

## **Presentation to the Legislative Committee**

### **Bill 45: The Teachers' Pension Amendment Act**

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My name is Paul Olson, and I'm the Vice President of the Manitoba Teachers' Society. I've been a teacher for 18 years, and I've served as an elected member of the Executives of the Winnipeg Teachers' Association for 10 years, and the Manitoba Teachers' Society for 6 years.

Thank you for the opportunity to be here this evening and to offer what I hope will be a slightly different perspective on some of the issues under consideration.

I'd like to discuss two issues that I believe are of particular importance to the many active teachers who are still years or even decades away from retirement. One is the so called "new entrant shortfall", and another is the suggestion by the Retired Teachers Association of Manitoba (RTAM) to use money from the account that's designated to pay the basic pension benefit -- Account 'A' -- in order to fund COLA improvements. In addition to those two issues, I'll have a few brief comments on the matter of the plebiscite, and on the supposed 10 year moratorium.

The **imaginary** new entrant shortfall is something that has been badly misunderstood. While everyone acknowledges that teachers coming into the profession are not contributing enough to pay for the pensions they will be eligible for, there are some who claim, incorrectly, that this somehow means retired teachers are subsidizing these new teachers.

The root of our pension problems can be found in decisions that should have been made more than two decades ago. Any blaming of these problems on teachers who are just coming into the profession is unfortunate at best.

By not matching pension improvements in the 1980s and 90s with the contribution increases from active teachers of the day that were needed to pay for them, those looking out for our plan made a major mistake. What this means is that most teachers who retired in the last 15 or 20 years did not contribute enough into our pension plan to cover the long term costs of the pension they are now receiving. Benefit improvements were made without ever ensuring the payment of increased contributions to support them.

We can start to correct this situation with active teachers by raising the amount they contribute to our pension plan. Once a teacher retires, however, the opportunity to pay for the improved benefits is lost forever.

In September 2005, teachers began to pay more for their pensions. We now pay an additional 1.1% of our salary, which is a lot of money -- an 18% increase in our pension contributions. On top of that, as a member of the Provincial Executive of The Manitoba Teachers' Society, I know we have made it clear to active teachers that another increase, of about the same amount, is still required. If Government agrees to that, then active teachers will be paying 35% more into the pension plan than they did before September 2005.

I have the privilege of talking with teachers of all ages, and I can assure you that the increased pension costs have angered many teachers, and in particular many young teachers. Teachers understood the importance of those increases, and have indeed strongly supported those increases. They nonetheless can't help but wonder why they have to contribute so much more into the plan in order to get the same benefit as teachers who are already retired. Paying for an improvement is one thing. Paying dramatically more so that ALL pensions can simply be maintained -- including those of a large and rapidly growing group of retirees who (obviously) no longer contribute -- is another thing entirely.

We don't have a "new entrant shortfall". What we have is a funding shortfall, period.

The second issue I would like to address is the suggestion that we should take lump sums out of the account that pays basic pension benefits in order to fund improved COLAs. This is a recipe for disaster.

Some have claimed that close to 50% of the money in the account that pays the basic benefit was contributed by retired teachers and therefore somehow "belongs" to them. The very nature of a benefit plan is that one pays in a precise premium in exchange for specific insurance and/or benefits. Our pension plan is, by design, a defined benefit plan: one pays a defined premium, and is assured of a defined pension payment each month upon retirement. That is what belongs, or is due, to any given retiree.

In the 1980s warnings about the inadequate funding of the COLA account were ignored. This has led to our present situation, where we cannot pay reasonable COLAs. If we now begin to take money from the account that pays the basic benefit in order to fund COLA we will, in the not too distant future, face a situation where we cannot adequately fund the basic benefit of future and current retirees, let alone any cost of living adjustments.

At that point, I imagine that retired teachers might insist that the basic benefit is guaranteed, and they'd be quite correct. However, the laws and regulations that govern our pension plan belong to the Government of the day. Those elected representatives can change the pension plan at will, including raising the retirement age, or cutting benefits. While a lot of actuarial math is of course involved, at the end of the day pension plans are not complicated. The promised benefit levels must not exceed the money available to pay for them. When they do, serious problems develop.

I need to speak to a few statements and questions that have been heard here regarding the plebiscite itself.

At these hearings we've heard the plebiscite derided as a sham and a public relations exercise, and it has been repeatedly criticized because it was non-binding. I am absolutely amazed that anyone is willing to run for public office any more. Had the government -- or the Pensions Task Force -- not consulted with plan members, it would doubtless have been criticized for not giving Plan members a voice. Perhaps most strangely, a plebiscite is, by its very definition, non-binding. How the members of the Pension Task Force can be criticized for doing everything they could to let Plan members have their say, with the Government not shirking its ultimate responsibility to render a final decision on the matter, is remarkable. Had the vote *been* binding -- in other words, had it been a referendum -- then none of us would need to be here, because the decision would have already been made.

Questions regarding the timing and timelines of the plebiscite have been raised as well. Decisions that are made regarding changes to COLA come into effect once annually, on July 1<sup>st</sup>. In bringing our request for a plebiscite to the Pension Task Force, MTS was hoping to get an improved COLA to Plan members as soon as possible. There was no evil or hidden agenda. An improved COLA for retirees, as soon as possible, was the goal.

As for the supposed ten year moratorium. This issue clearly has caused a great deal of anxiety, and that is very unfortunate. It is perhaps one of the best (or worst?) examples of misunderstanding or misinformation that we've seen to this point.

I sincerely hope this will come out when the Bill is reviewed, but I'll say it now: there is no ten year moratorium on anything. The word is not present in the Bill, and neither is the concept. The only place that a time period of ten years is mentioned is as follows: for a ten year period, the Pension Adjustment Account will be credited with the "better of" the interest rate for equities or fixed rate investments, capped at a maximum of 2/3<sup>rd</sup> of COLA. The "better of" crediting was suggested by RTAM at the Pension Task Force, and agreed to by MTS. For those not conversant with what that means, it simply means that the "COLA account", if I may call it that, is guaranteed the best interest rate for a

decade. Passing Bill 45 simply does not prohibit discussion, plan improvements, contribution increases, or other changes that would benefit Plan members.

I truly hope that you can support Bill 45. It is not -- and does not pretend to be -- a perfect solution, or a final solution, because it does not contain a billion dollars within its provisions. What it *is* is a very positive step. It brings tangible improvement to teacher COLAs, now and into the future. As such, it is worthy of your support.