Pension and Retirement Report

August 2014 **Ed Zegray**

When we began teaching, we were all obliged to pay for protection, starting from day one. We didn't have a choice. A certain percentage of our salary was skimmed off the top. What we may not have realized, or even appreciated at the time, was that these monies were saved (credited is probably a better word) for our own financial protection. This was our initiation to the world of pension plans. **Investopedia** explains 'Pension Plan' in this way: "a pension plan is a method in which an employee transfers part of his or her current income stream toward retirement income". In other words, in a pension plan, part of the salary earned is withheld, and it is carried forward to be withdrawn at a future date. We commonly refer to this as deferred salary. This is not a gift. It is a salary earned during our career that is redeemed during retirement years. It is really our retirement salary, which is referred to as our pension.

Our collective agreements also stipulated that our employer was required to match contributions on a fifty-fifty basis. Although this may appear normal to us now, as we have heard of late, this doesn't seem to be the norm in the municipal world of pension plans (in some cases employees of municipalities pay only 30% into the plan). But in our case, we paid the price and contributed an equal share, so we should not be embarrassed that, as retirees, we now collect the benefits, our pensions.

When many of us started working, we belonged to the Teachers Pension Plan **(RRE).** Here our employee contributions weren't actually set aside, but they ended up in government coffers and they were used to build roads, hospitals and schools (thus the previous reference to credited, versus saved monies). It was only in 1973, with the creation of **the Régime de retraite des employés du gouvernement et des organismes publics (RREGOP** -Government and Public Employees Retirement Plan), that employee contributions began being accumulated separately and managed by **CARRA.** However, employer contributions were still just a promissory note. The government promised it would honor its agreement and would contribute its share of the pension paid to retirees, when the time came. This was part of the government's liability, its debt.

But the government liability, its promissory notes, just kept on inflating drastically. It was only in 1993, twenty years after the creation of the RREGOP (yes, 20), that the government finally decided that it best begin setting aside monies to cover its share of pension liabilities. Thus the **Fonds d'amortissement des régimes de retraite (FARR -** amortization fund for pension plans) was finally established. By 2012, the FARR had accumulated slightly over 45 billion dollars (45 G$), but its debt towards pensions was about 75 G$, a shortfall in the neighborhood of 29 G$. It is projected that by 2017 the FARR will attain 70% of its obligation towards pension benefits.

All of our pension plans (RRE, RREGOP, …) are defined benefit (DB) plans. That is, we knew in advance what we would be entitled to receive in retirement (2% X yrs of service (aver. 5 best yrs)). This is the financial protection for which we paid throughout our career - a salary that was deferred, our beginning salary as a retiree - and it is guaranteed for life. At the other end of the spectrum are defined contribution (DC) pension plans. Here contributions are made to the plan each year and when someone is considering retirement, their pension is determined by the returns, the investment's performance that the plan has managed to accumulate. Here there isn't any financial security, or any sort of guarantee in these plans.

The **D'Amours Report** (April 2013) found that 47% of workers in Quebec do not have any form of pension plan, not even RRSPs, and only 35% of the workers contribute to a DB plan. Nonetheless, going against the trend, D'Amours came out strongly in favor of DB plans as the only vehicle offering financial security in retirement years and insisted that the government should find the means to increase participation in DB pension plans. However, the media focused on the former, referring to those persons (mostly public sector) with DB plans as society's lucky ones. So, it is not surprising that in the first round of consultations to get demands prioritized for the 2015 public sector negotiations, it was decided to stay low profile on pensions.

Although the D'Amours Report was shelved, the context may be shifting now. Bill 3, which governs municipal pension plans, was introduced to force negotiations regarding the sharing of deficits and of contributions, and to make indexation conditional on investment returns. A by-product of this is that there since has been much more talk in the media about DB pension plans, pension plan deficits, employer/employee contribution shares, and even indexation of pensions. The general public is becoming more knowledgeable and questions are being raised. What is a fair share? Why should judges and MNAs have fully indexed pensions? Is it appropriate that municipal elected officials only pay 23% into their pensions, and MNAs only 21% into theirs (no wonder that the MNAs' plan is being referred to as the Ferrari of pension plans)?

We know that we cannot predict the future. Even for the past, we often get conflicting interpretations of what really happened. The **Groupe de Travail des Associations de Retraités (**GTAR) is at a crossroad, and in the process of self-evaluation. How can we get more representation of retirees on CARRA's pension committee (presently there are only 2 retirees out of 26 members on the RREGOP pension committee, yet retirees are soon to outnumber active participants in the pension plan)? How can we ensure that we have representatives of seniors and retirees in negotiations and decisions that have a major impact on retirement conditions? How should we modify our strategy to protect purchasing power of retirees, that is, keep the level of pensions based on increases in the cost of living? Will the controversy over Bill 3 and the publicity campaigns that unions are undertaking (to defend their rights related to pensions) create new opportunities for GTAR to reiterate or to reformulate demands? The coming months will be interesting and may prove to be quite agitated. Keep listening.