AMALGAMATED TRANSIT UNION

LOCAL 615
SASKATOON, SASKATCHEWAN

PRESIDENT/BUSINESS AGENT

FINANCIAL SECRETARY-TREASUREER

ATU 615 Members,

On behalf of our ATU executive ,I wish to provide you with our rationale for resisting the massive shift in changing our defined benefit plan to a target benefit plan that shifts all the risk on our shoulders as opposed to what we had prior to starting this round of bargaining. Even though our employer is stating that by law, they cannot reduce previously accrued benefits for retired members today, it is our opinion that laws can be challenged or changed in the future, that potentially could mean a reduction in benefits at some point in the event the plan does not have enough money to sustain the required benefit level. The employer will never have to pay more than 9% contribution rates into our plan ,and in the event there is not enough money then the employees must decide whether to increase our own contributions(not the city) or whether to reduce benefits for all members(including retirees). An example of this is currently before the courts in New Brunswick as the cost of living benefit for retirees was removed and resulted in a class action lawsuit by retirees ,claiming that it was illegal for their benefits to be reduced. In that case they worked all their lives and retired with a defined benefit plan ,but given the difficult choices the decision was made to reduce retirees benefits. The outcome of that lawsuit is still unknown . My reason for making mention is to remind ourselves of what we have had since 1964 . We have a defined benefit plan sponsored by the city of Saskatoon, whereby we have a 50/50 cost sharing arrangement. Our member contributions are our wages that we have agreed to put into this pension plan. The city contributions are also our wages,as we collectively bargain with them as to what level they contribute on our behalf. As the sponsor, the city is the legally liable entity that is responsible for any potential shortfalls that may occur from time to time. They are one signature away (ATU 615) from never having to be concerned about pension liability for the future.

ATU 615 will be going to arbitration on April 25,2016, and will be presenting our grievance to arbitrator Bill Hood. The grievance is a simple question. Has the employer violated our collective agreement ,by imposing changes to our pension plan on our members without consent. We believe they have violated our CBA and are optimistic that we will be victorious in this arbitration. At the time of this writing, we do not have any further bargaining dates scheduled , but we will continue our efforts to convince city council and administration of the necessity to resolve these issues sooner rather than later. We are now into our 4th year without a collective agreement, and patience is wearing thinner as time goes on for our members. I am pleased to state that our members remain resolved in our position and recognize the importance of a fair agreement that not only protects our retirement security, but brings us somewhat

closer to comparable wages of other transit entities. Saskatoon transit wages are essentially the lowest in western Canada and our members deserve better .For these reasons we remain vigilant in our quest for fairness. I have provided you below with an opinion from a pension expert that iswell versed in our plans history, and hope that you will better understand the issues surrounding moving from a defined benefit model to a target model.

Risk Sharing in the Saskatoon Municipal Pension Plan

The employer has expressed a desire to cap or limit their costs in the pension plan. A capped cost is fundamentally at odds with the concept of a defined benefit plan. In DB plans, since pension promises are being made, plan sponsors have to accept a certain amount of cost uncertainty or "risk." If future experience does not match the actuary's projections, plan costs may rise or they may fall.

Legally, in most DB plans, the employer bears all of the funding risk. This is how the Saskatoon plan is structured - on paper at least. In practice, we typically see this risk being shared with plan members at the bargaining table. The employer will point to special payment obligations as rational for lower wage increases, cuts to benefits, cuts to future benefits within the plan, etc. Thus, even though the risk technically rests with the employer, the bargaining process effectively transfers a portion, oftentimes a significant portion, onto plan members. We have seen this already at Saskatoon with wage freeze threats the employer is making. It's not hard to imagine how members will get indirectly stuck with a portion of this bill through wage bargaining.

On top of this, in the current round of bargaining, plan members have made a very generous offer to share the majority of the employer's special payment obligation through contribution increases and benefit cuts. This is a concrete example of plan members sharing risk, as they have done in past rounds as well.

We should also note that there is no inflation (or COLA) protection in this plan. Plan members therefore bear 100% of the burden of the risk of inflation. This is a significant portion of the overall risk in the plan. Plan members will face pensions that decline in real value every year. This is risk being shared.

So how is risk being shared in our plan? The employer may bear the risk on paper, but:

- We will hear about the employer's special payment bills in bargaining and will face pressure to indirectly pay these bills through lower wage increases

- Plan members already bear 100% of the risk of inflation as they lack COLA protection. This is a major way plan members already share risk.

- Plan members are reasonable bargaining partners and have made a proposal to reduce future benefits and increase contributions. The result of this proposal alone is that plan members will be paying for half or more of the employer's special payment bill. It also reduces the cost of the plan in the future significantly, which also reduces the risk level to the employer. Plan members have made similar concessions in the past.

What does this mean? Are plan members not already bearing a significant risk within the plan? Why are these very significant concessions not enough for the employer? We would not agree to a permanent cap on wage increases, so why would we agree to something similar in the pension plan?

Employers are trying to take advantage of the current public opinion which is misinformed on pension challenges and "gold plated public sector pensions." They are creating fears that DB plans are permanently broken and need to be abandoned – for the good of plan members. They speak less of the benefits employers would reap if DB plans were abandoned: massive reductions in accounting liabilities and wholesale shifting of risk to plan members. We should remember how this plan is doing: a few short years after the massive financial crisis it is, on the actuary's best estimate, in surplus and only has a small and manageable deficit when we artificially inflate the liabilities (the margin). Compared to most public sector pension plans, this plan is doing very well and is not in any kind of concession-demanding crisis.

The plan also has a long history of doing well. Annual Information Returns from 1995-2009 show that the employer took 15 years of partial contribution holidays, and possibly more in earlier years as well. The holidays during these years total nearly $50 million of plan surplus that was used to reduce employer contributions. Note that the City also took a $2.4 million holiday in 2009 – the year after the market crash during the financial crisis. The employer didn't likely speak of risk/benefit sharing during those years.

So the risk sharing in the plan was not a problem for the 15 years when the employer was able to offer a pension plan and not pay its full bill, but now

that a modest additional bill has come due, they say the risk sharing needs to be changed (meaning risk needs to be shifted to members).

The City has not made a convincing case, or any case, why a move away from DB is needed. They haven't offered any accounting or fiscal analysis of why they can no longer bear the risk they've borne for 60 years in this plan. Instead, they've simply pointed to a few uncertainties in the future: mortality rates improving, interest rates being low, market returns being uncertain, etc. It is worth noting that these trends do not mean that DB is broken. These trends may make plans cost more, which parties can then resolve at the bargaining table. If a new bill comes due in this plan, plan members will respond as they always have: by sitting down and making a deal.

If employer risk is reduced or limited, that risk does not disappear: it is transferred to plan members. When plan members bear risk, they bear it in much more painful ways (lowered standards of living in retirement, at a time of life when ability to earn extra income may be limited). When the employer bears risk, there is a reasonable amortization period for deficits and bargaining partners to work with to find solutions to funding issues.

Plan members already bear enough risk in this plan. The employer has not effectively made the case for more risk-sharing. Massive structural changes to a deal that has stood for over 60 years should be resisted and critically examined thoroughly before considering any large changes. These shifts should be made only when necessary or beneficial for plan members in the long-run. They should not be made on vague concepts and questionable projections about the health of the plan.

All that said, I understand that the plan members are considering agreeing to some kind of structural re-write of the pension plan designed to relieve the employer of a portion of future liabilities within the plan.

Broadly, plan members have only accepted a structural shifting of 50% or less of plan risk in return for three important principles:

1. Joint governance of the plan. Plan members should only take on risk if they have a proportional role in the decision-making within the plan. It would seem irresponsible for members to be bearing risk if they had no role in plan governance. Currently, there is a structure in place in Saskatoon for joint representation on a trustee board that administers the plan, but there is no similar joint governance over plan design issues (contribution rates and benefit levels). Those are set by the City and by collective

bargaining.. Without full joint
control over all of these important plan elements, plan members have generally not accepted more risk.

2. Surplus Control. Taking on risk typically also comes with a proportional share of future surpluses. This is fair – as the parties who jointly bear responsibility during the bad times should jointly gain during the good times. Currently under certain circumstances, surpluses in the plan may be fully used to reduce the employer's contribution. Risk should not be accepted structurally unless there are fair and reasonable controls over future surplus, such that members can

3. Plan members accept responsibility only for a portion of future deficits within the plan, and not for accrued liabilities. Since these changes typically require new plan governance, plan members have generally been reluctant to assume liability for pension debts that currently rest with the employer.
Note that the City's proposals have members bearing 100% of the risk, without any of these benefits. Plan members have typically only taken on 50% of the risk if all of those elements are present. The employer is not offering a remotely fair deal.

Thank you for taking the time to read this. I hope that this provides more clarity to what we are fighting for. I will close with our International Slogan, **"UNITED WE BARGAIN, DIVIDED WE BEG"**

In Solidarity,

Jim Yakubowski, President/ Business Agent