# Pensions Proposals
## *Tabled by the Board of Governors October 19, 2020*

Prepared by DFA President David Westwood
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Like the vast majority of DFA Members I am not a pension specialist. Pensions are complex, and Dalhousie's plan is more complex than many. I have tried to boil down the current pension proposals into straightforward points and concepts so that the average DFA Member understands what is at stake, and why the DFA Bargaining Team and Executive Committee are recommending that the DFA Membership vote to reject the Board's proposals.

It has to be said that in order to achieve my goal of accessibility, details and nuance are omitted. I can assure you that our independent pension specialist Paul Chang has left no detail unanalyzed and he has agreed that the characterizations I present here are fair and sufficiently accurate if not perfectly precise.

**<u>Proposal 1. "Cessation of transfers"</u>**

This proposal would enable the Board to pay less money toward their share of our pension plan. That's why they want it. When the Board puts less money in, there will necessarily be less money paid out as pension benefits to retirees. The details are complex, but the principle is really that simple. If you could get more money out of something by putting less money into it, none of us would have to work for a living.

**How does the cessation of transfers proposal save the Board money and disadvantage DFA Members?**

The structure of the current pension plan was designed to be favourable for retirees. It has features that help ensure that the value of your pension is guarded against inflation once you retire. These protections are called indexing.

The strongest argument for fighting to keep the existing pension structure is the simple fact that, since 1985, the plan has done very well to help make sure that pensions retain their value against the eroding power of inflation (see figure below, created by actuary Paul Chang). Any change from the existing structure is a gamble because its performance in guarding against inflation can only be estimated.

Dalhousie Pension Plan - Historical Indexing with and without Discretionary Indexing
Pension Payable after Jan 1, 2020 Increase

| A | B | C | D | E | F = E-D | G = F/D | H = B/C | I = D/C | J = E/C |
|---|---|---|---|---|---|---|---|---|---|
| Retired Jan 1 | Initial Monthly Pension (No indexing) | Theoretical Pension with full change in CPI since retirement* | Pension if Automatic Indexing Only | Pension In Pay with Automatic and Discretionary Indexing | Additional Ongoing Monthly Pension from Discretionary Indexing | % Increase due to Discretionary Indexing relative to Automatic Indexing only | Maintenance of Purchasing Power with No indexing | Maintenance of Purchasing Power with Automatic Indexing only | Maintenance of Purchasing Power with both Automatic and Discretionary |
| 1985 | $5 000 | $11 612 | $8 025 | $9 958 | $1 933 | 24% | 43% | 69% | 86% |
| 1990 | $5 000 | $9 385 | $6 822 | $8 235 | $1 412 | 21% | 53% | 73% | 88% |
| 1995 | $5 000 | $7 986 | $6 391 | $7 170 | $779 | 12% | 63% | 80% | 90% |
| 2000 | $5 000 | $7 345 | $5 715 | $6 443 | $728 | 13% | 68% | 78% | 88% |
| 2005 | $5 000 | $6 487 | $5 550 | $5 831 | $281 | 5% | 77% | 86% | 90% |
| 2010 | $5 000 | $5 906 | $5 351 | $5 351 | $0 | 0% | 85% | 91% | 91% |
| 2015 | $5 000 | $5 413 | $5 244 | $5 244 | $0 | 0% | 92% | 97% | 97% |

*June 30 to June 30 CPI used as proxy for Jan 1 to Jan 1 CPI
Based on historical indexing information provided by University.

Paul's analyses are unambiguous, and **the Board does not disagree**:

*The cessation of transfers proposal will save the Board money, and it will reduce pension benefits in retirement due to lower levels of inflation protection.*

Here are a few more details. If you don't care for the details, jump ahead to the section that addresses the second proposal on CPP Integration.

The current plan gives automatic indexing in years where the stock markets are performing well over a three-year average. This is a great feature. It is entirely rule-based and driven by the stock market so the Board cannot decide to stop it.

Some years, automatic indexing does not happen. To compensate, a second indexing mechanism exists called 'discretionary catch-up indexing'. It is at the discretion of the trustees in the plan. If the part of the plan that pays out the pensions has made up for any years when the investment return was less than 5.05% and there is a sufficient surplus of money, the trustees will award some of it to retirees to compensate for years where automatic indexing was missed. It gets paid out first to people who are owed indexing, but once this 'backlog' is cleared newer retirees can start getting theirs.

While it is true that discretionary catch-up indexing does not happen very often, the good news is that it can come in large amounts that help to eliminate many years of missed indexing at a time. In fact, the historical record of discretionary catch-up indexing shows exactly this pattern (infrequent occurrences, but large amounts).

**Why does the current plan work so well for retirees?**

One reason the current plan is favourable toward retirees is that when people retire, a bit more money is transferred into the fund that pays out their pension than is strictly necessary (relative to the Plan Actuary's best estimates). This is by design, not by accident. The additional amount

helps make sure there is a better likelihood of surplus money later on so that there is a reasonable chance of granting that second kind of indexing, the discretionary catch-up kind

The Board's proposal is to stop the money transfer process that currently takes place when people retire (hence the name 'cessation of transfers'). By keeping all the money in a single fund, the little 'bonus' that favours retirees under the current system is eliminated. By eliminating this somewhat unbalanced transfer process, it helps the entire pension fund report a better funded position which reduces the Board's contribution obligations under regulatory requirements.

But here's the catch.

Because the Board would be contributing less money into the plan, there is less likely to be surplus in the plan. Less surplus means less discretionary catch-up indexing under this new system than under the current system.

As I said at the outset, the details are complex, but the simple fact remains that there is no realistic possibility that the pension plan could pay out the same level of benefits to retirees if the Board contributes less money into the plan.

**The cessation of transfers proposal is not in DFA Members' best interest.** The existing plan structure has a long track record showing good protection against inflation and it is fair to DFA Members that will retire in the future and those who have retired already.

**Proposal 2. Full CPP Integration (Canada Pension Plan)**

This proposal is in some ways more straightforward and quantifiable.

This proposal would dramatically reduce your total pension by eliminating the stacking of CPP Pension Benefits on top of your Dal Pension benefit. The Board will save money in pension contributions because the benefit that DFA Members receive from the Dal Pension Plan will be reduced, and DFA Members pension contributions will remain the same.

Currently, your Dal Pension maximum is 70% on its own and your CPP Benefit maximum is added on top for an **additional** $21,000 per year (this reflects the current CPP maximum of $14,000 per year plus an increase of $7,000 under new CPP enhancements that will roll out over the next few years). Under full CPP integration, your total pension combining both Dal Pension and CPP benefits will be 70% **total**-- the $21,000 CPP Benefit is buried inside your 70% pension rather than added on top.

This dramatic reduction in pension benefits would increasingly impact people as their career unfolds at Dal: DFA Members retiring tomorrow would experience no change, but DFA Members just beginning their career tomorrow would experience the entire change.

Here are some more details on how integration works.

During your working years you contribute money toward two pension plans, the Dalhousie Pension Plan and the Canada Pension Plan (CPP). The Board contributes to both as well. As you can guess, Dalhousie administers the Dalhousie Pension Plan and the Government of Canada administers the CPP. When you retire, you receive two pension benefits based on the contributions you and the Board have made – the Dal pension and the CPP.

Our current pension system allows you to earn a Dalhousie Pension up to a maximum of 70% of your best three years' salary (accumulated at 2% per year of service). At age 65 you can start receiving your Canada Pension Plan benefit which will have a new maximum of about $21,000 per year under the CPP enhancements (you can get a higher amount if you defer starting your CPP benefits until age 70). Some people are eligible for an additional benefit called Old Age Security (OAS) but most DFA retirees would lose that benefit due to claw-backs arising from high income levels.

If you retire and do not start your CPP benefits right away, you earn just your Dal Pension Plan amount. Once you start collecting your CPP, however, you continue to receive your full Dal Pension benefit PLUS the CPP benefit. In other words, your TOTAL pension is the sum of both Dal Pension and CPP. This is called stacking.

For the sake of illustration, suppose your Dal Pension was $70,000 per year and you had contributed to be eligible for the new maximum CPP amount of $21,000 per year. Until you start collecting CPP benefits, your TOTAL pension would simply be $70,000. But when you reach age 65 and you start collecting CPP your TOTAL pension is now $91,000 ($70,000 from the Dal plan, plus $21,000 from CPP).

**So what is different under CPP integration?**

Integration means that you would no longer stack your CPP on top of your Dal Pension amount. Instead, during your working years you accumulate a TOTAL pension (Dal Pension PLUS CPP) that maxes out at 70% of your best three years salary. Another way to put this is that the CPP benefit would be *included* in your 70% total pension rather than added to it. Since CPP doesn't actually start until age 65, people who retire before 65 receive a kind of 'top-up' amount until they start collecting CPP; this is called a bridge pension. The details are a bit complex on exactly how you accrue benefits toward the three parts of your total pension (Dal Pension, CPP, and Dal Bridge) under integration schemes so I will omit that here for simplicity.

One characteristic of integrated pension plans is that the total pension you earn before age 65 and after age 65 is the same because the 'bridge' benefit you receive before CPP benefits begin is the same size as the CPP benefit so there isn't a 'spike' in income once CPP kicks in. Under our existing stacked system, there is a bump up in your total pension at age 65 once you start collecting CPP; before that time, you are receiving only your Dal Pension benefit.

To follow on from the example I used above, consider two people who worked identical 35-year careers under the existing stacked system versus the new Full CPP integration system. The existing system would lead to a pension of $70,000 (all from Dal Pension) up until age 65 then a jump up to a total of $91,000 once the $21,000 CPP Benefit started ($70,000 from Dal Pension, $21,000 from CPP). The new system would lead to a pension of $70,000 before age 65 ($49,000 from Dal Pension and $21,000 from the Dal Bridge), and $70,000 after age 65 ($49,000 from Dal Pension and $21,000 from CPP). In other words, at age 65, the two scenarios result in up to **$21,000 less per year in total pension benefits.**

If this seems like a dramatic reduction in your pension benefits, then you are correct. It is a very dramatic change. So dramatic that it is difficult to believe that the Board actually proposed it and believed that we could possibly accept it.

The impact of changing to any CPP integration scheme varies entirely by the amount of your career worked before, and after, a change to integration.

If you are at the end of your career and were retiring tomorrow, for example, you have already accrued your Dal Pension benefits and your CPP benefits, and they would be fully stacked as always. So, any CPP integration proposal would have absolutely no effect on your TOTAL pension. However, at the other end of the spectrum, **someone who starts a career at Dal tomorrow and works a full career under the full CPP integration plan will have a TOTAL pension that is $21,000 less per year than it would be (at age 65) under the existing system.**

While it is true that there are various levels and degrees of CPP integration, it must be stated very clearly here that **the Board's package proposal is for full CPP integration** which is the example that I have outlined here.

Given the dramatic reduction in total pension benefits available under the integration scheme, you might wonder if there would be a corresponding reduction in your contributions to the Dal Pension Plan (keep in mind that CPP premiums are statutory and therefore mandatory). The Board has not offered any reductions in the contributions that you would make toward the Dal Pension Plan. That means a very dramatic reduction in total pension benefits, but you will pay the same amount of money toward your Dal and CPP pensions. As you can appreciate this proposal is entirely in the Board's favour because DFA Members would experience dramatic reductions in pension benefits yet would realize no reductions in pension contribution amounts; clearly, the Board would reduce their own contributions into the pension plan since less money is required to pay out the reduced benefits.

**I cannot emphasize strongly enough that this is a terrible proposal and there is no way that any DFA Member should accept it in the form that the Board has offered.**

It is possible that the parameters of a CPP integration framework could be modified significantly to find an outcome that actually makes sense for both the Board and for DFA Members. But, the Full CPP Integration plan in the Board's current package is entirely unacceptable.

As mentioned earlier, maximum CPP benefits are being enhanced by 50% over time. This is great, but it will also require increased contributions for DFA Members and the Board. There may be ways to negotiate a CPP Integration scheme that keeps pension benefits at their current levels (i.e., not increase further) by integrating just the CPP enhanced amount into the pension plan in exchange for reduced contributions to the Dal Pension Plan. To put this another way, the existing pension plan is very good: why pay more for a plan that is even better?

DFA Members negotiated for the shape and structure of the current pension plan some 20-odd years ago. Over the years, we have fought for it through arbitration, we have used it to accept low wage offers in the past, and we have nearly gone on strike for it. After years of effort to protect this plan, we are not about to just let it go now.

**Take Home Message**

You will be receiving an email message very early Friday morning (October 23) linking you to an electronic vote to either accept or reject the Board's offer of October 19, 2020.

In addition to these two significant pension changes, the Board's offer also contains a very low wage offer (income maintenance change: IMC) of 0.25% in year 1, 0.25% in year 2, and a wage re-opener in year 3 (this means returning to bargain this number in two years' time). The IMC obviously has immediate impacts on your current earnings as well as future earnings potential due to compounding. It is more subtle, but just as important, to note that lower future earnings also lead to lower future pension benefits since your benefit is based on your best three years' earnings; if these are lower, so too will be your pension.

At the end of the day, there is a very good reason that the DFA Bargaining Team and DFA Executive Committee unanimously recommend that DFA Members vote to reject this offer from the Board. From an economic perspective, there is nothing redeeming about the proposals, and we can do better for you.