telecommunications firms and railways.

The announcement comes days after hundreds of Nortel Networks workers demonstrated on Parliament Hill demanding that Ottawa get involved in guaranteeing their pensions.

But Finance Minister Jim Flaherty did not deliver on their chief demand that Ottawa change the bankruptcy laws to make pensioners the first line in the disbursement of company assets.

"It does absolutely nothing for the Nortel pensioners and anyone else who is in our predicament," said Don Sproule, head of the advocacy group representing the company's pensioners.

He said the measures were designed to head off problems in the next recession, not resolve those caused by the current one.

Liberal finance critic John McCallum agreed, saying Flaherty had merely closed the barn door after the horse had already escaped.

Speaking to reporters after appearing before a parliamentary committee, Flaherty said the measures would help companies meet their pension obligations going forward.

In response to the request from Nortel workers, the minister said changing the legislation would have unintended consequences that could damage businesses' ability to obtain loans.

"This is not simple because you are dealing with the priority of creditors and that can effect the ability of companies to borrow and carry on their businesses," the minister said.

Flaherty added that the issue will be reviewed at the federal-provincial finance ministers next month, which will discuss the results of MP Ted Menzies' one-year research group work on comprehensive pension reform.

Under the new rules announced Tuesday, companies who wrap up plans will be required to pay all the benefits owing their workers, not just the portion that had been paid up.

And firms will no longer be able to take a holiday from contributions unless the firm's plan has a five per cent funding cushion.

In a measure that will apply to all private sector defined-benefit plans, companies will be allowed to increase investments to extend a plan's surplus from 10 per cent to 25 per cent. The so-called "rainy-day" provision will allow plans to withstand an economic downturn better without going into a deficit position.

There was no protection for pensioners if a company declares bankruptcy, however, or to address the chronic underfunding of pension plans following the stock market crash, estimated as to be as large as \$50 billion.

"There's no doubt this is meant to head off problems in the future," said Gregory Winfield, a pension lawyer with McCarthy Tetrault.

"You can't fix the existing problem with legislation today unless the government were to say, 'Here's a whole bunch of money.' "

Laura Samaroo of Watson Wyatt, a pension consulting firm, praised the provision that allows firms to carry a 25 per cent surplus on their plans as a hedge against a "rainy day."

But she cautioned that few firms are in position to take advantage at the moment, since most are behind on their payments. According to some estimates, private pension plans are as much as \$50 billion in the hole under current valuations.

Samaroo added that other changes, such as extending the period by which plan solvency is calculated to three years rather than the current point in time, will help companies deal with the ups and downs of markets and interest rates.

But she said the benefit was likely too minor to reverse the growing trend among businesses away from offering workers defined plans, which guarantee a certain level of benefits. Many employers were calling on the government permanently extend the period they have to make plans solvent.

"It's not the silver bullet that will solve all the pension problems," she said.

The reforms are the culmination of a process begun by Flaherty in January.

The government said some of the changes will require legislation to be enacted, which could take several months.

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