
DEFINED BENEFIT PENSION OPTIONS: ST JOHN AIRPORT



OUTLINE

- Issues with existing pension coverage
 - DB vs. DC plans
- Available DB options
 - Existing Plan
 - CAAT – DB Plus
- Negotiations

PENSION TERMINOLOGY

Defined Contribution



Defined Benefit



ADVANTAGES OF DB PLANS

By pooling people's money together, there are many advantages of the defined benefit scheme:

- You know what you get when you retire – the amount doesn't depend on how well your own investments do
 - Secure monthly payments in retirement
- No one is at risk of draining their account and running out of money in their golden years
- Professional investment expertise – large pools of funding which means a better deal for investments. More money stays in the fund, rather than going to pay the fees of bankers or investment brokers
- Survivor benefits – if you have a spouse who survives you, s/he will continue to receive a pension (usually ~60%) after you pass

DB COVERAGE - CHALLENGES

- Like the Saint John Airport, most PSAC/UCTE airport bargaining units have long ago converted their pension plans to a two-tier system where those who were employed at the time of transfer from Transport Canada retain their DB pension while new entrants have a DC pension plan.
- Employers have been moving away from DB plans in the last couple of decades, wanting to wash their hands of long-term responsibility for their employees, reduce their financial obligation, and to escape any risk of funding plans
- Low interest rates and volatile markets are barriers to employers getting back in the DB game

DB COVERAGE— OPPORTUNITIES

- Getting employers to sponsor a new DB plan is difficult, but there have been many new multi-employer plans which allow employees and the employer to contribute a fixed amount like a DC plan, but where members receive a defined benefit from the plan.
- The landscape is changing and expanding fast.

EXISTING DB PLAN – FOR THOSE GRANDFATHERED

- Modeled on the federal government plan
- Good plan with good benefits – 2% per year of service
- You get what you pay for – high contributions.

- Very difficult bargaining environment for bargaining entry/expansion of such plans
- Small DB plans are expensive to run and employers have been moving away from these. Multi-employer plans are much more common to get DB coverage for groups working for smaller employers

CAAT DB PLUS

- DB plan with significant ancillary benefits
- Affiliated with long-term, well-managed College of Applied Arts and Technologies (CAAT) Plan. The main plan is designed for Ontario College instructors.
- Available in all jurisdictions
- A few large employers have merged their plans with DB Plus (e.g. TorStar, Post Media)
- The employees of the Toronto Airport have recently signed an agreement to join this plan
- Does not impact your CPP or OAS at all.
- In operation for over 50 years with a membership of ~56,400 and growing
 - Over \$10B in assets

CAAT DB PLUS FEATURES

- Variable contributions from 5% to 9% of salary. All contributions matched by Employer
- Benefits are career average earnings, but there is a somewhat complicated indexing formula which makes it more like a final years' earnings plan. This can increase the value of the pension by up to 30%.
- Annual benefits are calculated by multiplying all contributions by 8.5%
- Excellent online tool to estimate pension: <https://www.dbplus.ca/en/dbplus-value-tool/>
- Has two attractive features which are not available for other multi-employer plans:
 - Ability to buy back past service with employer
 - Indexation of benefits to 75% of CPI – conditional on plan performance
- Significantly less reduction for retirement earlier than 65 (3% reduction per year)

CAAT DBPLUS

Issue	Provisions
Contribution Rate	Can be from 5% to 9%. All contributions are matched employee/employer
Annual Benefit Accrual	8.5% of contributions
Normal Retirement Age/Penalty	65 – 3% penalty per year
Indexation of Benefits	Career average earnings indexed during career, and benefits indexed to 75 of CPI after retirement
Past service buyback	Provided on the same terms as regular benefits as of the date of the buyback.

CAAT DBPLUS

Issue	Provisions
Survivor Benefits	60% of pension paid to survivor – can change that option
Minimum Guarantee Period	5 year minimum guarantee period
Options when leaving before retirement	Keep your contributions in and get a deferred benefit; transfer to another plan, or to a locked in RRSP; commuted value cannot be taken out after age 50

EXAMPLE #1 – EQUIPMENT OPERATOR

Age and Salary	40 years old/\$56,576	55 years old/\$56,576
Benefit Paid	\$33,428	\$10,316
Benefit Paid at age 80	\$39,702	\$12,252
Total Member Contributions	\$154,530	\$55,083
Per \$10,000 of past service	\$1,395	\$819
Default Survivor Benefits	60% of benefit	

Assume Retirement at 65 years old, 1.5% salary increase/year, CPI at 1.5%, 9% contributions

EXAMPLE #2 – AOS/ELECTRICIAN

Age and Salary	40 years old/\$64,480	55 years old/\$64,480
Benefit Paid	\$38,098	\$11,757
Benefit Paid at age 80	\$45,248	\$13,963
Total Member Contributions	\$176,119	\$62,778
Per \$10,000 of past service	\$1,395	\$819
Default Survivor Benefits	60% of benefit	

Assume Retirement at 65 years old, 1.5% salary increase/year, CPI at 1.5%, 9% contributions

EXAMPLE #3 – EQUIPMENT OPERATOR

Age and Salary	40 years old/\$56,576	55 years old/\$56,576
Benefit Paid	\$20,842	\$4,029
Benefit Paid at age 80	\$26,264	\$5,077
Total Member Contributions	\$118,879	\$26,581
Per \$10,000 of past service	\$1,074	\$630
Default Survivor Benefits	60% of benefit	

Assume Retirement at 60 years old, 1.5% salary increase/year, CPI at 1.5%, 9% contributions

EXAMPLE #4 – AOS/ELECTRICIAN

Age and Salary	40 years old/\$64,480	55 years old/\$64,480
Benefit Paid	\$23,754	\$4,593
Benefit Paid at age 80	\$29,933	\$5,788
Total Member Contributions	\$135,488	\$30,294
Per \$10,000 of past service	\$1,074	\$630
Default Survivor Benefits	60% of benefit	

Assume Retirement at 60 years old, 1.5% salary increase/year, CPI at 1.5%, 9% contributions

QUESTIONS? COMMENTS?