GM Operations in Canada and the Pension Plan

Prepared by Jo-Ann Hannah
Director, Pensions and Benefits, Unifor
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The future of GM's operations in Oshawa has been in the news lately. Unifor is working to confirm new investment and product commitments for that facility (and all of GM's Canadian operations). Needless to say, there has been great anxiety among Unifor members and the whole community, where one auto job has a spinoff of 10 more jobs.

The Ontario and federal governments, having come to GM's assistance with over $10 billion in 2009 when GM was on the brink of bankruptcy, must wonder why GM now looks to Mexico for investment. As Unifor president, Jerry Dias, recently said in an interview with CTV news, "the Mexico government did not give GM a dime."

GM has good reason to continue their investment in Ontario. GM generates a healthy profit from their Canadian operations: both making vehicles and selling them here. A highly productive, reliable workforce; a more reasonable value for the Canadian dollar; a cost-saving labour contract for new hires at GM; and Medicare all help to make Canada a great place to manufacture cars.

But the longer GM waits to announce new investments in Oshawa and other plants in Canada, the greater the tension. And some retirees are asking, "What happens to my pension if GM closes up in Canada altogether?"

Although we never expect our home to burn down, it is always a good idea to know what is covered in our home insurance policy. For the same reason, we should also understand what protections are provided by Ontario pension legislation in the event of workplace closures.

Pension Protections

If GM closed its Canadian facilities, it would be required, by law, to fully fund the pension plan within 5 years. The retirees, usually, continue to receive their full monthly pension. And active members eligible to retire can retire on their full monthly pension. The active members who choose to take the lump sum value of their pension, would have to wait until the plan is fully funded (i.e, up to 5 years). They would receive the lump sum value of their pension plus interest over the wait period. The lump sum pension must be transferred to a locked in retirement vehicle; it is not paid in cash.

The next question, looking at worst case scenarios, is “What if GM went bankrupt?” There is no indication that this is at all a possibility. GM in Canada and the head corporations are profitable and financially strong. GM sales are growing. Nevertheless, if this happened, Unifor, and the Ontario government (that contributed $4 billion to the GM pension fund), would seek payments from the US parent to fully fund the Canadian pension plan. There are a number of cases where the Ontario government has successfully forced a US parent to honour their Canadian operations’ pension agreements.

Today the GM Canada pension plan is 84% funded on a continuing basis. However, if the plan were to wind up, it is 67% funded. The funded status of the plan has improved each year since 2009 when it was only 45% funded on a wind up basis. It is very important to keep the company operating in Canada and funding the pension plan.

In a worst-case scenario, with no additional payments from the US parent at all and no special assistance from government, all active members and retirees in the GM pension plan would be paid 67% of their benefit. This would be a painful reduction in pensions.

Another concern is the new option for GM retirees to take the lump sum or commuted value of their pension at retirement (rather than a monthly pension). Almost 80% of the GM pension liabilities rest with the pensioners, so the commuted value option for current actives retiring does not have a significant impact on the pension fund. Even so, there is a protection in place: if the sum of commuted value transfers reduces the funded status of the pension by 10%, the Ontario pension regulator will order a review of the plan which could halt the transfers or require special GM funding.

The union reluctantly agreed to the lump sum option in the 2012 Detroit 3 negotiations in order to get an agreement. However, Unifor continues to have serious concerns about the wisdom of members taking their lump sum pensions upon retirement. There are significant investment risks as well as a high rate of tax on the lump sum for most members.

Unifor will continue to work to enhance GM’s presence in Canada, to ensure that GM lives up to its regulatory commitments, and to push government to leverage a strong commitment from the company to its Canadian operations, its Canadian workers, and its Canadian retirees.

Health care is an important retirement benefit. Fortunately, the asrTrust for health benefits for GM retirees and their families is very securely funded. Its funds are entirely separate from GM as a result of the 2009 restructuring. Current retirees and their families as well as active members eligible to retire in a closure can rely on the asrTrust for their retiree health care benefits.