THE ORIGINAL TARGET BENEFITS

A look at the rewards and challenges of multi-employer pension plans

By Sara Tatelman

Forget the buzz around new target-benefit legislation. Multi-employer pension plans were here first, starting about 50 years ago.

Particularly common in unionized, mobile workforces such as the construction and entertainment industries, most multi-employer plans essentially function as target benefits “because they do have the ability to reduce accrued benefits,” says Mike Mazzuca, a partner at Koskie Minsky LLP.

For employees, having industry-wide portability can be a major draw, since it allows them to accrue all of their benefits under one plan, says Mazzuca. That way, employees can accrue seniority within a plan, even when they change employers.

‘A very generous environment’

Many plans had to reduce benefits after the 2008 financial crisis, says Susan Bird, president of the McAteer Group, a third-party administrator. They often try to spare retirees, however.

“I have to say, in the unionized sector that I work in, you do see a lot of [active] members say, ‘Leave the retirees alone. They’re on fixed income. . . . We’ll deal with this because we’re still working, we’ve got time.’ . . . It is actually a very generous environment, in terms of the philosophy that the members hold. And that has a very great bearing when it translates up to the board table . . . and it’s very helpful to trustees when they’re designing benefits,” says Bird.

Bird also notes many multi-employer plans created today are defined contribution arrangements that aim to move to a target model once they have enough members, usually about 2,000.

Options for orphans

But as with any type of arrangement, there are disadvantages. Working with multiple employers can be complex, says John Poos, group head of pension and benefits at George Weston Ltd. and a trustee for two multi-employer plans. “Some [employers] go bankrupt in the meantime,” he says. Others simply don’t pay. “We do have an administration committee, whose role it is to monitor contributions and to chase plan sponsors when they are becoming delinquent. It’s an issue that’s unique to these kinds of plan designs.”

Employers that declare bankruptcy or quit the plan for whatever reason leave behind what Poos calls “orphan participants” with unfunded obligations. “Ultimately, the benefits would cease accruing if contributions aren’t coming in,” says Poos. “But in the meantime, you have an unfunded obligation in the plan that, for those [orphan members], needs to be funded somewhere, somehow. And if the plan is an ongoing plan, someone is responsible for that.” That someone would most likely be the other employers through additional contributions or other members through reduced benefits.

Poos points out that provinces, such as British Columbia, have adopted or are considering legislation so that multi-employer plans are true target plans that can reduce benefits more easily and do so retroactively. Trustees will be able to manage the funded status more effectively because they can make retroactive benefit changes as long as they follow the plan and governing legislation, he notes.

Keep the cash

A common problem, Bird notes, is paying out commuted values. Multi-employer plans don’t have to fund based on solvency, but in many provinces, they do calculate benefits for employees leaving before retirement on that basis, which can leave them in the red. To address the issue, British Columbia and Quebec have passed new laws that ensure commuted values are based on a plan’s funded status.

Ontario’s proposed target-benefit legislation, on the other hand, focuses on single-employer plans, says Bird. But while single-employer plans outnumber them, multi-employer plans still represent millions of people and billions of dollars.

“They don’t always get the attention that they deserve or the priority that they deserve,” says Bird.

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A MULTI-EMPLOYER PLAN BY THE NUMBERS:
LABOURERS’ PENSION FUND OF CENTRAL AND EASTERN CANADA

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<th>Year the fund was founded</th>
<th>1972</th>
<th>Number of plan members</th>
<th>108,000</th>
<th>Assets in the plan</th>
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<td>Going-concern funded ratio as of most recent actuarial valuation (Dec. 31, 2013)</td>
<td>82%</td>
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<td>Transfer ratio as of Dec. 31, 2013</td>
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<td>Annual rate of return as of Dec. 31, 2015</td>
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Source: Labourers’ Pension Fund of Central and Eastern Canada