



## INFORMATION UPDATE 2010 #12

April 26, 2010

### **Portability and Other Pension Issues**

The following interview was conducted by The Marxist-Leninist (TML) (April 22, 2010 issue) with Rolf Gerstenberger, President of Local 1005 USW.

**TML:** Pensions are an issue which deeply concerns USW Local 1005 because you have the largest number of retirees (9,000). We would like to discuss the pressure nowadays for workers to adopt defined contribution pension plans. The President of USW Local 8782 is quoted in the Simcoe Reformer as saying the defined contribution pension plan for new hires at Lake Erie Works is "much superior" to the existing defined benefit plan. The paper says, "Workers now have the advantage of 'portability,' Ferguson said. In the new pension, workers carry with them the full amount of their investment if they leave to go to another job, something they couldn't do under the old plan", Ferguson said. Can you comment, keeping in mind that it is possible that the Simcoe Reformer misquoted Ferguson?

**Rolf Gerstenberger:** An assertion that the new plan is portable would be meaningless. A defined contribution plan is a savings plan. If a worker under the defined contribution plan leaves Lake Erie Works, the savings plan is frozen at the level upon leaving. U.S. Steel will not make any new contributions. The worker does not carry the plan anywhere, it stays with the investment company hired to manage the savings. Any new contributions would have to come from the worker or in an agreement with a new employer to begin contributing to the savings plan. The best one could say is that a savings plan is better than nothing, but it is not a pension that guarantees a worker a defined income until passing away.

**TML:** What about the claim that a defined contribution plan is superior to the defined benefit plan?

**RG:** In the opinion of Local 1005, it is not. The fact that the present Lake Erie Works defined benefit plan is not portable does not mean that a defined contribution plan is better. When workers leave a job that has a defined benefit plan they do not lose the pension benefit they have already accumulated. That benefit will come to them upon retirement. The fact that a defined benefit plan does not continue to grow at a new job is due to two reasons: only a minority of private sector jobs have defined benefit pension plans and secondly the only institution strong and broad enough to guarantee portability of defined benefit pensions is the government.

**TML:** As we understand it, another issue with defined contribution plans is the cost of living. When a worker retires and begins to draw on the savings the principal amount in the plan begins to fall.

**RG:** Yes, of course. To keep up with any increase in the cost of living, a retired worker would have to take out more and more from the savings plan reducing the principal even faster. This is partially offset with continued earnings on the principal that remains but this offset from earnings is progressively reduced, as the principal becomes less. Any surge in inflation such as Canada has experienced several times would seriously erode the savings plan causing it to disappear faster than anticipated. The best protection against this is a defined benefit pension plan that has cost of living protection.

**TML:** What happens in the event of early retirement?

**RG:** There is pressure against retiring early with a defined contribution plan because the principal in the savings fund stops growing upon retirement, and if early retirement is taken, the retired worker will draw on the savings for a longer period increasing the possibility that the savings fund will pass away before the worker.

**TML:** Today the media and monopoly interests are going all out to convince the workers to believe that a savings plan is a pension.

**RG:** It is not. The government has tried to make savings plans for retirement and education attractive by not taxing the amount put into the savings plan. All the propaganda and enticements for savings plans are meant to weaken the resistance of workers to attacks on their defined benefit pensions and to stop workers and their allies

from organizing politically for social programs such as defined benefit pension plans for all and free education for all Canadians from daycare through university.

I think that both the older and younger generations of workers need to pay a lot of attention to this. Older workers are told to ignore younger workers because they have lived their lives and the younger generation should deal with its own problems. Younger workers are living their present lives and have no clue about the concerns they and their families will have two or three decades into the future. This is why the unions must step in to do the right thing and defend not only the pensions of the present generations of retired or soon to be retired workers but of the new hires. This is all the more necessary given that today we have a situation in which governments are not carrying out their own social responsibilities towards the members of society. We are fighting to defend the pensions we have and we must fight to defend the pensions we have for a reason. It is not because we are hidebound or capricious. It is because it is the right thing to do. If we do not defend the interests of the members of society, who is going to do it? Not only must we do it but we must demand that governments do likewise. What they are up to, giving self-serving arguments to pass over more and more of the workers' income into savings funds creates pools of capital for interested parties to invest on the stock markets. It is not socially responsible as everyone knows who suffered losses or saw their savings funds suffer losses recently. The argument that what is good for the monopolies is good for the people is worn out. Only if the workers stand for what is right, as they are doing all across the country with the Vale Inco workers courageously entering the tenth month of a very difficult strike, can the workers defeat this nonsense coming from the monopolies and their governments.

**TML:** So the solution to this problem is to fight. What should the workers strive for?

**RG:** Yes, the solution is to fight in the sense that first the monopolies and these government should be blocked from getting away with what they are doing. But at the same time, a lot of work has to be done by the labour movement to get a government which will provide pensions with a guarantee. The most sustainable arrangement would be a government organized defined benefit pension plan for all Canadians based on their income during their working lives with a guaranteed minimum.

**TML:** Thank you very much.

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