THE MULTI-EMPLOYER EXPERIENCE

Multi-employer pension plans in Canada have shown that transparency can pay off in difficult times.

By Susan Deller and Cameron Hunter

When plan members know exactly how much their pensions cost in terms of the dollars and cents they pay into the plan for each hour they work, it can make all the difference. That knowledge can cultivate a level of interest in their pensions that few other plans can rival.

Transparency is one of the defining characteristics of multi-employer pension plans. But it's not the only one. Multi-employer plans are, in many respects, a breed apart, operating under a very different set of rules from other types of pension plans. Despite these differences, there's much to be learned by single-employer plans from recent multi-employer experience.

Multi-employer plans first began appearing in Canada in the 1940s, when an agreement between the Amalgamated Clothing Workers of America and the Associated Clothing Manufacturers of Toronto created the first multi-employer plan in the country, under the guidance of its actuary, Samuel Eckler. The object was to establish a framework that would allow any number of employers within an industry to pool their resources to provide benefits and pensions for their workers.

In most cases, the union took the lead, negotiating an hourly wage package that included a contribution to the pension fund and group benefits programs. In return for their contributions to the plan, members would receive a monthly pension at retirement based on their years of service in the industry and a percentage of total contributions they paid into the plan during their period of membership.

Today, according to the lobby group known as the Multi-Employer Benefit Plan Council of Canada, there are over 360 multi-employer plans operating in Canada, covering over 1,000,000 active and retired plan members. The construction trades, including electricians, ironworkers, plumbers, steelworkers, carpenters and labourers, are heavily represented, as are teamsters, longshoremen, the fashion industry, the film industry, and the graphic communication workers, among others.

Typically, the plans are governed by a board of trustees, often with equal representation from the union and employers, but in some cases with exclusively union representation. The union side of the board generally consists of elected union officials, including the president and business manager. The employer side is typically appointed by the employer association and is often made up of the senior management of the plan's largest employers. Plan administration may be handled by a company that is set up specifically for this purpose and that reports directly to the board of trustees, or by a third-party supplier appointed by the board.

Like most pension plans in Canada, multi-employer plans have, with some minor hiccups, enjoyed great prosperity in recent decades. Pension increases have been granted regularly and, in many cases, benefit formulas have been upgraded, sometimes providing monthly formulas in excess of 2% of contributions. Generous early retirement provisions have become commonplace, with some plans allowing members to retire on an unreduced pension with 85 points or as early as age 60, regardless of service.

LEFT IN THE DARK

In the past, members were, for the most part, left in the dark about the activities of their trustees and plan management in general. With the exception of their annual pension statements—which were often unintelligible to anyone lacking a background in pension administration—and the occasional newsletter announcing plan improvements, members didn't hear from trustees. For many trustees, any communication that strayed beyond the basic facts was seen as wasteful and unnecessary, hardly a prudent way to manage their members' funds.

For their part, trustees rarely heard from the membership, other than the occasional protest over a pension option that someone had misunderstood and wanted to change back. If members were unhappy with the way their union trustees were running the plan, in most cases, it was simply a question of waiting it out to the next election, when unpopular trustees could be voted out.

And then came 2001. As markets started to slide, many trustees decided to sit tight and hope for the best. When market volatility persisted and interest rates moved lower and lower, they began to brace themselves for the inevitable blow to their plans. But until the triennial valuation came due, many didn't want to speculate on the extent of the damage, and they certainly didn't want to pass any of the potential bad news along to the membership. Maybe things would turn around. Besides, their members read the papers and watched the news, surely they recognized what was going on in the markets.

Of course, as it turned out, every pension plan across North American and Europe was caught in the "perfect storm." Hardest hit were those that, through poor advice or resistance to good advice, had grown over-confident in the years leading up to the market slide. Some multi-employer plans had fallen into the trap of making unrealistic promises that would have been difficult to keep under even the most optimistic scenario—especially given the aging membership of many multi-employer plans and the declining ratio of active to retired members. Even well-managed plans were deeply damaged by the turn of events.

NO DEEP POCKETS

It is important to remember that multi-employer pension plans have no financial backing from any single company or organization and Ontario plans have no protection under the Pension Benefits Guarantee Fund. When deficits arise, the members themselves bear the brunt, and the choices are pretty clear cut: increase contributions, reduce benefits, or both. In the months following their first post-market downturn valuation, regulators left trustees with no choice but to begin sharing the bad news with their members.

To make matters worse, plans that had done a poor job of communication soon discovered that many years of failing to educate members about the operation of the plan had created a breeding ground for rumour, mistrust, and lack of confidence in plan management. Faced with the prospect of significant cuts to pensions, often in combination with substantial increases in contributions, angry members were now more than ready to begin asking tough questions.

Though members had heard the reports about negative investment performance and seen the impact on their own RRSP portfolios, many hadn't realized that all the bad news about the financial markets would actually impact their own pension plans. How could their trustees have let this happen? Why didn't they do something about it sooner? Who chose their investment managers? Who was responsible for monitoring their performance? What kind of credentials did the trustees have? Who was to blame?

ONTARIO IRONWORKERS PENSION PLAN

An effective communication strategy

1999 Redesign pension/benefit booklet in user-friendly format.

Launch quarterly newsletter to:

- provide an integrated source of information about pension and benefit plan developments
- educate members about plan provisions and administrative practices
- keep members up-to-date on plan finances
- position upcoming changes and communicate plan value.

2000 **Member survey results show that:**

- 75% of respondents believe their information needs are being met
- 73% think they understand the pension plan
- 79% approve of the plan.

Launch basic Web site (booklet content, downloadable forms and links to other sites).

2001 Redesign annual pension statements in user-friendly format, including full-colour personalized charts.

2002 Add secure member login feature to Web site allowing members to view personal data on file with administrator, including pension contribution history (updated monthly).

2003 Add online pension calculator allowing members to use personal data on file with administrator to do real-time pension calculations and projections.

Quarterly newsletter announces a second annual hike in pension contributions and informs members that due to tough market conditions there will be no pension increase for the second year running.

Membership survey results show that:

- 89% of respondents believe their information needs are being met
- 81% think they understand the pension plan
- 88% approve of the plan.

Not surprisingly, plans that had the foresight to disclose trustee activity and educate plan members about what was going on throughout the period of market turmoil were much further ahead of the game than their less communicative counterparts. One highly communicative multi-employer plan in the construction trade was actually able to boost pension approval ratings among its 4,500 members during the very period when member contributions were stepped up and pension increases denied.

THE STRAIGHT GOODS

Plan members are more sophisticated than in the past. They need and deserve to know the full facts about their plan. Most trustees genuinely care about their members and make every effort to act in their best interests. They hire expert advisors, follow due process and are prudent decision-makers. By making the operation of the plan more transparent to plan members and giving them insight into how decisions are made, trustees are able to cultivate an environment of full disclosure and accountability, which, in turn, fosters trust in plan management.

But member communication is not just a question of fostering member goodwill, it's also a question of good governance. The Association of Canadian Pension Management's (ACPM) task force on pension governance and self-assessment recommends that the individuals responsible for communication be identified and provided with clear, written terms of reference. The ACPM also recommends that communications be included in the list of areas where performance should be measured and reported back to members. By getting formal feedback from their members, trustees can gauge the effectiveness of their communications, demonstrate that they are responding to member needs, and ensure that they continue to act in the members' best interests going forward.

For multi-employer plans whose recent funding woes have forced them, for the first time, to communicate effectively with their members, this may be the one good thing that comes out of their recent misfortunes. For single-employer pension plans whose employee relations are feeling the strain of pension belt-tightening, there may be an important lesson to learn. **BC**

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