IS YOUR **PENSION** SAFE?

BY CHRISTINE LANGLOIS

When Mike Milincovich retired from Nortel 17 years ago, he was worry-free. At 54, he and his wife, Sylvia, expected to live comfortably on his $2,800-a-month company pension, along with government pensions.

That changed when Nortel filed for bankruptcy protection in January 2009 and declared, come fall 2010, it would no longer meet its pension obligations. Milincovich, now 74, and his wife braced themselves for a 36-percent loss in earnings (about $900 a month) plus the cancellation of their health, dental and life insurance. “We may have to sell our house,” he says.

Milincovich is lucky. He still has other income—he makes about $11,000 a year as mayor of his northern Ontario community, Black River-Matheson. The people with most to fear are those in their 80s and 90s—mostly women—receiving Nortel spousal benefits after the death of partners. Those benefits average $900 a month—a 30-percent loss could push many of them into poverty.

ILLUSTRATION: GÉRARD DUBOIS


ZERO FUNDS AVAILABLE
PENSION

The plight of Nortel workers and their families has helped expose an ugly truth about lack of security of retirement income being discovered by more and more Canadians. Milincovich worked for Nortel for 32 years, confident that his company would reward him with an excellent pension. "We did everything right," he says. But when Nortel declared bankruptcy, its employees learned that they had to get in line behind other creditors—that their "secure" pension was anything but.

Workers may find their pension is underfunded only when their company is sold, moves or goes bankrupt.

The Nortel story is dramatic, but it is only one of many like it. In fact, an increasing number of Canadians are discovering you can't count on much when it comes to retirement income. To understand why, look at the current Canadian pension landscape. For starters, workers like Milincovich—those who actually receive a workplace pension—are in the minority. Two thirds of Canadians have no pension plan other than the government-run pensions (Canada Pension Plan [CPP] and Old Age Security), which pay an average of $16,000 a year at age 65. This majority must save for their retirement independently, often by contributing to registered retirement savings plans (RRSPs). However, it's important to realize that RRSPs are not pension plans—they are tax-sheltered investment plans that give only as good a return as the financial markets provide. Many Canadians discovered how risky that proposition was when their RRSPs lost huge sums in the recent downturn.

Only the fortunate few who have a workplace pension have what Mike Milincovich had—a defined-benefit (DB) plan. In a DB plan, both the employee and employer may contribute, but the employer guarantees a set pension on retirement. (Unless, of course, the company goes belly up as Nortel did, and can't pay.)

For the last 25 years, corporations have been moving away from DB plans, which are more expensive, towards defined-contribution (DC) plans. In a DC plan, employers and employees contribute, and the combined money is invested in the markets. The employee's income at retirement depends on the return on that investment. Like RRSPs, these are tax-sheltered investment plans—with no guarantees of return.

During the last recession, Don Stevenson, a Saskatchewan civil servant who plans to retire next year, saw what a market downturn could do to retirement plans. His DC plan lost about 15 percent. As well, he and his wife, Sherri, saw their RRSPs drop about 30 percent and then rebound;

he estimates they lost about ten percent.

And as if workplace pensions don't face enough risk in the market, many workers are now realizing that the vast majority of workplace pension plans are underfunded by their companies. Based on the 2010 Financial Services Commission report on the funding of approximately 1,500 defined-benefit plans in Ontario, 79 percent were found to be not fully funded on a solvency basis. This means roughly 1,200 plans would not have sufficient assets to meet all members' benefits if the plans were to be wound up at their last valuation date.

Workers may find out their company pension is underfunded only when their company is sold, moves or goes bankrupt. That's what happened to many Nortel workers. It also happened to Fielding Smith, 63, a welder who worked for 41 years at TrentonWorks, building railway cars. When the Nova Scotia company pulled up stakes in 2007 and moved to Mexico for cheaper labour, he and his co-workers were told that the company had underfunded their plan by ten percent; once they had wrapped up the plan in Canada, TrentonWorks could offer pensions only at the reduced rate.

"Ten percent may not sound like much, but it makes a difference," Smith says. He and his wife are living on her salary as a school-bus driver, his stipend as a town councillor and money he makes collecting bottles, along with his reduced company pension and his CPP, which he applied for early.

So what are some of the solutions to this mess? Nortel workers have banded together in an advocacy group and are demanding that the federal government change bankruptcy laws so that pensioners are first in line for assets when a company goes under. In a recent post on the Nortel pensioners' website, Don Sproule, national chair of Nortel Retirees and Former Employees Protection Canada, writes, "Protecting employees and pensioners isn't a new problem. It has been addressed successfully elsewhere, and preferred status in bankruptcy is one of the practical solutions."

The group is lobbying Minister of Finance Jim Flaherty to make the changes, although it may be too late to help them. Susan Eng, vice-president of advocacy for CARP, a national group promoting the interests of older Canadians, warns, "The reforms won't help people who are already retired."

What's needed, according to CARP, is a new universal pension plan, modelled on the Canada Pension Plan, to allow workers with no workplace pension

NO WORKPLACE PENSION? WHAT TO DO

If you're one of those many Canadians nearing retirement without a gold-plated pension plan, how do you work through the losses and uncertainty of the last couple of years?

Cynthia Kett, a Toronto-based certified financial planner, says she most often sees workers who avoid the issue of retirement planning altogether. Clients regularly arrive at initial appointments not knowing basic information, such as how much they spend every month or how much they need to save for retirement. "My best piece of advice is to have a detailed retirement plan," she says. And when circumstances change, as they have for so many recently, it's crucial to go back and adjust the plan.

Don Stevenson and his wife, Sherri, can attest to Cynthia's advice. The Regina couple recently sat down with a financial consultant ahead of Don's retirement next year from the Saskatchewan public service. During the recession, the value of their RRSPs dropped drastically. As well, Don's pension, which is a defined-contribution plan, lost about 15 percent. "Our finances were a mess," Don admits.

Now their modest portfolio is balanced and organized, and they know better what to expect from their pensions. In the end, they were pleasantly surprised to discover that while they won't have a lavish retirement, they will have "enough," Don says. Going through the exercise was "a tremendous mental relief for both of us."

Like many boomers with years of postretirement living ahead of them, the Stevensons plan to continue to work at least part-time and to live a frugal lifestyle to get by.

Frugality may be the new mantra of the so-called "me generation," now that many of the first baby boomers will turn 65 in 2011. Author Marjorie Harris, a senior citizen, just published a new book titled *Thrifty: Living the Frugal Life with Style*. As a freelance writer with no workplace pension, Harris says she'll never be able to retire, but "once I bent my head around that fact, I realized that I love to work—although I'd probably like to work a little less intensely than I do now."

"Attitude is huge," she says. Harris's advice to others in the same boat is to look for part-time work, turn hobbies into extra money, declutter and sell off what you don't need.

Emily Reid, financial consultant of Reid and Associates in Montreal, says retirees and those close to retirement often restrict their ability to enjoy their retirement because they hang on to investments that no longer meet their needs, especially their houses. "They have too much equity tied up in bricks and mortar," she says. Her advice: If you wouldn't buy your house today, then sell it and downsize to what works for your lifestyle now.

to save more effectively for their retirement. Now, they make do with their own RRSPs. Workers who must save independently do not always fare well on RRSPs because of the high fees and missing out on the benefit of being part of a larger pool of investors. As well, they may not have the expertise to invest wisely. A large universal pension plan would allow ordinary Canadians to contribute more to their own pensions and benefit from the professional management and economies of scale that make plans such as OMERS, the $48 billion Ontario municipal-employees' pension plan, so successful.

So far, governments have responded—if weakly. In fall 2009 the federal government announced some funding changes to encourage companies under federal regulation to carry larger pension surpluses. Earlier that year, the Quebec government offered limited guarantees of pensions from insolvent companies. This year, the Ontario government reassured Nortel employees who worked in the province that they would meet their obligation to guarantee the first $1,000 of a monthly pension, promised in the Pension Benefits Guarantee Fund set up in the 1980s. They have also proposed reforms to strengthen pension plans with tougher funding standards. Advocates for reform argue that the changes do little to ensure pensioners receive full pensions or to force companies to fund pension plans properly.

Sixty-one-year-old Bob Hudson, a computer specialist with the Peel District School Board in Ontario, retired on August 31, 2010, with a full pension from OMERS that he knows he can count on. He remembers clearly the day he started working for the board, 35 years ago. A woman in the benefits department told him it was compulsory that he contribute to the OMERS plan, but that after 35 years he would receive a pension guaranteed to be 70 percent of his salary at retirement. "They didn't deviate. They didn't try to change things," he says. He's grateful he can now retire and sleep at night.

NEWS YOU CAN ABUSE

Headlines from the satirical newspaper TheOnion.com:

- Nation's Dog Owners Demand to Know Who's a Good Boy
- Federal Judge Rules Parker Brothers Holds Monopoly Monopoly
- U.S. Ambassador to Bulungi Suspected of Making Up Country
- ACLU Defends Nazis' Right to Burn Down ACLU Headquarters
- Half-Naked Kissinger Thrown Out of *U.S. News & World Report* Mansion