

Freedom

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As more of the workforce approaches retirement age, pension concerns are looming large for both employers and employees

BY JOEL THOMPSON



As the baby boom generation approaches retirement, pensions have taken centre stage in the news. A large segment of the Canadian population has begun to examine its retirement income and ask questions about whether it will be adequate.

This growing discussion has brought renewed examination of the Canada Pension Plan. While the CPP's balance sheet has been effectively repaired in the past few years, there has been growing acknowledgement by both government and the public that CPP offers no more than a retirement supplement and even when combined with Old Age Security, few Canadians will be able to depend on it to fully fund their retirement. This recognition was highlighted recently by the federal government's proposal to establish multi-employer pension plans for the benefit of small business and the self-employed.

The construction industry employs a large contingent of baby boomers and the retirement income discussion is important for our industry. In addition to its concern for retiring workers, the industry has to consider its need to attract new recruits in the coming years. Offering new entrants a decent retirement plan will be essential in competing with other industries for labour and the construction industry does not have a particularly good record in this area.

Pensions have always played a significant role in construction industry labour relations.



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For many construction workers who were once union members, their dissatisfaction with union pension schemes was one of the prime factors that caused them to embrace the open shop movement. Google the phrase "Union Pension Scandal" and you will be confronted with a voluminous history of operational difficulties with union pension plans across North America. Some of these episodes are the result of criminal acts (and in the American cases, often linked to organized crime), some to negligence or incompetent management, and some to difficult economic conditions exposing an inappropriate plan design or one with unrealistic investment or actuarial assumptions.

The most spectacular meltdowns have occurred in the U.S.A., which are relevant here because virtually all Canadian building trade unions are affiliated with American parents. Organized crime involvement with American union pensions has almost become a cliché and cases of Congressional enquiries leading



to racketeering charges are an oft-repeated scenario. Some of the larger unions involved include the Plumbers and Pipefitters who ousted former President Martin Maddaloni over charges of mismanagement of pension funds and fraudulent conduct involving real-estate deals in Florida. Robert Georgine,

former head of the Laborers' Union and the AFL-CIO's Building and Construction Trades Department, became embroiled in a stock trading scandal at ULLICO, an insurer owned by union pension funds. His appearance before a Congressional Committee was highlighted by Fifth Amendment pleas. Jake




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West, the former head of the Ironworkers Union, was sentenced to three years in prison for embezzling union pension money.

While the pension funds of the Canadian locals of the International Building Trade Unions are generally segregated from their American parents, the history of pension fund management there causes mistrust among current and former union members. Many loyal Canadian union members resent any transfer of funds from Canadian locals to their American parents and the pension scandals serve to heighten that resentment.

Unfortunately, the Canadian branches of the International Building Trade Unions have not been immune to pension scandals. One of the most notable Alberta examples involved the Edmonton Pipe Industry Pension Trust Fund. Because of industrial activity in Edmonton and Fort McMurray, the northern Alberta local of the Plumbers and Pipefitters usually ranks as the international union's largest local. In 2001, the news media reported on a government-ordered audit that uncovered what the auditor termed "lack of due diligence" and of being "indifferent" to complying with the law. The investigation revealed that the pension fund administrator was the CEO of three golf courses the fund had purchased in North Carolina. Several of the trustees were also on the board of directors of the golf courses. Some of the trustees had purchased first class airline tickets at plan expense to visit these "investments" and had exchanged the first class tickets for two tourist class tickets so spouses could accompany them on these inspection tours.

In October 2009, the fund settled a \$49 million lawsuit brought by disgruntled plan participants. In the explanation for the settlement contained in the fund's annual report, an estimate was given that prolonging the litigation could result in a cost to the fund in excess of \$1.2 million.

The situation at the Edmonton pipefitters pension fund was eventually cleaned up but remains a cautionary case history. Other instances also include allegations of illegal

activity but more often the funds incur serious losses or fail to meet investment return expectations due to lack of professional management. If one of the largest construction union locals in the country can run into serious difficulties in managing its pension plan, it is not surprising that some of the smaller unions also fail in the responsibility to manage the monies their members have entrusted to them. There is a separate union for nearly every construction trade and this fragmentation has resulted in some pension funds representing very small groups of employees. This results in administrative expenses eating up an inordinate amount of funds and makes it difficult to establish the professional management required to pro-

vide the required rate of return from secure and safe investments.

Despite the gravity of their responsibility in safeguarding the retirement income of their members, union pension trustees have

often show no better discretion than gullible members of the general public in handing over large sums of money to what are later to be revealed to be no more than snake-oil salesmen. More frequently, those directing fund trusts have been lured into making big bets on investments such as commercial real estate rather than hiring professional money managers to oversee an investment plan with strict parameters. As a result, the balance sheets of most Canadian construction union pension plans show unfunded liabilities. A Toronto Star expose of the activities of the fund managing money for the United Food and Commercial Workers (one of the largest multi-employer funds in the country) revealed that current union members would



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be assessed significantly increased premiums to make up the plan's shortfall. The article noted that millions of pension dollars had been lost in questionable investments in Caribbean hotel and resort developments.

The situation was exacerbated by the global financial crisis which saw even some of the best managed of pension funds incur substantial losses. Recovery in investment markets and strong construction activity bringing increased pension contributions from a larger workforce have helped some funds regain lost ground. Those unions which lost most of their market share to open shop competition may have little hope of having their pension funds meet their future obligations for payouts to retirees.

Trying to repair pension fund balance sheets has caused problems for the whole union sector. Hefty pension contribution requirements by employers (\$5 per hour for many trades) creates a substantial gap in gross wage packages between union and non-union employers in a very competitive marketplace. This cost differential has been one of the main reasons that in most regions, union contractors are unable to compete in the commercial market.

Those on the non-union side of the construction industry may tend to gloat whenever a new story of union pensions gone bad materializes, but the open shop sector has not necessarily solved the retirement issue for their workforce. When open shop employers began to organize to cooperatively deliver services to employees, they recognized that retirement programs needed to be part of the package. Many of them had workforces that had formerly been union members and a substantial number of those were embittered by their experience with union pensions. Given those feelings, it was no surprise that open shop employers chose RRSPs as the most appropriate vehicle for employee pensions. To counter the distrust many employees felt, employers setting up company RRSPs made pledges to employees that there would be immediate vesting of all funds and they would be under total control of individual employees



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While philosophically this may have been the best fit with the wants of employees, in practice, it is unclear whether it will meet the ultimate goal of providing an adequate retirement income. Too many employees show little inclination to make the commitment to the disciplined savings required to accumulate retirement funds. In this, they are no different than the rest of the Canadian public which has a dismayingly low participation in RRSP investments and an even lower number making maximum annual contributions.

Most employers acknowledge these shortcomings but are reluctant to take back the control over retirement funds that they promised to employees. The fact remains that the group RRSP route provides no guarantees that every employee will enter retirement with the assurance of an adequate retirement income. Much remains to be done to educate employees and persuade them to take personal responsibility for retirement planning.

A case can also be made that not enough open shop employers have instituted retire-

ment plans and that contributions are inadequate. The most common reasons are that many construction employers consider their operations too small to be able to offer a retirement plan and that a high employer contribution will erode their competitive position and the ability to win work in a bid market.

Regardless of your perspective on the pension issue, it remains extremely important for the whole industry, both union and open shop. While severe construction labour shortages have eased, few would argue with the prediction that we will soon be facing even greater difficulties in meeting demands for labour. A recovering economy, growing construction markets and the depletion of existing forces through retirement dictate the industry will again be scrambling to hire and train enough new recruits. Construction will not be the only industry facing this problem and Canada will not be the only country looking for talent outside its borders. If the industry is to attract the type of people it needs, it needs to be able to offer a viable means of providing adequate retirement income. ◼