

Steelworkers Pension Plan ... IT WORKS FOR MEMBERS AND EMPLOYERS

Predictable pension benefits for members. Predictable contributions for employers. Target Benefit (TB) Pension Plans offer a balanced approach that solves the challenges of more traditional pension plans and makes it easier for more Canadians to earn pension benefits in the future.

How pensions have evolved...

Historically, there were only two types of pension plans -- the traditional Defined Benefit (DB) pension plans that provide a set monthly income based on a plan formula, and newer Defined Contribution (DC) pension plans where contributions go into an account for each plan member and accumulate over the years to provide an account balance that can be used to provide retirement income – with no guarantee of how much that income will be.

DB plans are well known for the steady, predictable income they provide to retirees. However, this stability for plan members comes at a cost to employers who must ensure that the plan is properly funded to pay the promised pension benefits. The employer's required contributions are determined by actuaries each year and can fluctuate from year to year making it difficult for employers to plan and manage their annual liabilities.

Defined Contribution (DC) pension plans emerged with a very different approach designed to address these employer challenges. DC pensions offer known contributions that go into each member's accounts and accumulate over the years. The set contribution levels make it easier for employers to plan for annual pension costs but make it harder for members to know just how much income their account balances will provide in retirement. As an added challenge for plan members, these account balances fluctuate with investment performance, adding to the uncertainty about just how much retirement income their account balances will provide.

Finding a better way...

Clearly, there had to be another way to balance employer and member needs to provide more stability and predictability. Enter the Target Benefit Pension Plans.

In a recent Benefits Canada article, Jason Malone, partner of retirement solutions at Aon wrote,

*"More Canadian employers should consider target-benefit pension plans for their employees these days....Industry experts across the country and around the globe have been advocating for target-benefit plan for years. Proponents of the plans have highlighted the fact that this type of plan provides a simple and efficient way for workers to save for retirement and significantly limits the employer's exposure to risk – that risk has been the primary reason that's been driving employers away from traditional defined benefit plans for the past two decades."*¹

Target Benefits plans bring the DB and DC pension concepts together in a new way to provide a predictable income for plan members, while also ensuring predictable contributions for employers. The key is in balancing the benefits and risks associated with pensions and promoting a shared responsibility for member retirement benefits.

Members receive a pension that is “predictable” and based on a plan formula, similar to a DB pension plan. However, similar to DC plans, the pension is not fully “guaranteed” to allow some flexibility for adjustment in the event of significant funding situations so that employers do not bear all of the market risk. It’s a win-win and balanced approach, with a shared responsibility format that brings back DB-style pensions for members with DC-style risk management for employers.

According to the National Association of Federal Retirees, “Target benefit plans offer pooling of assets between employees and economies of scale, and funds are generally managed in much the same way as in a defined-benefit plan – although target benefit plans may be invested more conservatively to protect against the chances of a funding deficit.”²

Malone adds...

“...the total risks under these plans are the same as for other retirement savings vehicles. It's simply how the risk is shared that differentiates it [TB plans] from traditional pension plans.”

The future of pensions...

Union groups, including USW, have led the shift to Target Benefit pension plans, embracing the “in it together” approach and balanced, shared-risk philosophy. The key driver is to provide retirement security and stable, DB-style pension income for members, and do it in a way that is sustainable for employers.

Some of the bigger groups leading the way include: Nursing Homes and Related Industries Pension Plan (NHRIPP), Canada-Wide Industrial Pension Plan (CWIPP), University Pension Plan (UPP) and, of course, our own Steelworkers Pension Plan (SPP) for USW employers.

Steelworkers Pension Plan is both a Target Benefit pension AND a multi-employer plan that spreads the funding risk across many employers from many different industries and sectors. This extra diversification helps to secure SPP’s funding and further reduce the risk of ever needing a benefit adjustment.

Everything about SPP is designed to focus on and protect members – from the type of plan provided (target benefit), to the multi-employer approach that reduces funding risk to protect benefits, to having a governing Board that is comprised 100% of USW and SPP members. SPP is truly a plan for members, run by members dedicated to building sustainable financial security for retirement.

If you are not yet part of SPP and want to learn more, be sure to visit our SPP website [SteelworkersPensionPlan.ca](https://www.steelworkerspensionplan.ca) and talk to your bargaining unit about getting this balanced, win-win SPP approach working for you!

¹ <https://www.benefitscanada.com/news/bencan/expert-panel-are-target-benefit-pension-plans-the-answer-to-a-secure-sustainable-retirement/>

² <https://www.federalretirees.ca/en/advocacy/honour-your-promise/target-benefit-plans-101>