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## **Subject: Teachers' Pension president says it's time to decide on new pension solution**

Theoretically, DB plans are the best...and public sector DB plans which are fully indexed backed by an able and willing sovereign sponsor (like the Canadian rather than the Greek government) are just about perfect...final years based indexed without market/longevity/inflation risk for the employees/pensioners.

However Canada's private sector "pension" system is in systemic failure, because even "best" part of that system, the small and decreasing percentage of private sector employees/pensioners who are still covered by a DB plan are flying without a safety net...even if the promised benefits are delivered, since most pensions are un-indexed or only "slightly" indexed, these pensioners are exposed at least to inflation risk and if they happen to have a 30+ year retirement then they are exposed to implicit longevity risk (due to ending up with minimal incomes due to the corrosive effect of inflation after 30+ years).

But the more serious issue with private sector pension plans is that the promises are only as good as the sponsor's willingness and ability to deliver on them. If it can happen to Nortel, an over 100 year old company which only ten years ago was the world's largest telecommunication equipment company and represented over one third of the TSE market cap, then no private sector DB pension plan can be considered secure.

The Nortel pension example is a great case study of what's wrong with Canada's pension system. The layers and layers of "protection" and supposed "checks and balances" ALL failed. Here are just a few examples:

- the sponsor's board of directors and officers failed to deliver on their fiduciary duties as plan administrators
- the actuaries, in a role rife with conflict of interest, failed in their professional and/or fiduciary duties by using aggressive actuarial assumptions they enabled the sponsor to minimize their pension contributions and failed to warn the sponsor/regulator of the impending disaster facing pensioners
- the investment managers, also in a role rife with conflict of interest, chose to invest the pensioners' assets in an overly aggressive manner, rather than a more appropriate liability driven strategy...they failed in the professional and/or fiduciary duties
- plan custodian continued paying 100% commuted value to those leaving the plan even after it was obvious to everyone that plan was significantly underfunded and company's financial situation was precarious...they failed to raise necessary flags and thus failed in their professional and/or fiduciary duties
- government regulations/regulators (FSCO in this case) were inadequate: three year valuation cycles are an eternity during the economic times that we are living through, even where the regulator may have had some discretion to "regulate", it chose to exercise its powers in a minimalist manner... regulations/regulators (legislation last altered significantly perhaps about 30 years ago) were no doubt put in place to protect and defend pensioners rights and to insure that the sponsors meet their obligations to Canada's pensioners...they failed miserably



To top it all off, unlike in other civilized countries (apparently almost all OECD countries except for Portugal) pensions are substantially or completely protected by either "pension benefit guarantee funds" (e.g. U.S./U.K. where pension are guaranteed up to about \$55K/year...in Canada, Ontario is the only province that has any protection and that maxes out at \$12K/year) and/or when the pension plan trust fund is underfunded then pensions receive priority over other creditors in case of bankruptcy. Canada has neither.

And in case anyone still has any doubt whether Canada's pensions are in systemic failure, the Nortel pensioners have been over-ruled/out-smarted and handed the short end of the stick by the Ontario Court administering the CCAA proceedings at every possible junction so far. The last time I checked, bonds having a claim on Nortel's U.S. estate were trading at \$0.70/dollar while those having a claim only on the Canadian estate were trading at \$0.25/dollar. These prices are representative of what unsecured creditors (including pensioners) can be expected to receive on their claims. The last "estimate" from Nortel's actuaries suggests that the plan was 31% underfunded just before Nortel entered bankruptcy protection. So pensioners ineligible even for the minimal Ontario protection, can expect to receive about a 40% pension reduction after the current obligatory insurance company annuitization on windup is executed.

So as much as DB pension plans may be the best, Canada's private sector DB pensions are in systemic failure. Fewer and fewer private sector Canadians still have DB plans. Few if any companies will sign up to take on the inflation/market/longevity risks associated with DB plans. The private sector DB pension system train has left the station more than a decade or two ago, and government has stood by and done nothing, except more studies and consultations.

The time for action is long overdue. Radical reform is needed now. I am delighted to see that there are so many of us who are pushing for urgent change and renewal; if not for us, then perhaps the next generation.

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