



Security, Adequacy, Fairness: Labour's Proposals for the Future of Canadian Pensions



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Introduction

The global economy is in its deepest downturn since the 1930s. Many Canadians are fearful that they may retire without adequate pensions or even fall into poverty. Hundreds of thousands of good-paying jobs have been lost, and the pensions of millions of Canadians have been put at risk by the financial meltdown and a wave of employer bankruptcies. Even those with jobs are wondering if and when they can ever retire.

Without question, recent events have exposed major faults at the heart of our pension system. Our public pension system – Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) plus the Canada Pension Plan - provides a secure income in retirement, but the maximum value of public pensions falls well short of replacing the 50% to 70% of pre-retirement income needed to maintain decent living standards. Compared to many other advanced industrial countries, our public pension system is very under-developed.

The private part of our pension system, which was meant to make up the big difference between public pensions and adequate retirement incomes, is in deep trouble. Only about 1 in 5 workers in the private sector now belong to an employer pension plan. Very few non-union workers, with the exception of managers and professionals, are covered by an employer plan. Many of the plans which do exist are on shaky financial ground because of low interest rates and the recent collapse of stock markets. Some workers covered by pension plans find that there is no effective backstop when plans get into financial trouble.

While most employer plans still provide a defined benefit, there has been a shift to defined contribution plans that resemble RRSPs in terms of high risks, high costs and very uncertain outcomes.

RRSPs were sold as the solution to our pension woes. Yet the average older worker approaching retirement today has saved enough to buy a monthly pension of only about \$250 per month. (The median RRSP value of a worker aged 55 to 65 was just \$60,000 in 2005. Half of RRSP holders have less than this amount.) RRSPs have failed to counter the decline of defined benefit pension plan coverage because many people do not save enough, because administrative fees and costs are very high, and because financial returns are highly variable and uncertain.

Despite improvements in recent decades, a disturbing number of vulnerable seniors – single women, First Nations, recent immigrants, and those with disabilities – still live in poverty.

The case for pension reform runs into strong opposition from the vested interests of the financial industry. However, the case for change is being increasingly being heard by decision-makers. Many employers who sponsor pension plans recognize that the cost of supporting decent pensions through public rather than private arrangements would help level the competitive playing field between businesses and by reducing their costs of administering their private pension plans.

The labour movement believes that Canadians should not have to “fend for themselves” in retirement. After a lifetime of work making a positive contribution to our country's development, all Canadians deserve security and dignity in retirement.

The Canadian Labour Congress calls for a national summit of government, employers, labour and others to discuss and bring forward a concrete plan to rebuild and reform our pension system.

This short paper outlines our proposals for change, championing the same progressive values which changed our health care system with the advent of medicare in the late 1960s. Today we can make a similar choice for pensions, and create a system where no Canadian is left behind.

Our priorities for change call for a major shift from private to public pensions, and greater security for members of existing employer pension plans. The changes we propose would benefit all workers, providing

greater security while making our pension system better fits the needs of a changing economy.

- **Security of pension benefits:** all Canadians are entitled to the pension they've earned, and government must provide a base floor of pension security;
- **Adequacy in pension income:** regardless of personal circumstances, no senior (current or future) should live in poverty; public pensions including the Canada Pension Plan should replace an adequate portion of the average wage;
- **Fairness in pension outcomes:** one's skill at "playing the markets", misfortune to retire in a recession, or working for several employers shouldn't dramatically reduce pension income. We need fair pension outcomes for all Canadians, and measures to help those, like women, who do worse today.

With these values in mind, this paper outlines three key areas in which to improve Canadian pensions:

1. Double benefits for the Canada Pension Plan (CPP)

This would offer efficient, secure and enhanced pension benefits to the 93% of Canadians who make CPP contributions, while also taking financial stress off workplace pensions moving forward. (The great majority of workplace plans are coordinated with CPP benefits, meaning that a defined benefit tops-up the CPP pension benefit, with the employer plan making up the difference.). We propose to phase-in a doubling of the proportion of average earnings replaced by CPP from 25% to 50% over seven to ten years to \$1,635 per month, financed by a modest increase in worker and employer premiums which would be fair for lower-paid workers.

2. Increase low-income (GIS) pensions by 15% so no senior lives in poverty

Our proposal would give low-income seniors up to an additional \$110 per month, enough to move virtually all seniors above the poverty line.

Moving forward, since an improved CPP will provide better pension benefits, tax subsidies to RRSPs could be reduced to finance an increase in Old Age Security benefits paid to all workers.

3. Introduce a national system of pension insurance

An insurance floor should be set for defined benefit pension benefits (to a proposed maximum of \$2500 per month) through a system funded by contributions from pension plan sponsors. This would be a federal system initially covering federally-regulated pensions, but provinces would be encouraged to opt into the new system. The pension insurance system should also take on the task of administering abandoned pension plans from bankrupt employers with no prospects of recovery.

Pension insurance should be backstopped by a reserve fund financed through a small financial transfer tax on Canadian stock market transactions.