OPINION: Pension protection should be federal priority

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The former Sears at Penhorn Mall in Dartmouth is seen in this 2017 file photo. Sears, Nortel and other corporate pensioners experienced sharp reductions in their annual pension income after those companies failed. - Herald File

With a budget light on details, federal government has an opportunity to protect pensioners

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MICHAEL POWELL, TRISH McAULIFFE & LAURA TAMBLYN WATTS

Pension protection for Canadians is long overdue. When a company becomes insolvent and its pension is underfunded, pensioners are powerless to intervene and secure their pensions.

Sears, Nortel and other corporate pensioners experienced sharp reductions in their annual pension income after those companies failed. In March of this year, Imperial Tobacco filed for protection under the Companies' Creditors Arrangement Act (CCAA). Yet another group of defined-benefit pensioners now find themselves potentially facing cuts to their pensions. Action to resolve this issue is long overdue.

What is the problem? Over 1.3 million Canadian retirees and their spouses have private defined-benefit pension plans. But there are no real protections for Canadian defined-benefit pensioners when a company goes bankrupt. While all other creditors can negotiate terms to protect their interests, pensioners have no such ability. Creditors in name only, pensioners are entirely dependent on legislation to protect their interests. They aren't even allocated a seat at the table, unless the court grants them one.

While the federal government consulted on this issue last December, the 2019 budget does not offer any tangible solutions to protect pensioners. The budget offers a commitment to enhance transparency and fairness and increase pension oversight and accessibility. But it fails to address the lack of legislative protection for pensioners in the event of insolvency.

Companies that offer defined-benefit pensions have an obligation to honour their pension commitments. These pensions are "deferred earnings," accrued by people while they work and payable when they retire. When companies file for insolvency, their pension plan is often underfunded by 20 per cent or more. The Financial Services Commission of Ontario estimates that 78 per cent of defined-benefit pension plans in Ontario alone are underfunded. In the event of an insolvency, those pensioners will not receive their full pension, putting a potential 850,000 pensioners at risk.

Under current insolvency legislation, pension obligations fall nearly to the bottom and there is often not enough money or assets left to cover the unfunded portion. Sears is the most recent example of this failure. While Sears pensioners in Ontario received some protection under the Ontario Pension Benefits Guarantee Fund, pensioners in the rest of Canada received no protection and had their pensions dramatically reduced.

As a country, we need to do better to protect Canadian pensioners. Any changes to federal insolvency legislation should extend super-priority to the unfunded pension liability, and for federally regulated corporations, include the creation of a pension insurance fund.

The inevitable question is, "Why should Canadians care?" Fewer companies than ever offer defined-benefit pensions. But that doesn't mean we should abandon those pensioners.

When Canadians lose 20 per cent or more of their pension income, there are financial repercussions that affect all of us. In a conservative case, a pensioner could see a 20 per cent reduction in income from $30,000 to $24,000 per year, resulting in an annual tax revenue loss of $1,500-$2,000 per pensioner (depending on the province).

This loss also undermines the fabric of our communities, and can shift pensioners from leaders and volunteers to leaning on communities for support. Pensioners contribute to their communities in many ways, particularly as volunteers. When they lose a substantial amount of their income, they cut back on community engagement or seek post-retirement employment. How can they help out at the seniors' centre or provide transportation for medical treatment when they can't even afford the gas?

Those opposed to improving the status of pensioners in insolvency often state that there is no need for change, as very few companies go bankrupt. While we agree that few companies become insolvent, when it does happen, the impact for affected pensioners is devastating. Given the number of insolvencies is so small, why can't we fix this problem?

As the combined voice of our more than 1.4 million members, we are calling on the federal government to move swiftly to address this inequity and protect Canadian pensioners.

Michael Powell is president, Canadian Federation of Pensioners (m.powell@pensioners.ca). Trish McAuliffe is president, National Pensioners Federation (trish.mcauliffe@npfmail.ca). Laura Tamblyn Watts is chief public policy officer, CARP (ltw@carp.ca) .