



national  
union

pensions  
backgrounder #1

Pensions  
are Important

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Part 1 in a Series

The full series of pension backgrounders are contained in the National Union's Pensions Manual, Fourth Edition—available from the National Office

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# BACKGROUND #1

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## Pensions are Important to Workers and their Unions

- **A Pension Plan Can be an Important Financial Asset to Workers**

For those workers who are fortunate enough to participate in a workplace pension plan during their working careers, their pension plan will likely be one of, if not, the biggest asset they acquire in their lives.

Traditionally, however, workers have not paid a lot of attention to pension funds and plans. Pensions were seen as a ‘reward’ to be paid to workers who retire from working 30 to 40 years at a job. Up until recent years, working people have often assumed their pensions were the responsibility of their employer, who had the sole prerogative to manage their pension plans as they saw fit in order 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.

- **Pensions are Workers’ Deferred Wages**

Perhaps the most fundamental fact to know about pensions is that they are workers’ deferred wages regardless of whether the contributions were made by them or their employer. Pensions are key to assuring a life with dignity and adequate income upon retirement. They are a particularly important component of the compensation workers receive in return for their labour. They are not a gift from the employer; they are earned by the workers.

Unfortunately, relatively few working people understand a great deal about workplace pensions or the other parts of the retirement income system. They are often intimidated by the perceived complexities of pensions and often don't know how to cut through the terminology that is so often associated with pensions.

Since a workplace pension plan is one of the biggest assets that a worker will probably own, it's critical that workers and their unions expand their knowledge base in the pensions policy area. But the importance of pensions goes beyond what the value of an individual pension plan is worth to a worker who is about to retire.

There are many more as important reasons why the labour movement must take a much more proactive approach to pensions. That's why 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. Let's briefly examine some of those reasons why there has been greater interest in the field of pensions.

### ••• The Advantages of a Workplace Pension

To provide an adequate income for retirement, a good workplace pension plan is a must. That is why it has long been a bargaining priority for the labour movement, and this effort has borne fruit. The vast majority of unionized workers now have a workplace pension plan, whereas most non-unionized workers do not.

Despite the huge growth of private savings by workers as a way to provide retirement income, pension plans still provide the best benefit to retired workers and to workers planning their retirement. Workplace pension plans are not only better for workers, but are also better for employers, and are simply better public policy.

Workplace pension plans are generally the best vehicle to ensure a worker's investment risk is managed professionally. They provide workers with the advantage of a pooled investment risk. Belonging to a pension plan means that an individual worker is generally subject to less investment risk, than if he or she was responsible for the investment of their private retirement savings.

With private retirement savings, the responsibility for making investment decisions rests with the individual worker. This means that the value of a private savings plan will depend on an individual's ability to

choose investment funds that do well and the individual's ability to make appropriate changes if they are not doing well. If the individual's investment strategy is not successful, then she/he has nothing to fall back.

In the case of the pension plan, investment decisions are guided by the advice from professional investment consultants. This prescribes how the investments are to be diversified between the different types of investment, such as equities, bonds, real estate, etc. Professional investment managers who specialize in each of these investment categories are hired to make the day-to-day investment decisions. Performance of the investment managers is monitored closely by the plan's manager or trustees. Because of the size of the pension plan assets, plan members through their trustees have access to specialized advice and resources that are not available to individual investors.

Private savings plans also shift the cost of administration of the plan onto the individual. The individual pays significant management fees to mutual funds and other services directly out of their retirement savings, whereas pension funds use their own managers. The lower expense levels enjoyed by the pension plan can have a significant positive impact on the benefits that can be provided at retirement.

### ••• The Pension Promise

First and foremost is that we have yet to achieve the 'pension promise' for the majority of Canadian workers. When we as union activists refer to keeping the 'pension promise', we are talking about our commitment to do everything in our power to ensure that our members have financial security in their retirement years. We also do everything we can to hold our federal and provincial governments and our members' employers to that same promise.

In fact in recent years the pension promise in Canada has taken a backward step. We must continue to work to achieve pension plans for many workers who are not even covered by a workplace pension plan.

Only 33.6% of all Canadians of working age are covered by a pension plan and the percentage continues to decline – 35.4% were covered a decade ago.

In terms of the paid workforce, the percentage of workers who were covered by a pension plan in 2003 was 39% – this represents a steady

decline in coverage of 7% from 1991 when pension coverage of the paid working force stood at 46%.

Coverage also differs greatly in the public and private sectors. Since 1977, the workplace pension coverage rate for the private sector has been steadily decreasing, from 35% in 1977 to about 27% in 2003. In the public sector, the coverage rate has always been much higher. In 2003, over 86% of workers in that sector were covered by a workplace pension. Coverage in the public sector actually increased over much of the earlier part of this period, from 1977 to 1991, but has since been dropping.

We also know that the best assurance to belong to a workplace pension plan is to be a union member – 83% of unionized employees are covered by either a pension plan or a group RRSP, compared to just 33% of non-union workers.

### ••• The Retirement Wave

Another reason for the increase interest in pensions relates to the huge retirement wave 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.

### ••• Economic Structural Changes Impacting on the Value of Pension Funds

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 crimes 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.

### ••• Pension Assets The Largest Single Source of Capital in the World

Canadian pension fund assets covering 5.5 million workers are estimated at just over \$720 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%. 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.

### ••• The Power of Our Pension Funds

The pension funds put aside to guarantee our members' retirement incomes can also determine the term of employment, community life, the environment, consumer goods and public services which help define the quality of life that they and their families are able to enjoy. Yet the financial institutions and individuals that manage pension funds are often given a mandate to pursue narrow investment goals that often undermine the very workers whose savings they invest.

We all agree it's critical that the pension funds of our members be invested in profitable ventures. But that doesn't mean ethical, socially useful and / or other positive considerations can't affect a part of 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.

Finally, unions must confront one of the main challenges facing all owners — that their interests do not necessarily coincide with those managing their collective assets. Corporate CEOs are usually rewarded based on short-term stock prices and this focus cascades throughout the organization. In contrast, pension funds must invest for the long-term and should be more concerned about a company's ability to grow over the longer term than about short-term fluctuations in stock prices. For this reason, proxy voting—which

allows pension funds to be heard as owners—and corporate governance reform must remain key priorities for pension fund trustees.

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

### ••• Expanding Our Pensions Knowledge Base

Most union education on pensions has not focused a great deal on these important issues

We have perhaps done a better job of having our members understand their rights to pension benefits when they retire, their entitlements from Canada's public pension system and how public pensions relate to workplace pensions. All are important aspects of member education.

But it is important that union activists move beyond this traditional approach to take a full leadership role in the field of pensions.

The fact is our members need to be better informed—not just on the technical aspects of their pension plan, but on the broader issues of joint control and the investment policies of our pension plans. It's critical that we create widespread awareness and knowledge among our members of the profound effects of their pension funds.

Our hope is that by sharing the information with your fellow union activists, you and your Component will become much more knowledgeable in the field of pensions and better equipped to advance our broader agenda in the pensions field.

This agenda requires somewhat of a cultural shift within our union. This shift will help us expand our expertise and unleash our capital power 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.