

August 4, 2014

Mr James Rajotte, M.P.  
Chair, Standing Committee of Finance  
House of Commons

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Subject: Standing Committee 2014 Pre-Budget Consultations

The Canadian Federation of Pensioners (CFP) welcomes the opportunity to provide comments with respect to the pre-budget consultations of the Standing Committee on Finance leading to the 2015 federal budget. Our comments are offered with particular reference to the Committee's second theme: "*Supporting families and helping vulnerable Canadians*". CFP advocates for the interests of 250,000 individuals across Canada who are entitled to receive a defined benefit pension (DBP) from private sector companies.

Recently the federal government has conducted two consultation processes which directly impact the pension security of millions of Canadians. Because pensioners, who are past their employment years, are particularly vulnerable to any loss of pension income, CFP has contributed to both consultations. In these consultations, CFP has made specific recommendations premised on the principle that commitments that have been made to pensioners should be honoured.

The first consultation process was undertaken by the Minister of State for Finance with regard to the establishment of target benefit pension plans (TBP). These plans effectively shift much of the risk of assuring future pension income from the employer to the plan member. Unlike defined-benefit plans, a target benefit plan does not guarantee a pension benefit. Instead, as the name implies, benefits fluctuate around a desired target, depending on the financial performance of the plan, and the willingness of the employer and employees to contribute to the plan.

If introduced properly, a TBP can be a helpful option for employers and employees, providing an additional tool to provide retirement security for those who might otherwise have no pension. If done poorly, it can undermine the security of the pensions promised to members of existing DBP plans.

The outcome hinges on the issue of consent. If conversion of a DBP into a TBP is done in a way that forces a DBP member to accept the very different pension promise of a TBP, then the pension security that he or she has worked a lifetime to earn could be very much at risk. Pensioners would be forced to rely instead on the good will of their DBP plan sponsor, or on the courts, to protect the pension promises made to them.

CFP is encouraged that the Ministry of Finance consultation paper contemplates plan conversion only upon consent. However, the paper does not define the means by which consent would be ascertained. The consultation paper holds open the possibility that a private sector sponsor might convert its defined benefit plan to a target benefit plan and eliminate its defined benefit plan. In fairness, this should not happen. **If conversion from a defined benefit plan to a target benefit plan is permitted, consent to conversion must be an individual, informed choice, and the defined benefit plan must remain for those who do not choose to convert.**

Regarding the second public process, Industry Canada has just closed the consultation period for a statutorily-mandated review of the *Bankruptcy and Insolvency Act (BIA)* and the *Companies' Creditors Arrangement Act (CCAA)*, the first since 2001-2002. The outcome of this review is vitally important to members of DB pension plans, as the current legislation provides almost no protection to pensioners in respect of the amounts that are owed to an underfunded pension plan when an employer is insolvent. Plan underfunding is common, and the protections found in provincial and federal pension legislation for the amounts owing to a pension plan are, for the most part, not put into effect by current insolvency legislation.

Rather, these amounts are treated as “unsecured debt”. As higher priority creditors take precedence, little or no money can be recovered by pensioners through the insolvency processes. As a result, pensioners face the loss of a significant portion of the pensions they earned throughout their working life.

This is not an imaginary threat or an unusual occurrence. It has happened many times in recent years as the result not just of the well-publicized failures of large companies such as Nortel, Stelco, or Abitibi, but also of many smaller insolvencies that went almost unnoticed by the broader public. In every case it has devastated the retirement plans of ordinary Canadians.

Canadian pensioners fare worse in insolvency situations than those in most of the other OECD countries. **Legislation that confers a high priority in insolvency for all amounts owed to pension plans provides the only hope that significant pension loss is not the inevitable outcome of employer insolvency.**

We urge your Committee to give these issue your serious attention as you consider how best to protect the interests of vulnerable Canadian pensioners.

CFP would be pleased to be invited to participate in your proceedings in Ottawa or Toronto should you deem this appropriate.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Bob Farmer', with a stylized, cursive script.

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