



A Pensions Agenda for The National Union

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Pensions: A Growing Area of Interest for Our Members

Traditionally, pension funds and plans were assumed to be the responsibility of employers. The prevalent view was that employers had the sole prerogative to manage our pension plans as they saw fit, with the responsibility to provide their workers with the pension promise – secure income during their retirement years. Workers and their unions rarely questioned how the pension plan was being administered or the decisions plan managers made on fund investment. Their focus was on the actual amount of the pension benefit on retirement. In the public sector, most plans operated on a “pay as you go” basis - there was no need for a fund, per se, because the benefits were guaranteed, and there would always be a government in place to ensure the benefits promised were actually paid.

In the last two decades there has been a huge shift in the level of interest and attention workers and their unions give to pension plans. They're not only thinking about the level of pension benefits; they're also paying much more attention to the overall health of pension plans. Pensions are now widely viewed by workers as their deferred wages that will provide them with a steady income upon retirement.

There are several reasons for this growing interest in the field of pensions by working people and their unions.

One obvious reason relates to the huge retirement tsunami that our country is facing. Canada is beginning to experience a great demographic shock, as thousands upon thousands of working age people near their retirement age at the same time. Currently 225,000 Canadians retire every year; this figure will climb to 370,000 a year by 2010 and to 425,000 annually by 2020. As more of our members get closer to retirement age it's natural that we would have many more members thinking about pensions.

Another reason for the growing interest in the pension field has been the structural changes to our economy in the last several years. Unemployment, stagnant wages, privatization, deregulation and the globalization of finance and markets have led to our members feeling less secure about their economic well-being during their work life and future retirement. Major events like the technology sector meltdown have triggered steep declines in the value of pension funds. In addition, recent examples of high profile corporate crime like the Enron and WorldCom scandals have provided workers with many more reasons to connect the health of their pension plans with their financial security during their retirement years.

Another major factor that has become much more relevant over the last decade has been the imposition by the accounting profession and many in the business and financial communities of the concept of an “unfunded liability” into the public pension system. Public sector workers are now more aware that the health of the pension fund is critical to their pension entitlements. There is a much greater recognition that it really is their deferred wages in the fund, regardless of whether the contributions were made by them or their employer.

Keeping the Pension promise

We – the National Union and its Components – are committed to keeping the ‘pension promise’ for our members. We will do everything in our power to ensure that our members have financial security in their retirement years.

In the public sector, we cannot allow governments to use cuts in pension funding as a way to balance the books, nor can we allow pension funds to become depleted so that benefit cuts result. We cannot allow governments to raise the age at which Canadians become eligible for retirement benefits as an excuse to make the funding

of our public pension plan system more affordable. We can anticipate a concerted effort to raise the retirement age or, at the very least, the age at which people become eligible for an unreduced Canada Pension. In the U.S., the age for receipt of Social Security is being increased from 65 to 67 over the next few years. We need to protect workers from being forced to work for more years than they wish to. At the same time, we should consider whether we need to continue to insist that workers automatically retire at a certain age if they do not want to. It's time for the labour movement to revisit this issue.

In the private sector we must ensure pension plans are sufficiently funded and that pension funds are protected in the event of a company's bankruptcy.

Pension plans must be run for the members, with adequate and user friendly information about individual benefits, about the funding of the plan, about the most appropriate choices for individual members, and about plan amendments.

We also must continue to resist the ongoing pressure from the corporate sector to cut back and privatize Canada's public pension system. Many Canadians, including close to 25% of the National Union's membership, do not have workplace pension plans. Their only income in retirement comes from private savings and the components of Canada's public pension system – the Canada Pension Plan (CPP), Old Age Security (OAS) and the Guaranteed Income Supplement (GIS). Our public pension system accounts for about half of the income for elderly Canadians, and over 90% of the income of Canada's poorest seniors.

We must continue to work to achieve pension plans for many of our members who are not even covered by a workplace pension plan. Only 33.6% of Canadian workers are covered by a pension plan; 87.3% of public sector workers and 27.2% of private sector workers pay into a pension plan. A disproportionate number of workers not covered by any workplace pension plan are women,

especially those that work in low-wage jobs. When we do have pension plans we need to ensure they are protected in the event of bankruptcy, especially in light of the recent Air Canada and Stelco examples.

The National Union and its Components must explore the feasibility of setting up our own pension plans that we can place on the bargaining table with the employers of our members in small bargaining units. Often it's not feasible for small employers to establish a pension plan but they and their workers can contribute to a multi-employer pension plan.

We need to ensure that pensions are front and centre of our bargaining agenda. We must develop strategies to ensure that our members can still contribute to their pension plan when their jobs are privatized and that their pension is available to them without reduction in benefits when they retire.

We must also resist any attempt to move away from the defined benefit plans (to which many of our members contribute) to the less superior defined contribution plans. Defined benefit pension plans still provide the best benefit to retired workers and to workers planning their retirement. They provide guaranteed income security to workers for their retirement, no matter what happens in the stock market, how long an employee lives after retirement, or whether he or she becomes disabled.

We also need to ensure that we continue to pursue a progressive agenda for pension reform built on the need to strengthen Canada's public pension system. We must strongly resist any move to privatize CPP in favour of private individual retirement savings accounts. We also need to be part of the campaign to have the CPP Investment Board strengthen its social investment policy to ensure that the retirement savings of over 16 million Canadians are invested in ways that have a positive impact on our economy and the environment.

Pension legislation in Canada is not stagnant. Keeping up with the legislation is a specialized and continuing challenge. All provinces with the exception of PEI and the federal jurisdiction each maintain their own set of pension rules¹. These rules differ in many aspects and are frequently changed. The National Union and its components need the capacity to track, analyze and comment on those legislative changes. We also need to develop our own agenda for legislative change that protects and furthers the interests of our members and their pension funds.

Recommendations:

- 1)** The National Union will continue its campaign to strengthen Canada's public pension system and provide research and analysis with respect to any new issues, trends or changes impacting on our public pension system.
- 2)** Components and the National Union will redouble their efforts to ensure all members are covered by pension plans and that workers have the right to a decent pension plan.
- 3)** The National Union will re-establish its Pensions Committee made up of component leadership and staff who play a leadership role in the field of pensions on behalf of their respective component.
- 4)** Over the next three years the National Union, with the assistance of members of the Pensions Committee, will produce a series of activist-based educational pamphlets on various emerging issues within the pensions' field.
- 5)** The National Union will create a 'Pensions Watch' section on its website to provide activist-based education as well as technical information on the various trends, issues and legislative changes that impact on our members.

The Need to Maintain and Upgrade Our Pension Knowledge Base

Historically most of the National Union Components have assigned a staff person to be the 'union pensions' expert. He or she would work on pension issues while juggling other staff responsibilities like contract servicing or negotiations. Usually this person's pension knowledge base was learned on the job. Not all of our Components have expanded beyond the ad hoc approach in terms of providing research, basic education and servicing in the pensions field. In fact, there are fewer than a handful of staff across our components who work within the pensions field on a full-time basis and all of them will likely retire in the next decade.

We do not have a consistent approach to elected leadership in the area of pensions. Some components have active and well resourced committees; some have one or two senior leaders with a particular interest in pensions, and some have no one in the senior ranks especially focused on pension issues.

Most of our union education in the area of pensions has focused on teaching our members their rights to pension benefits when they retire, their entitlements from Canada's public pension system and how public pensions relate to workplace pensions. This kind of member education, as important as it is, has not been consistently delivered within our Components.

Our educational agenda on pensions must continue to move beyond this traditional approach to one where we play a much more proactive leadership role in the field of pensions. This is a growing area for each of our Components, and it's an area where our members will need to be better informed – not just on the technical aspects of their pension plan but on the broader perspective that we have around joint control and the investment policies of our pension plans.

It's critical that each of the Components commit the resources to create widespread awareness and knowledge amongst our membership of the profound effects of their pension funds. We need to continue to build the knowledge base and skill level of our leadership, staff and our union trustees.

Recommendations:

6) Working with our Components' pensions experts, the National Union will update its basic pension education course and manual and will help Components facilitate membership educationals as required.

7) Components will allocate appropriate resources to ensure that elected officers, staff and their appointed pension plan trustees are able to play a leadership role on behalf of their respective component in the field of pensions. The National Union will work with Components to help ensure that those individuals receive appropriate training to upgrade their knowledge base and skill level in the area of pensions over the next three years.

Pension Assets: The Largest Single Source of Capital in the World

Canadian pension fund assets are estimated at just over \$540 billion and are second only to the combined financial assets of the major banks in Canada. The value of pension funds globally is over \$7 trillion (U.S.). This pool of assets represents the largest single source of capital in the world today. We have witnessed an explosive growth in pension funds in each decade since the 1950s, when the practice of private pensions spread through many sectors of the economy. During the last two decades alone, this capital pool has grown by 400 percent. Pension funds today own 35% of all publicly traded equity in Canada. These pension funds have become a critical source of capital for national and international markets.

Pension Fund Investments Can Affect Our Quality of Life

The pension funds put aside to guarantee our members' retirement incomes can also determine the quality of employment, community life, the environment, consumer goods and public services that they and their families very much depend on.

Yet the financial institutions and individuals that manage pension funds normally pursue narrow investment goals that often undermine the very workers whose savings they invest.

Why would public sector pension funds invest in companies that are attempting to take over public services – like private corrections companies that build and run prisons, or private laboratory companies that are bidding to provide public health care services?

Some of the companies our funds invest in actively promote privatization, deregulation, 'free' trade deals, and the downsizing of governments and public services. Pension funds have also invested in companies that have their factories in countries that have a consistent track record of human, labour and environmental rights abuses.

Do we really want our retirement income to come from companies that produce weapon systems or parts and services for these machines of war, are guilty of environmental degradation, or clothing firms that rely on third world sweatshop labour to produce fashion apparel?

We all agree that it's critical that the pension funds of our members be invested in profitable ventures. But that doesn't mean that ethical, socially useful and/or other positive considerations can't affect the investment decisions of our pension funds. Only if workers and their unions are part of the decision making process can we ensure that our pension funds are not used to the detriment of workers and their families, but

instead are directed to socially responsible, yet profitable investments. The joint control of our funds is critical if these goals are to be achieved.

It's Time to Unleash the Power of Our Pension Funds

The labour movement both here in Canada and internationally is beginning to recognize this, and as a result, there has been a huge growth in the interest of unions in joint trusteeship and the investment policies of pension funds.

Components of the National Union were among the first unions in Canada to gain joint control of members' pension funds. The first major victory in this area was in 1994 where, after ten years of campaigning on the issue, OPSEU was able to achieve joint trusteeship of their public service plan, one of the largest pension plans in Canada. Since then BCGEU, HSA BC, MGEU and NAPE have fought hard for, and achieved, either joint trusteeship of some or all of their members' pension plans, or a specific commitment to move to joint trusteeship.

Today the collective assets of our members' pension plans that are jointly trusteeed involving those five Components is over \$60 billion. The campaign for joint trusteeship has spread to most of the National Union's other Components. The National Union with its Components has become an international leader in this field.

Recommendation:

8) All components that have not yet pursued joint trusteeship of their members' pension plans will be encouraged to develop a strategy to achieve this objective over the next five years. The National Union will assist those Components through the coordination of the experiences and knowledge from those Components that have already achieved joint trusteeship.

Expanding Our Pensions Agenda

We need to transform the way we think about pensions, especially the area of joint trusteeship. We are all aware of our broad objectives around pension investment decisions and we are certain of our values and our vision that guide our objectives. We need however to move beyond that. We need to create a pensions culture within the National Union and our Components where we are able to speak with confidence and commitment about what joint control of our members' pension plans means, and what it should mean.

We must develop a broad agreement on how we transform our pension ideology into concrete, achievable actions. We need to make pension fund trusteeship part of the union's work, as much as negotiations and grievance handling. The work we do within the pensions area should complement and be part of the work we do elsewhere within the union.

Gaining joint control of the governance of our pension plans is only the first part of our pensions' agenda. We need to expand our pensions' agenda so that we are better equipped to unleash our new found power to ensure that pension fund capital is used to advance the best long term interests of our members, their families and the communities that they are a part of.

The field of pension trusteeship can be a very complex and intimidating area. It is an area that is governed by a great deal of regulation and legislation, most of which we have had no say in establishing and which therefore often doesn't represent our interests. We need a greater understanding of those rules and laws and we need the skill and knowledge base to question and challenge them when they don't meet the interests of our members. It's not fair as a strategy, nor realistic to expect those members whom we appoint as individual trustees of our pension plans to do this by themselves; we need to make this a coordinated initiative of our entire union.

Support for Trustees

We need to provide greater support and training to our union trustees. We don't ask our bargaining committees to go off on their own to get good agreements without providing them with expert advice and strategy. We don't ask our staff to handle arbitrations without giving them backing and resources. Neither should we send our trustees off to do such important work without providing them with the necessary expertise and resources.

We need to recognize that being a trustee can be a lonely job. Trustees are too often kept isolated within their individual plans, and perhaps the whole process is designed that way to keep trustees isolated from each other. We need to overcome that separation, to provide ways for trustees to get together and work in concert.

We also need to establish clear objectives. We need to be very clear about what we want as an organization. What we hope to accomplish with the uses of pension funds must be both transparent and consistent with our broader objectives.

Our overall strategy must protect the welfare of our members by ensuring that investment priorities of their pension funds have broad and long-term objectives that represent our members' interests. Pension fund trustees are the guardians of workers' interests. Their primary duty is to the beneficiaries of each fund. We need our trustees to broadly rethink how they can meaningfully pursue the long-term interest of plan beneficiaries.

Recommendation:

9) In consultation with our components, other labour unions and labour-friendly pension experts, the National Union will compile union policies for pension trustees with a view to drafting the most appropriate policy for component union trustees covering such areas as:

- a)** selecting, appointing, training, accountability and compensation for expenses of union trustees;
- b)** union policy with respect to socially responsible investment of pension funds including shareholder activism, ethical and other screens and economically targeted investment strategies; and
- c)** other technical areas such as general governance, sponsorship and trust documents, communication with sponsors and members and statements of investment policy and procedures (SIPPs).

Socially Responsible Investment (SRI) Approach to Our Pensions Agenda

We really cannot define our pensions agenda unless we are clear on the approach intended to advance that agenda. The National Union and its components are committed to a course that involves building our capacity to promote the increased use of Socially Responsible Investment (SRI).

SRI refers to a strategy of adopting social and ethical goals in addition to the rate of return objective in pension fund investing. It really represents a multi-dimensional understanding of financial investment practices that advances the broader and long-term interests of plan beneficiaries – the workers who contribute to the plan on a regular basis.

The most important objective of SRI is to obtain competitive rates of return to ensure adequate retirement payments for workers. In this regard, the SRI view does not differ from conventional investment priorities. But the SRI view departs from conventional investment practices by expanding the options, methods, and principles that guide capital allocation decisions.

It's critical that we recognize that capital markets are neither necessarily efficient, nor value-free. Therefore, those who seek to advance the long-term interest of workers inside financial markets must look beyond both the array of choices these markets currently offer and the narrow band of information conventional investment managers provide.

There are three basic pillars that an SRI strategy must rely on to be successful:

- ethical screening
- shareholder activism
- economically targeted investments (ETIs).

It is critical that we expand our knowledge base of these three important pillars of progressive pension fund investment.

We need to raise the level of comfort and understanding of our leadership and our trustees on the prudent and strategic use of these investment practices to create 'collateral benefits' to our members and the broader community.

Recommendation:

10) The National Union will continue to conduct research and prepare educational material to advance its understanding and use of socially responsible investment (SRI) policies and strategies within its members' pension plans and work with its Components that are active in this area to coordinate our SRI strategies.

Conclusion

Your National Executive Board has outlined a number of strategies and recommendations through which the National Union and its Components can advance its pensions agenda. These include:

- working with those Components that have not yet achieved joint trusteeship to help them achieve that goal;
- research and analysis on important pension issues;
- popular and professional education of our leadership, staff, trustees and its members – the pension beneficiaries;
- working within the National Union and the labour movement both here in Canada and internationally to expand and coordinate union-centered share holder activist strategies; and

- advocating for a more inclusive and transparent framework of pension regulation and corporate disclosure.

Some of the tools in this toolbox are already used, while others we will need to develop more fully. Together, however, they offer a diversified mix of strategies to articulate and advance a distinctive and progressive pensions agenda for the National Union and its Components over the next three years.

Our ability to influence the huge pool of capital that make up our members' pension funds stands on the verge of a critical threshold. Our success in this regard depends on our ability to meet the challenges of our pensions' agenda that your National Executive Board has set out for the next three years and beyond. It will require that all of us – as leaders, staff and trustees – demand changes in both the current investment practices and the regulatory framework of pension plans. The agenda that we have set out requires a cultural shift within our union. This shift will help us unleash our capital power and expand our expertise so that we can skillfully and confidently use pension fund investment to maximize long-term value for our members, both in terms of their financial security in retirement and the overall quality of life in their broader community.

In our hands is placed a power to build a better world.

¹PEI's Pension Benefit Act was introduced in the provincial legislature in April 1990 but has not yet been proclaimed fourteen years later.