

Presentation to Bill 45 Committee Hearings

My name is Pat Isaak and I am the President of The Manitoba Teachers' Society. I want to thank the Committee for the opportunity to present our views on the proposed amendments to The Teachers' Pensions Act that are contained in Bill 45.

Let me say first of all that MTS wholeheartedly supports Bill 45 and thanks the government for introducing this Bill. The changes being proposed are the culmination of considerable discussion and debate among the members of the teachers' pension plan, both active and retired. Bill 45 represents a significant improvement in the pension benefit paid to our retired members. At the same time, it balances the need to provide a better cost of living adjustment with protecting the basic benefit for all active and retired members. We appreciate the willingness of government to deal with a difficult issue in a balanced and fiscally responsible manner.

By this time, you have all been made well aware of the contentious nature of the COLA issue. Without any exaggeration, the Teachers' Society has been working non-stop to find a resolution to this long-standing problem for the last five years. There is no other issue that has been more important to the Society's agenda than the COLA problem.

Unfortunately, the pension debate has become not only contentious, but deeply personal. The Society regrets that some have taken this approach because as much as pensions, and pension debates, can become emotional, they are simply about numbers.

Pension plans are a balancing act. The bottom line with any plan is that the money paid out in benefits must be balanced with the money paid in through contributions and investment returns. What we are faced with in our plan is an imbalance. The money in is—and has been for more than two decades—out of balance with the benefits being paid out.

A bit of background may be helpful. The teachers' pension plan in Manitoba is a defined benefit plan. In a nutshell, that means that the benefit determined at a person's retirement remains the same, or defined, until that person dies, notwithstanding the options chosen by the person to deal with survivor benefits. Once a person retires, their benefit cannot be reduced, regardless of the financial status of the Plan.

Inflation protection is important, and the issue we face today is that the current annual cost of living adjustment being paid to retired teachers is inadequate.

With this in mind, let me try to give you a picture of the balancing act that I described earlier.

In 1980, a contribution rate was set for active teachers at the time of approximately 6.5% to 7% of salary. In 1980, these are the numbers that are important to note:

- There were six active teachers contributing to the Plan for every one teacher collecting a benefit
- The average age at retirement was about 61
- The average years of service at retirement was about 35 years
- The basic pension benefit was based on an average of the best seven years of earnings

For the next twenty-five years, there were demographic changes in our membership and improvements made to the pension benefit in every one of the areas mentioned above. Today:

- There are 1.3 active teachers contributing to the Plan for every one teacher collecting a benefit
- The average age at retirement is about 58
- The average years of service at retirement is about 28 years
- The basic pension is based on an average of the best five years of earnings

What does all this mean?

- It means that today there are fewer teachers contributing to the Plan in relation to the number of teachers collecting a pension and receiving annual COLAs.
- It means that teachers are contributing to the Plan for fewer years and collecting a pension for longer than they did in 1980.
- It means that the basic pension is based on higher average earnings (seven years to five years) relative to 1980.

Combined with increased life expectancy, this means that instead of paying in approximately two years for every year they collect a pension, teachers are now paying in approximately one year.

How does this create an imbalance?

All the improvements to teachers' pensions significantly increased the money being paid out of the Plan. But throughout the entire 25 year period, until September, 2005, teachers paid no more money into the Plan. In other words, while the money going in remained the same, the money going out was increasing drastically.

In fact, a perfect storm was in the making. Life expectancy was increasing, investment rates were decreasing, the number of teachers paying into the Plan was flat, while the number of retired teachers was growing.

The logical and reasonable question to ask is why this issue wasn't addressed sooner.

The answer to that question is as complex as it is embarrassing. In order to deal with a twenty-five year problem, you need to look at a great deal of history. There is not enough time to elaborate on all the issues that were at play in coming to the current problem, but I will attempt to address the most important factors. Here's why.

1. Statutory limitations

The Teachers' Pension Plan is a statute of the Province. Any changes, therefore, require legislation. Unlike other unions, teachers in Manitoba don't deal with their pensions through the collective bargaining process. We must lobby the government of the day in order to make changes. There were no substantial changes made to the Act during the late 1980s and 1990s.

2. The decision making process

Changes to the Teachers' Pension Plan have traditionally taken place as a result of discussions of the Pension Task Force (PTF), which didn't meet for most of the 1990s.

3. How did the imbalance happen?

Throughout the 1980s and 1990s, the focus of MTS was on making benefit improvements. As the evidence shows, there were significant improvements to pension benefits - but neither MTS nor government paid any attention to how those benefits would be paid for over the long term.

4. What is the specific COLA issue?

Full, and close to full, COLAs were paid out for a period of almost 20 years. In 1999, the perfect storm was in full force. Despite repeated warnings by the Plan's actuary starting in 1984, COLAs were paid out at a rate that far exceeded the money that was paid in to sustain them in the long term.

The real shame of this issue is that it was completely preventable. Had MTS and government paid attention to the actuary's warnings, one of two things would have happened:

- The contribution rate would have been increased to a level that would sustain the COLAs being paid out, and/or
- The COLA benefit would have been reduced to a level that would have matched the contributions coming in.

The bottom line is that, for a period of more than two decades, both plan sponsors—MTS and successive provincial governments—ignored the issues and allowed the COLA to become seriously compromised.

The reality that we now face is that the money required to pay what once was—that is, a full COLA—is just not there. Today, the cost to pay a 3% COLA would exceed \$1 billion. Even to guarantee two thirds of that amount would cost between \$650 million and \$700 million.

It is not my intent to appear disrespectful to retired teachers, but that money just isn't available. My colleagues on the MTS Provincial Executive and I would love nothing more than to stand together with retired teachers and say that we can restore the COLAs of the 1980s and 1990s. My own mother lives on the survivor benefit of my late father's Class 3 pension, and there is nothing that would make me happier than to have her enjoy a bigger annual increase.

But it's not affordable. The only place to get more money for COLA is from active teachers and government. And the amounts required to fill a 25 year hole are just too big.

It serves no useful purpose to dwell on past mistakes. We need to move forward, and to do that, we need to make reasoned, balanced and fiscally appropriate decisions. The Plan must be put back on track to balance the money in with the money out.

The Manitoba Teachers' Society believes that Bill 45 does exactly what needs to be done.

- It provides an immediate and significant improvement in the COLA paid to beneficiaries.
- It recognizes the need for checks and balances so that the COLA is sustainable.
- It provides a 10 year safety net in the form of the 'better of' investment earnings crediting.
- It provides for a review of the implementation after five years.
- It provides for a review of the contribution rate after the 2009 valuation.
- It places a priority on protecting the basic pension benefit.

This last point cannot be overstated. From the outset of this issue, MTS has been absolutely clear about one thing: we will not agree to anything that puts the basic pension benefit at risk.

And therein lies the heart of the disagreement between MTS and RTAM.

Over the course of the past several months, there has been much said by both MTS and RTAM about whether or not the implementation of Tim Sale's Report on teachers' pensions, as provided for in Bill 45, is beneficial to plan members. There has also been a flurry of misinformation, emotional rhetoric and personal attacks, none of which has been helpful in providing useful and factual information to members who were asked to make a financial decision about the Plan.

RTAM has stated publicly many times, including in their official response to the Sale Report, that if the money to pay COLA is not forthcoming in the form of a lump sum payment from teachers and government, then the basic benefit account (Account A) should be used as a source of funds to pay COLA.

Let me be perfectly clear. That CANNOT be allowed to happen. Raiding the basic benefit, which even RTAM acknowledges to be underfunded, to pay COLA, is irresponsible on every conceivable level.

Let me be even clearer. Any government that considers putting teachers' pensions in jeopardy in order to solve the COLA problem will be faced with thousands of outraged teachers.

Twenty five years ago we made mistakes that resulted in our inability to adequately fund COLA. If we take money from the account that pays the basic benefit to achieve a short-term fix to the COLA problem it will not take very long until it is the basic benefit itself that is in jeopardy. Short-sightedness is what got us here. If nothing else, we should all have learned some lessons from the past.

At the end of the day this issue is about numbers. Bill 45 is based on sound financial information and what is in the best interests of the long-term sustainability of the pension benefits for both active and retired teachers.

Bill 45, before you today, will put the Teachers' Pension Plan on a solid path toward that sustainability.