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The Pension Problem
Interview with Mitch Frazer

Fred Langan: Welcome back. Fear of bankruptcies at General Motors and Chrysler have raised concerns about the solvency of private pension plans. The Canadian Auto Workers union claims governments have a moral responsibility to support pensioners, but over 70% of tax payers don't have a pension of any kind. Many private plans are also in deficit. Mitch Frazer is a pension lawyer and he joins us now. What state are the auto company pension plans in at the moment?

Mitch Frazer: Well, the auto company pension plans as a whole are under-funded. However, the GM plan is in a different situation because it's subject to different funding regulations here in Ontario.

Fred Langan: What is that?

Mitch Frazer: They were considered, back in the early nineties when the Rae government changed the rules for really large plans. So there were pensions plans which had assets of over \$500 million.

Fred Langan: Too big to fail?

Mitch Frazer: Too big to fail. You got it right on, and that's the key. So unfortunately, three plans ended up being "too big to fail" plans: Algoma, Stelco and GM, and we all know what happened to the other two plans.

Fred Langan: Okay, so does the government have a moral responsibility to support people?

Mitch Frazer: Well, the government definitely has some moral responsibility to support people, but they also have the moral responsibility, you'd argue, to support active employees, too, and they've got to figure out the balance. It's an issue of priorities for them.

Fred Langan: It would be political suicide though, wouldn't it, to punt too much taxpayer dollars in them?

Mitch Frazer: I would think so. I think it would be difficult for them to fully fund, say, the GM plan. There are estimates out there that the GM plan is—if you wound it up today, if you terminated the plan today—somewhere between \$2 and \$6 billion in the hole. So for the government to put \$2 billion into a plan as a minimum... where do you get that \$2 billion from?

Fred Langan: What's the status of other private pension plans?

Mitch Frazer: Well, defined benefit plans tend to move with the market, so the markets are down. Most—I don't have an exact number, but most pension plans (private pension plans) are underfunded at the moment.

Fred Langan: Is the market collapse how they got into this mess?

Mitch Frazer: It would be the main reason why they got into this mess, yes.

Fred Langan: What would happen to the pension plan if GM went into bankruptcy?

Mitch Frazer: If it went into bankruptcy, there is a pension benefits guarantee fund and pensioners would be entitled to \$1,000 per month, so it's \$12,000 per year. The big problem is that some of these people could get up to \$72,000 a year from their pension plan, so it's a \$60,000 a year hair cut. For those people, it would be the equivalent of someone coming up and actually putting your house on a trailer and taking it away. Huge impact.

Fred Langan: What can companies and pension plans do to get out of these shortfalls do you think?

Mitch Frazer: In terms of the short term, companies have got to put more money into the plans. In terms of the long-term, they've got to see if the defined benefit plan is something that is workable for their company. If not, they've got to look at alternatives like defined contribution plans.

Fred Langan: Is investing in the stock market gambling with pension funds?

Mitch Frazer: Well, the greater the risk sometimes, the greater the return. So companies and pension funds have got to figure out what they need. At the end of the day, there are no deficits or surpluses until a plan hits a specific event, which is its windup, in which case you've got to figure out how much money that is needed to fund it at the time.

Fred Langan: Yesterday, Dalton McGuinty, the premier of Ontario, said "no cash from me." How are provincial governments across Canada dealing with the pension crisis?

Mitch Frazer: Well they're pretty much in the same position. People—different governments—are saying that we've got to look at the rules. And we're having different reviews. Several provinces in the federal government have initiated pension reviews. So people are looking at it—it's obviously a priority—but no one has specifically talked in terms of dollars yet, and we haven't seen that need at the moment.

Fred Langan: Is the day of the "rich pension" over?

Mitch Frazer: I would think the day of the "really rich pension" is limited—I'm not saying it's over. In the public sector, it's certainly there. It's really the private pension plans sponsored by companies that are in jeopardy.

Fred Langan: You're a pension lawyer. What type of clients do you have?

Mitch Frazer: Typically corporations, but we also advise some of the larger pension funds in the province and the country.

Fred Langan: Not General Motors?

Mitch Frazer: Not General Motors, no.

Fred Langan: Okay well thanks very much for talking to us.

Mitch: Thanks for having me.