A SOLUTION FOR SAVING DISTRESSED PENSION PLANS IN CANADA

The COVID-19 pandemic is threatening our pension security.

In December 2019, a few months prior to the COVID-19 pandemic, The Boston Consulting Group published *How to Thrive in the 2020s*. BCG predicted one in three public companies would cease to exist in their current form over the next five years, a rate six times higher than forty years ago. The pandemic has no doubt worsened this outlook.

Today, many Canadian businesses are in crisis and there will be significant business insolvencies in the months and years to come.In many cases, insolvent companies will leave behind underfunded and abandoned defined benefit pension plans. In anticipation of this looming crisis, governments across Canada need to act now to protect defined pensions. Canada cannot afford another Sears, Nortel, or Atlantic Co-Op, where retirees lost as much as 30 percent of the pension income they had earned.

Responding to the urgency of the COVID-19 pandemic, the Canadian Federation of Pensioners has consulted with key sector players – pensioners, pension sponsors, insolvency experts, pension administrators and seniors' advocates – to identify innovative solutions to the looming crisis in pension security that would ensure all Canadians pensioners are treated equally, regardless of where they live.

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Real Pension Protection Is Long Overdue
There are no real protections for defined benefit pensions when a company becomes insolvent and its pension is underfunded.

The COVID-19 pandemic is exacerbating the vulnerability of Canadian defined benefit pensioners. In response to businesses asking for 'relief' from the costs of funding their defined benefit plans, the federal government and several provinces have implemented changes, both temporary and permanent, that have reduced employers' contributions. This has resulted in pensions with greater unfunded liabilities and has increased the risk to senior's financial future.

For over a decade, the Canadian Federation of Pensioners and our partners have proposed innovative solutions to governments to address this problem in whole or at least in part. These include:

- Creating a national pension insurance program that insures 100% of the pension liability and is fully funded by the plan sponsors.
- Amending insolvency legislation to extend superpriority to the unfunded pension liability.
- As a short-term measure, introducing a refundable tax credit equal to the amount of pension loss an individual incurs when a pension fails.
- Establishing a commission with the explicit goal of determining the best way to ensure pensioners receive 100% of the pension they paid into and to which their employers committed.

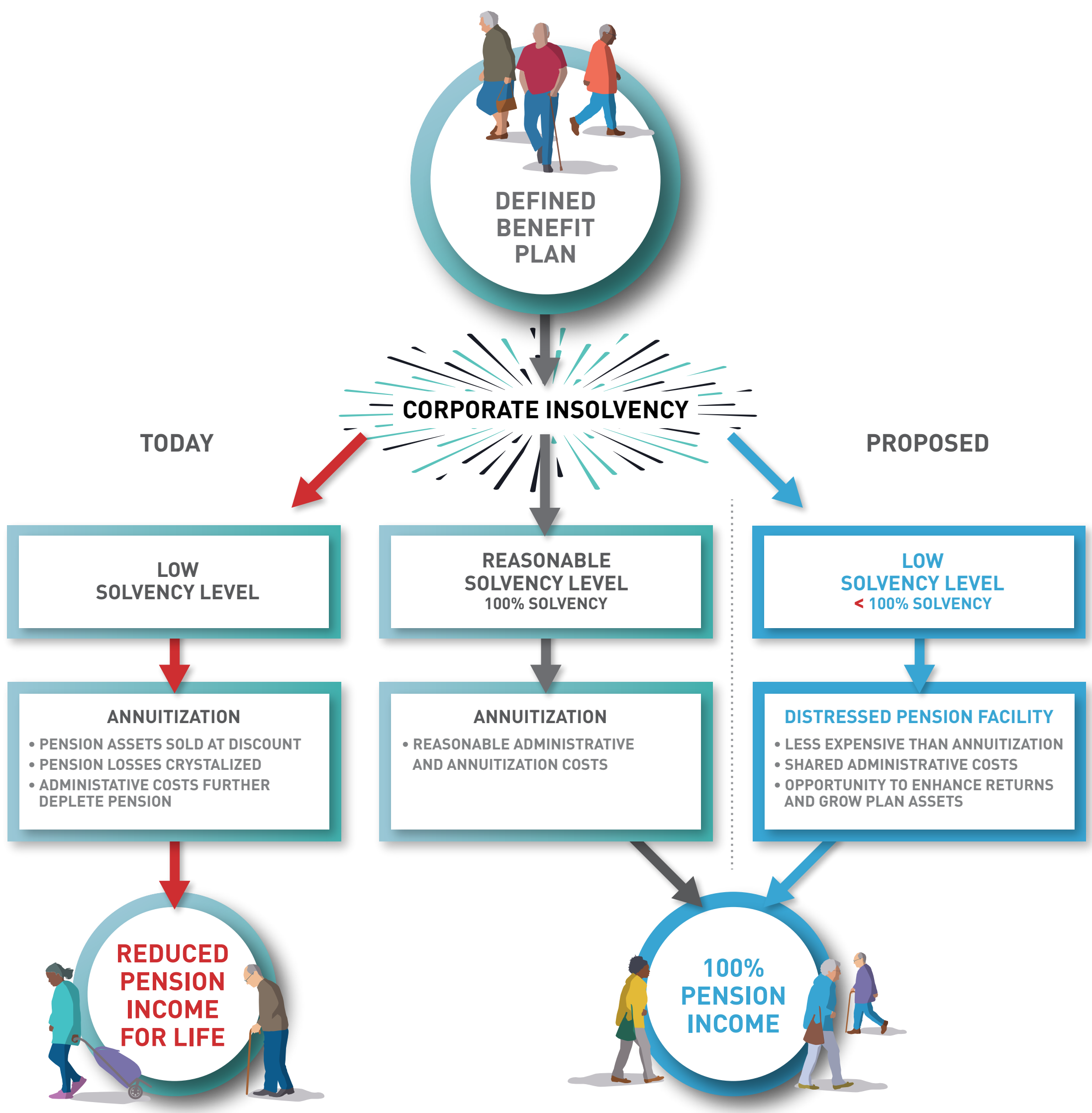
But there has been limited federal action to protect pensioners. The time for real pension protection is long overdue.

A Solution for Distressed Pensions
Currently, when a company becomes insolvent and its pension plan is wound up, the only available option is to use the assets available in the plan to purchase annuities for pensioners. But that doesn't mean pensioners will receive their full pension income. Annuitizing an underfunded pension plan crystallizes the loss, leaving pensioners facing a shortfall for the rest of their lives. Adding insult to injury, the administrative costs of setting up an annuity will further drain funds from the pension plan.

Our proposal is based on over a decade of work by our members, recent stakeholder discussions and an analysis of innovative, individual pension solutions implemented at Stelco and attempted at Atlantic Co-Op. CFP is proposing a new solution that offers a much better outcome for distressed pensions.

A Distressed Pension Facility would ensure all Canadian pensioners are treated equally.

Under this proposal, defined benefit pension plan assets would be transferred to a new form of pension plan, a 'Distressed Pension Facility', if the plan is underfunded on a solvency basis at the time of wind-up. The pensions held in these new plans, which would be federally regulated to ensure all Canadian pensioners are treated equally, would be pooled and would share administration. The providers of administration would manage assets and provide benefits to plan members. Plan members would receive 100% of their pensions through ongoing investment returns. For fully funded pensions, annuitization could still be the right solution.



CFP's Proposal Addresses the Key Elements of a Solution

While there have been some innovative solutions to lessen the impact of pension plan failures, they have been crafted outside existing legislative and regulatory frameworks and have depended on all parties coming to the table to find a solution.

CFP's proposal will remove this uncertainty and address four key elements of a workable solution:

- **Fairness:** This is a legislative/regulatory solution that applies equally to all pensions abandoned due to insolvency regardless of where the pension is regulated and where pensioners live.
- **Jurisdiction:** The creation and regulation of a Distressed Pension Facility under federal insolvency law will overcome the confusion and conflicts created by differences in pension legislation in different jurisdictions.
- **Size:** Enabling these pensions to merge with large existing plans allows them to take advantage of the economies of scale and the greater risk tolerance of these larger, more diversified plans.
- **Risk:** This solution would assign any go-forward funding risk to the jurisdictions where the plans are registered. Those jurisdictions are responsible for funding regulations and are therefore in the best position to manage plan risk and accept responsibility for plan go forward shortfalls.

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