Pension Plans

Q & As

What is the Mission of the Bell Pensioners' Group (BPG)?

The mission of the Bell Pensioners' Group (BPG) is "to protect the defined benefit (DB) pension and applicable post-retirement benefits promised to retirees and employees of Bell Canada and its affiliates at retirement."

What is the Role of BPG?

DB pension plans can be difficult to understand. In addition, with frequent changes in pension legislation, it is sometimes a challenge to keep up with what's happening to your pension.

BPG is an advocacy organization representing pensioners of Bell Canada and certain other Bell Canada affiliated companies. At the present time, its focus is on members with a DB pension plan. Its mandate is to safeguard the DB pensions and benefits (as applicable) earned by its members during their working years, and to educate and empower pensioners through the provision of ongoing information and knowledge about issues of concern to DB pensioners. BPG monitors any changes that could affect our Bell defined benefit pension plans and takes action in a timely manner to mitigate risks to the extent possible as they arise. The BPG group also keeps its members informed of any changes as they arise. This is accomplished through:

- Advocacy with governments, at both the bureaucratic and political levels, for improved pension legislation and regulations;
- Ongoing dialogue and formal meetings with Bell;
- Advocacy and coordination with the broader stakeholder community;
- Keeping abreast of trends in the pension environment;
- Supporting pensioners' representatives on the Bell corporate Pension Information Committee (PIC).

BPG is a founding member of the Canadian Federation of Pensioners (CFP), a growing network of pensioner groups that, together, represent 250,000 active and retired members of DB pension plans across Canada. Their mandate extends to active participation in consultations regarding legislative and policy issues with both the Federal and Provincial governments.

When planning for retirement most people take into account money they have or will receive from various sources of income including, for example:

- Company pension plans
- Government plans (e.g., CPP/QPP, OAS)
- Savings and Investments - Registered (such as RRSP's, TFSA's) and Non-Registered (such as certificates, mutual fund accounts, stocks and bonds).
- Equity (e.g., home/other real estate)

What is a Company Pension Plan?

A company pension plan is a deferred wage, as part of total compensation while working, which the employer commits to pay after the employee retires.

A pension fund is a large investment account, (the asset), in which the employer deposits money on a regular basis to pay the pension commitment (the liability) it has to its employees and pensioners. The money in the plan is invested and earns interest, dividends, capital gains, etc.

Some plans may require employees to also contribute money through payroll deductions (though the Bell DB pension plan does not, the Bell Defined Contribution plan does). Those plans to which employees do not contribute are called "non-contributory".

What different types of Pension Plans are there?

Defined benefit pension plans are the more traditional type of pension plan. Under such plans, at retirement pensioners receive a set monthly pension – a defined benefit – from the pension fund. Some plans include an element of inflation protection through annual indexation.

The Bell DB pension plans are partially indexed. (To determine if your pension plan is indexed for inflation, check your individual annual pension statement provided by the Benefits Administrator).

At retirement, employees receive a lifetime pension based on a predetermined pension formula that takes into account the employee's retirement age, years of pensionable service and pensionable earnings. The payments continue for the pensioner's life and, in some cases, at a reduced amount for the life of his/her surviving spouse. Upon the death of the pensioner and surviving spouse, if applicable, all payments are terminated.

For a non-contributory plan like Bell's DB plan, the risk associated with funding the plan rests entirely with the employer who is responsible to ensure the plan is sufficiently funded to pay the defined amounts for the lifetime of the plan's beneficiaries. That does not mean that pension plans are risk-free for pensioners. The sources of pensioner risk are described below.

Defined contribution (DC) plans require the employer and the employee to contribute to an individual's account for the working life of the employee. The contributions to the fund are well defined, normally as a fixed percentage of salary. The employee chooses investment vehicles from a number of options offered.

The payout at retirement depends on how much money is contributed and how well it is invested. When a DC plan member retires or leaves the Company plan, he/she will receive only the amount that has accumulated in his/her individual account. Consequently, it is the contribution that is well-defined; the resulting pension is not. The risk of the plan rests with the employee.

Since 2005, new Bell employees have been offered participation in a DC plan instead of the DB plan. Several years prior to this, employees were given the opportunity to switch to a DC plan or remain with the DB plan. Over time the DB plan will be progressively phased out for current employees.

Target benefit (TB) plans are a fairly new offering, similar to DC plans in that the contributions are fixed, thereby providing employers with cost certainty. But Target benefit plans also share some important features with DB plans; specifically, target benefit plans pool longevity risk and investment risk. That is, the investments are pooled and managed (instead of individuals having to make their own investment choices). On the longevity side, an individual does not have to speculate how long he or she may live and hope that he or she does not outlive their savings, as the risk is pooled among all plan members.

Target benefit pension plans may be offered in many Canadian provinces today but, at the time of writing, no legislation exists that would permit a target benefit plan to be offered by a federally-regulated employer, such as Bell. However, the federal government has proposed such legislation and is currently consulting with stakeholders on its proposal. BPG's main concern with respect to TB plans is the possible conversion of defined benefits already earned to a TB plan without explicit individual informed consent. Thanks to the advocacy work of BPG and others, this concern has been addressed in the draft federal legislation. We will continue to monitor and advocate on behalf of our DB pensioners.

What risks are associated with a Defined Benefit Plan for the pensioner/plan sponsor?

For our plan, only the employer is responsible for funding the plan, so it is the employer that assumes the following risks, as long as Bell is a going concern. However, should Bell Canada ever be forced to wind up its pension plan due to bankruptcy, then these risks fall to the pension plan members to the extent that these factors have caused the plan to be underfunded. However, pensioners are subject to the following risks]:

a) Pension Plan Underfunding

   Canadian pension rules specify required levels of annual funding. However, plan deficits are allowed to persist for many years and plan sponsors often seek relaxation of those rules, especially when under financial pressure. BPG advocates for strong funding and other rules to protect pensioners.

b) Plan Sponsor's Financials

   A financially healthy plan sponsor is good for pensioners because financial health works against the need to windup the pension plan when it is underfunded. BPG actively monitors Bell's financial health.

c) Bankruptcy Regulations

   Canada's current Bankruptcy regime does not protect pensioners. The members of the CFP, including BPG, have identified Canada's insolvency and bankruptcy regime as one that needs reform. Our ultimate goal will be to have that review lead to changes in the rules to better protect pensioners. Today, there is every chance that bankruptcy proceedings will deteriorate the financial situation of a pension plan that is underfunded.

d) Pension Legislation

   Proposed changes to federal and provincial pension legislation are often unfavorable to pensioners. For example, the preliminary federal TB plan proposal would have allowed plan sponsors to retroactively change their pension commitments. BPG advocacy efforts with the government were successful in ensuring that the proposed legislation did not permit plan conversions without individual informed consent. BPG continually monitors government activity related to pension legislation and intervenes to protect pensioner interests.

Pension rules permit deficits to persist for many years. From time to time employers are permitted to extend the time they are allowed to bring their plans back to financial health. There has been a growing trend in Canadian jurisdictions to relax the funding obligations for defined benefit plans; the relaxation increases the likelihood of plan underfunding.

e) Plan Sponsor's Investment Policy

A key risk to plan funding is associated with how pension plan funds are invested. Bell has taken steps to reduce investment risks by shifting to a more conservative investment mix, and entering into an arrangement with Sun Life to reduce longevity risk. BPG engages in discussion with Bell regarding their investment policy and communicates this information to its members.

f) The Economy

The economic environment affects pension plans. For example, the current low interest and low investment return environment has the effect of reducing key funding ratios and putting pressure on plan funding. BPG advocates for funding rules to protect pensioners.

What are the Bell DB plan Investment Policy and Guidelines?

The assets of the Bell DB pension plan are invested according to an investment policy established by the Pension Fund Committee ("PFC"), which is a standing committee of the BCE Board of Directors.

The policy provides for an investment approach that balances financial risk and return. The investment policy includes guidelines that define the acceptable level of risk by establishing the minimum and maximum percentages of assets that may be invested in each of the various asset classes. The guidelines also set out specific investment conditions for each of the asset classes. At its discretion, the fund's investment manager, Bimcor, determines the asset mix within these guidelines.

For the last several years, Bell has adopted a "pension de-risking strategy" that has lowered the investment risk profile of the Bell pension plan portfolio, by placing relatively less reliance on equity and relatively greater reliance on lower-risk fixed investment vehicles.

Who manages the pension plan?

The plan administrator invests amounts in the pension fund on behalf of the employer/plan sponsor before it is distributed to the pensioners. The plan administrator regularly reports to the employer the status of the pension plan, including the extent to which there are sufficient assets to meet the long-term obligations of the pension plan.

A group within Bell Canada, the Bell Pension group, acts as the Plan Administrator and oversees the pension assets on behalf of the DB pension funds of Bell Canada and its various subsidiaries and affiliates. The Plan Administrator is responsible for reporting the status of the Plan.

The Plan Administrator contracts Bimcor, a wholly owned subsidiary of Bell Canada, to manage pooled fund products in equities and fixed income securities for the DC and DB arrangements. Bimcor selects and directs external firms, both domestically and abroad, to manage specialty mandates on behalf of pension funds. Bimcor receives a fee for this service.

By law, the plan administrator bears a fiduciary duty to act in the best interests of plan beneficiaries, and to exercise a duty of care on their behalf. At the same time, the plan administrator is hired by the employer, and can be a constituent part of the employer. This is the case with the Bell Canada DB plan.

It has long been recognized that the relationship of the administrator to the employer raises the potential for a conflict of interest for the administrator. The administrator is accountable for identifying any potential conflict, and remedying the situation. The BPG has never had cause for concern that this potential conflict of interest has hindered the Bell administrator from meeting its fiduciary duty to plan beneficiaries.

Who sets the rules for DB Plans and who is watching?

Pension plans in Canada are registered either federally or provincially. For example, all the pension plans in the Bell family are registered federally, with the exception of the BCE plan which is registered in the Province of Ontario. For this reason, we have focused on these two jurisdictions in this paper.

Both Ontario and the federal government have legislation that governs the actions of DB plan employers. Very broadly speaking, the legislation and its accompanying regulations specify the required amounts and timing of employer payments to fund their pension plans, and the nature and timing of the information that employers must provide to their plan members, both active and retired.

Bell, as a DB pension plan sponsor, has to show it is complying with federal rules and regulations. It does this by filing with the regulator certain information about the pension plan, including its ongoing and solvency liabilities, assets, whether there is a deficit or a surplus, what type of deficit if there is one, and what steps in terms of special payments it will take to amortize any deficit it may have. These reports must be filed annually for federally regulated plans, and at least every three years for plans regulated by the Province of Ontario.

The federal regulator is the Office of the Superintendent of Financial Institutions (OSFI). OSFI does not write the legislation governing pensions, rather its mandate is to ensure compliance with pension related legislation that comes from Parliament, and to enforce regulations consistent with that legislation. In Ontario, the Financial Services Commission of Ontario is charged with a similar function for provincially regulated plans.

How does one determine if there are sufficient assets in the plan?

For federally regulated plans, there are two tests that are used to assess the funding adequacy of a plan: the going-concern test, where the calculations assume that the employer continues in business indefinitely, and the solvency test, where the calculations assume that the employer is winding up its plan (e.g. due to bankruptcy or sale of the business). The resulting ratios of assets to liabilities are sometimes referred to as the Transfer Ratio and Funding Ratio, respectively. The plan administrator performs the calculations. Though the administrator has some leeway in choosing its calculation parameters, many are specified by regulations or the regulator.

Plan valuations – both going-concern and solvency - are very sensitive to interest rates fluctuations: low interest rates lead to higher plan liabilities (and, therefore, higher funding requirements), and vice-versa. The valuations can be thought of as answering the question "how much money should be in the plan now so that all pensions can be paid, assuming (a) the employer will continue in business, and (b) the employer will not continue and the plan will be wound up." The going-concern valuation answers the question assuming (a), the solvency valuation answers the question assuming (b).

BPG believes that the solvency test is the more important of the two tests, as it provides a better indication of the risk that pensioners are facing. If the employer continues to operate successfully and makes the required contributions to the Plan, all should be good for its pensioners. However, if the employer ceases operations or enters insolvency protection, a plan that is insufficiently funded, according to the solvency test, would be unable over the long-term to maintain its pension benefits at the promised level.

What factors does the plan administrator consider in determining if the assets are sufficient to meet the long-term obligations of the pension plan?

In performing the valuation, the administrator makes several long-term assumptions to determine the liabilities of the Plan, including:

- Economic factors such as rates of return/inflation rates
- Age of employees and their spouses
- Age of retirees and their spouses
- Mortality rates
- Base salary increases and incentive compensation payout for active employees

What is the annual service/normal cost associated with a pension plan?

The annual service cost (also known as the normal cost) represents the present value of projected retirement benefits earned by covered employees in the current year. In simpler terms, service cost refers to the required amount the employer must set aside each year to cover employees' pension benefits upon retirement. Service costs depend on factors such as job promotions, salary increases and early retirements as these affect the final benefit amount.

What are partial or full exemptions from payment (i.e., contribution holidays)?

If, under both the going-concern and solvency tests, there is a surplus, then the pension liability is more than covered by the assets. In this case, the plan sponsor (employer) need not make any payments into the fund, other than the amount, determined by various more detailed calculations, by which the annual service cost exceeds the surplus. If the surplus is greater than the annual service cost, then the plan sponsor need make no contributions into the fund at all. This is called a "contribution holiday". If the plan sponsor has to make a contribution because the annual service cost is higher than the surplus, then it need only contribute the difference between the annual service cost and the surplus. This is called a "partial contribution holiday".

So even if there is a going-concern surplus for the Bell plan, full normal costs would still have to be paid in the absence of a solvency surplus. When the surplus is between the two, there is a calculation to determine the amount of the required contribution.

What Happens When There is a Deficit?

When the plan liability is greater than its assets, the difference has to be made up by the plan sponsor over time.

A going-concern deficit has to be retired over 15 years for federally-regulated plans. So if a plan's going-concern valuation showed a deficit of $15M as of year-end, the employer would have to make a special payment of $1M each year until the next valuation at which time the amount of the deficit is recalculated.

Less time is allowed to make good on solvency deficits. It used to be the case for federally-regulated DB plans that a solvency deficit had to be eliminated over 5 years (and this is still the case in Ontario with some exceptions). However, following changes made in 2010 to the federal rule, 20% of the solvency deficit (based on a 3 year average of ratios) has to be paid each year (this is referred to as the "fresh start" formula.) As a result, this spreads out amortization over an infinite period (20% in year 1, 16% in year 2, etc.). Again, this is re-evaluated and adjusted on a going forward basis at the next valuation.

To summarize, plan sponsors are required to put into the plan each year

- The service cost of the plan, which is driven by employees as they add years of service, get salary increases, etc.;
- Any special payments needed for the ultimate elimination of a going-concern deficit that is not yet fully retired; and

Any special payments needed for the ultimate elimination of a Solvency deficit as per determined calculations.

Who Owns the Money in the Pension Plan?

The money in the pension fund belongs to the pension plan, and therefore to the beneficiaries of the pension plan – i.e. the employees, pensioners, and survivor spouses, as applicable. It does not belong to the plan sponsor. That is why when Bell reports the Company assets and liabilities, it does not include the pension plan assets nor the pension plan liability in its statement of corporate assets and liabilities (although, the Financial Statements do include a discussion of the pension plan's funding, by way of a disclosure note).

Do pension plans provide for cost-of-living adjustments (COLA)?

Some plans provide for indexation of the pension to address cost of living increases. The Bell Pension Plan provides for pension indexing each January 1 to partially compensate for cost-of-living increases. The Bell formula takes into account the retiree's age on January 1 and the percentage increase in the Consumer Price Index (CPI) over a 12-month period running from November 1 of one year to October 31 of the next. Here's how it works:

- Under age 65 = The percentage increase in the CPI (rounded to the nearest whole number), up to a maximum of 2%
- Age 65 and over = The greater of:
    - 100% of the percentage increase in the CPI (rounded to the nearest whole number), up to a maximum of 2%, or
    - 60% of the increase in the CPI (rounded to the nearest 2 decimal places), up to a maximum of 4%

What are the current Defined Benefit issues in Canada?

BPG monitors and takes action on many issues of concern surrounding DB pension plans. Key among them are the following:

1) Underfunding of plans
   a) How plan deficits are calculated
   b) How long deficits are allowed to persist
   c) How often plan valuations are required
   d) Whether all plan provisions are included in the calculations
   e) Whether funding rules build in any buffer to ease funding in hard times
   f) Whether funding rules are likely to lead to fully funded plans

2) Bankruptcy regulations
   - The bankruptcy and insolvency regime in Canada does not serve pensioners well: any shortfall in the funding of a bankrupt or insolvent company's pension plan is only made up if any funds remain after secured creditors are fully paid.
   - Some governments in Canada have shown a willingness to ease the financial pressures on DB employers by reducing plan funding requirements. In each case, changes have been instituted that lower the financial burdens on the employer, but result in increased risk to the pensioners through the reduced funding of their plan. This becomes a significant problem for pensioners if their plan sponsor becomes bankrupt or insolvent when the pension plan is underfunded.

3) Pension legislation
   - Some jurisdictions in Canada are exploring the possibility of legislation to enable the offering of Target Benefit plans. The greatest concern is that such legislation would enable the retroactive conversion of earned DB pensions to a TB plan without individual informed consent, thereby transferring more risk to employees/pensioners.
   - Quebec has eliminated solvency funding rules for pension plans registered in that province; Ontario has proposed that its solvency funding target will be reduced to 85% from 100%. Generally, in recent years there is growing pressure put on governments to relax DB funding obligations. As funding obligations are relaxed, pensioner risk increases.
   - BPG monitors legislative activity federally as well as in each province, as legislative changes made in one jurisdiction may encourage governments in other jurisdictions to do the same.

- Through CFP, and separately, for many years BPG has advocated for stronger pensioner security by calling for the strengthening of funding, reporting, and governance practices, and by advocating for other mechanisms to protect pensioners should their plans wind up.

What is the Pensioner Information Committee (PIC)

Pension plans can be complex and difficult to understand. In addition, with frequent changes in pension legislation, it is sometimes a challenge to keep up with what's happening to your Plan. The Pensioner Information Committee (PIC) was therefore created in 1988 to promote better communications with Plan members.

The PIC's mandate, as defined by the Pension Benefits Standards Act, 1985, includes reviewing the financial, actuarial, and administrative aspects of the Plan. The PIC consists of eight members representing various stakeholder groups to ensure that everyone remains adequately informed about the Pension Plan. The Pensioners are represented by two BPG appointed members who keep themselves up to date on current pension issues all year round and are the bridge to better communications between BPG and the PIC.

What is the Current Financial Situation of your Pension Plan?

For the particulars of your own company's pension plan, refer to your individual annual pension statement (e.g., for information on indexing, solvency ratio, investment policy, etc.).

Any other information on your personal file under the Plan should be available from your Benefits Administrator.

On the Bell Pensioner Group (BPG) website, www.bellpensionersgroup.ca, you can find the latest Pension Information Committee Report, along with financial reports on various of the Defined Benefit Pension Plans administered by Bell.

Glossary of Terms

A glossary of the terms used in this article can be found on our website at [BPG].