The GREAT CANADIAN PENSION DEBATE

GOLDEN YEARS OR GREATER SENIOR POVERTY

A CUPE 503 BRIEFING PAPER

THE NEED FOR GOOD PENSIONS

Whether we like to admit it or not, none of us are getting any younger. And eventually we all have to retire. For some, retirement represents a blessed relief – signaling an end to a miserable job with lousy pay, back-breaking work, a toxic workplace and an abusive boss. While for others, it is a sad affair – spelling the end of a rewarding career with interesting work and great working conditions.

But whatever the situation, the last day on the job tends to be pretty much the same for everyone. You leave your workplace for the last time. You say goodbye to people you have known for years. You close the door behind you and march out into a future filled with questions – like how you are going to replace that all-important pay cheque.

THE DEVELOPMENT OF CANADA'S RETIREMENT INCOME SYSTEM

Of course, how people go about replacing that cheque has changed over time.

For example, back when our country was young and people lived on farms or worked at trades or in family-run businesses in small communities, you simply passed your farm or business on to your children and moved in with them. Problem solved!

However, once industrialization and urbanization started to transform the way we work and live, the old ways of handling retirement no longer worked as well - which meant that new ways of addressing this age-old problem had to be found.

By the 1920s, faced with skyrocketing rates of poverty among seniors, it was clear that the federal government would have to step up to the plate. One of the first things it did was to pass the first *Old Age Pensions Act* in 1927 which established a pension plan, jointly financed by the federal and provincial governments, but administered by the provinces. It didn't pay much – but it was a start.

Since then, successive governments have dedicated themselves to ensuring a decent quality of life for seniors through the introduction of new retirement income programs and by enhancing existing ones. The result is our current retirement income system – which stands as a key element in the Canadian welfare state.

CANADA'S RETIREMENT INCOME SYSTEM

Canada's retirement income system is built on three major pillars:

- Universal federal government seniors' benefits – often supplemented by the provinces and territories in the case of low-income seniors. These include: Old Age Security (OAS), the Guaranteed Income Supplement (GIS), and Spouses Allowance (SPA).
- The Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) which provide fully portable retirement, survivor, and disability benefits to qualifying contributors that are inflation-indexed to the Consumer Price Index (CPI).
- And Workplace Pension Plans and individual retirement savings.

A RECORD OF OUTSTANDING SUCCESS

A quick look at the numbers shows the stunning success of this approach in reducing poverty among seniors – which Dalhousie University economics professor, Lars Osberg, calls "the major success story of Canadian social policy in the twentieth century".[1] His assessment is borne out by the fact that Canada's elderly poverty rate fell by an extraordinary 30 percentage points—from 36.9% in 1971 to 6.3% in 2004.[2] This commitment to caring for our elderly citizens has won us international acclaim with Canada recently being awarded an 'A' grade for its tackling of senior poverty, placing us second among 17 OECD countries.

Much of this improvement can be laid at the door of government-run programs such as: the Canada Pension Plan, Quebec Pension Plan, Old Age Security, and the Guaranteed Income Supplement. Taken together, they provide a good base of income support for seniors – with the GIS proving particularly successful at targeting low-income seniors. And careful attention to their financing ensures they will be there for years to come. It is estimated that the CPP Investment Fund has enough assets under management and a sufficiently high rate of return to guarantee its sustainability for the next 75 years. And Canada's parliamentary budget officer recently declared the OAS was fiscally sustainable far into the future—under the rules in effect before the government increased the retirement age. Compare this with the U.S. social security scheme which its own Board of Trustees declared unsustainable over the long run as early as 2003.[3]

OMERS – THE THIRD PILLAR

Of course, government-run plans are only part of the story. From the beginning, it was assumed that workers and their families would kick in some of their own money through workplace pensions and private savings. For many CUPE members in Ontario – including those in CUPE 503 – a good portion of this will come from their account with the **Ontario Municipal Employees Retirement System (OMERS)** - the pension fund which serves a wide range of public sector workers in Ontario. These include municipal government employees, firefighters, police, emergency services staff, librarians, Children's Aid Society workers, school staff (other than teachers), and transit and hydro workers. Currently, some 409,000 people are covered by the plan in Ontario.

With $53.3 billion in assets under administration, it is one of the largest institutional investors in Canada – which means it isn't going to run out of money any time soon.

[1] Lars Osberg, "Poverty Among Senior Citizens," T*he State of Economics in Canada: Festschrift in Honour of David Slater*, edited by Patrick Grady and Andrew Sharpe, (Kingston, Ont.: Queen's University), p. 170.

[2] The Conference Board of Canada. *Elderly Poverty*. http://www.conferenceboard.ca/HCP/Details/society/elderly-poverty.aspx#peers

[3] Social Security Administration. *Annual Report to Congress - 2003. Social Security Not Sustainable for the Long Term*. http://www.ssa.gov/pressoffice/pr/trustee03-pr-alt.htm

HOW OMERS WORKS

Every pension plan is driven by two important variables – time and money. And OMERS is no exception. For it works on the principle that, the more service you have and the more you pay into your pension, the greater the benefits you can expect to receive. And what's really good about OMERS is that it is a **defined benefit plan** – which means you know in advance how much your pension will be, based on your expected earnings, contributions and years of service. This type of plan is clearly preferable to the increasingly common defined contribution pension plans which determine a person's benefits when he or she retires, based on how much money is in the plan at the time.

Of course, all of this takes money – and the money has to come from somewhere. In the case of OMERS, it comes from three different sources:

- Contributions made by workers.
- Matching contributions made by employers.
- And money made for the Plan by its investment managers.

Workers and employers make matching contribution to the Plan based on an employee's contributory earnings – with contribution rates being adjusted periodically to make sure cash inflows into the Plan keep pace with the benefits being paid out. In 2012, the contribution rate for normal retirement at age 65 was 8.3% on earnings up to the CPP earnings limit of $50,100 and 12.8% on earnings over $50,100. And both workers and employers stop making contributions when an employee has 35 years of service.

It is also important to note that the OMERS is an integrated benefit plan – that is, it is designed to work in conjunction with CPP to provide stable, combined retirement income at a reasonable cost.

Here's how it works. While you work, you pay a lower contribution to OMERS for that portion of your income on which you are required to pay into the CPP (up to $50,100 in 2012). This reduces the amount you would otherwise have to pay into your OMERS Plan, were there no CPP. And when you retire, a combination of benefits from your OMERS Plan and CPP provide you with your total retirement pension income – which for some people with 35 years of service can add up to 70% or more of their best five years of earnings.

Still, not everyone can or wants to stay on the job until age 65, so OMERS provides an early retirement option under which members receive OMERS benefits plus a bridge benefit which supplements their pension income until age 65 when their CPP benefits kick in.

And should a member become disabled, OMERS contains options which:

- Allow the person's pension to grow – free of charge to them until they return to work.
- Or provide members with a disability pension, should they be declared totally and permanently disabled. Best of all, the amount of this disability benefit is not affected by any CPP disability pension income the person may receive.

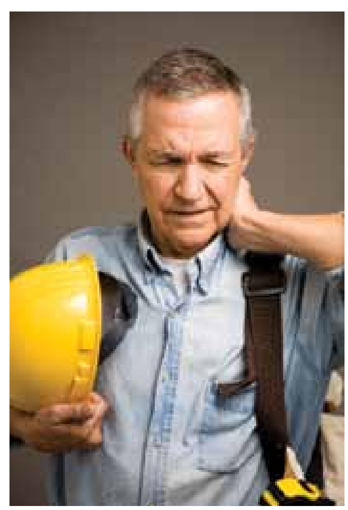
TIGHTENING THE SCREWS ON RETIREES

As important as workplace pensions and personal savings are in ensuring adequate retirement income, the reality is that most people are going to have to rely at least in part on government-run programs such as the CPP, QPP, OAS and GIS to make sure they have enough money to pay the bills.

That being the case, you would think the federal government would be trying to expand and strengthen that portion of the retirement income system in anticipation of the large number of 'baby boomers' who will begin retiring over the next few years. Or at the very least would avoid doing anything that could harm it. Sadly, that's not what's happening. For a number of recent moves by the government are making it harder for people to collect retirement benefits by moving back the goal posts.

These include a series of changes to the CPP to be phased in between 2011 and 2016 which will:

- Decrease CPP pension benefits by a larger percentage for those workers who take retirement before age 65.
- Increase CPP pension benefits by a larger percentage than in the past for those who retire after age 65.
- Allow workers aged 65 to 70 to contribute to CPP – with matching contributions coming from their employer. These additional contributions will also increase their monthly CPP payments.
- Force people under 65 who are working while receiving CPP retirement benefits to contribute to the plan. The good news is that these contributions will increase a person's CPP retirement benefits. The bad news is that it will leave low-income workers with less take home pay to take care of the necessities of life.



Taken together, these changes are aimed at pressuring people to stay in the workforce longer – so as to delay paying out benefits for as long as possible while at the same encouraging workers to pay into the plan well past the normal retirement age.

The problem is that these changes don't take into account the difficult situations in which many Canadians approaching age 65 find themselves – including many suffering from serious health problems caused by their work. So pressuring such people to postpone retirement past age 65 is not only cold and unfeeling but it also shows how out of touch the Harper Government is with ordinary working Canadians.

And contrary to what the Prime Minister and his advisors might think, most of those who take early retirement are not well-heeled slackers who are tired of working and simply want more time off to go on cruises. Rather, they are people who all too often find themselves in a serious bind –

such as a serious illness or the need to care for an ailing loved one. In short, they are people who are forced to leave the workforce and give up that all important pay cheque. Which means that, by increasing the penalties such people face for making this difficult decision, the government is making a bad situation a great deal worse.

Nor does it make much sense to force retired people under the age of 65 who work a few hours a week to once again begin paying into the CPP. For this too misses the point. Namely, that these people are not going back to work on a whim. They are doing it because they need the money - right now – to pay the rent and put food on the table. So requiring them to once again pay into CPP defeats the whole purpose of their going back to work – that is, to get the money they need to buy the necessities of life.

Finally, by forcing or enticing retired workers into once again paying into CPP, the government may inadvertently be making it more difficult for older workers to find and keep jobs. For potential employers, faced with the prospect of having to pay into CPP for an older worker, may decide to hire a younger one instead, figuring that they can get more work out of that person.

Sadly, these aren't the only harmful moves being made by the Harper Government in the pension area. Not content with encouraging people to put off collecting CPP benefits, the government is also planning to move back the age of eligibility for Old Age Security and the Guaranteed Income Supplement from 65 to 67. These proposed changes will start in April 2023 and kick in gradually over a six-year period, with full implementation by January 2029. And contributors will be able to voluntarily defer receipt of OAS – in hopes of receiving higher month benefits later on. As with CPP, the problem with deferring OAS is that many of those doing so will never recover all of the income they lost by deferring it – which makes it a bit of sucker's game for workers.

The federal government claims they are doing this for fiscal reasons—to make the program financial sustainable over the long run. But that's not true. For Canada's independent Parliamentary Budget Officer has made it clear that the OAS program is fiscally sustainable over the long term.[4] And even with the retirement age staying at 65, expenditures for this program will amount to a lower share of federal tax dollars and of the economy in 2080 than they do now. His analysis shows that OAS and GIS benefits, which now amount to 2.2% of GDP, will peak at 3% of GDP in 2031 and then decline to 1.8% of GDP. As well, it is important to note that the federal government will soon start recording surpluses and the OAS changes won't take effect for another decade.

All of which suggests that the real reason Ottawa is extending the retirement age through the OAS and CPP is to force more seniors into the workforce, increase the labour supply and keep wages down. This should be little comfort for the hundreds of thousands of young Canadians who are not only facing a tough job market and low wages but also are faced with the prospect of having to pay more into pension plans and retire later.

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[4] Office of the Parliamentary Budget Officer. *Fiscal Sustainability and Elderly Benefits*. February 8, 2012. http://www.parl.gc.ca/PBO-DPB/documents/Sustainability_OAS.pdf

Not surprisingly, these latter changes have not been well received by younger workers who resent having to pay for the OAS and GIS benefits of growing numbers of 'baby boomers' while seeing two years of their own benefits taken away – with even more cuts possible in the future. And they are right to be unhappy – since the change to OAS alone could cost a person aged 20 as much as $34,404. (See Table 1 for a breakdown of losses by age.) And that's just one of the changes!

TABLE 1 ESTIMATED LOSSES TO YOUNGER CANADIANS AS A RESULT OF CHANGES TO OAS

AGE AS OF 2012	LOST OAS	AGE AS OF 2012	LOST OAS
54	$1,387	36	$23,911
53	$5,446	35	$24,451
52	$9,745	34	$24,992
51	$14,234	33	$24,567
50	$17,405	32	$26,178
49	$17,859	31	$26,788
48	$18,260	30	$27,398
47	$18,668	29	$28,009
46	$19,086	28	$28,656
45	$19,514	27	$29,340
44	$19,953	26	$30,024
43	$20,403	25	$30,708
42	$20,863	24	$31,392
41	$21,334	23	$32,115
40	$21,816	22	$32,878
39	$22,310	21	$33,641
38	$22,830	20	$34,404
37	$23,871		

THE TROUBLE WITH DEFERRING BENEFITS

So what's the problem with the government's strategy of moving back the age of eligibility for a wide range of benefits? Well, lots really!

One problem is the amount of money younger Canadians are likely to lose. Moving back the age of entitlement for just one program – in this case OAS – could result in a loss of up to $34,404 per person for workers 20 and younger. For a couple that comes to almost $70.000! And that's just OAS. Add in GIS (and possibly CPP in the future) and you're talking even more money – money which might otherwise have gone toward ensuring a comfortable retirement for people who have worked hard their whole lives.

And even where people have the option of putting off collecting benefits in hopes of a bigger pay day later on, it's not clear that doing so makes good financial sense – particularly for those workers whose jobs involve heavy physical labour or work that is hard on a person's health. This explains why many financial planners recommend taking benefits such as CPP as early as possible, given that you have to live a very long life indeed to make up for lost years of benefits.

Then there's the matter of intergenerational fairness to consider. For as things stand now, the federal government is asking younger workers to pay for the benefits of current retirees while moving back the date at which they themselves can collect the same benefits. To many young people this seems grossly unfair – and they are right in thinking so. For there is something profoundly wrong about asking one group of citizens to work hard to pay benefits for others that they themselves may never receive – at least not until they are quite a bit older than those currently collecting them.

Nor will the pain incurred by pushing back the age at which people can start collecting benefits from OAS and GIS be restricted to just the federal level. For once these deferrals kick in, many low-income people forced to wait two years to collect benefits from these programs are going to go looking to already hard-pressed provincial and municipal governments to help them out. Faced with this dilemma, provinces and municipalities will have little choice but to step up to the plate and supplement retirees' income through their own programs. This will be particularly true of those low-income people who for one reason or another are unable to collect CPP retirement benefits. When that happens, the pressure on provincial and municipal government budgets will be unbearable.

And it won't be just government-run programs that will suffer. Workplace pension plans – such as OMERS – will also be impacted. Take for example the changes to CPP currently being phased in which discourage early retirement. Since pension funds such as OMERS often contain a bridge designed to provide additional income to those taking early retirement until CPP kicks in, it is possible that plan managers will come under pressure to increase the bridges in their plans to compensate for the decreased income that will be received from CPP by some retirees after these new regulations are in place.

All of which comes at a very bad time for pensions funds such as OMERS, which is currently facing a temporary budget shortfall. So any changes to the CPP that could increase its liabilities are extremely unwelcome.

This has got a number of provincial governments worried – most notably the Government of Ontario, which recently signaled its intention to limit its future liability for pension funding shortfalls by:

- Moving large public sector plans such as OMERS and HOOP to a 50/50 employer/employee funding formula – which would lessen its own share of contributions in those cases where workers pay less than 50%.
- Requiring pension funds that experience a funding shortfall to reduce benefits to future retirees before seeking more money from the employer - which would be the Government of Ontario in the case of a large number of public sector workers.

Finally, as noted previously, the current government's zeal in pushing back the age at which retirement benefits can be collected betrays a basic misunderstanding on its part of how hard life is for many working people.

Asking people to put off their retirement for a couple of years or penalizing those people who take early retirement may seem like a good idea to well-paid cabinet ministers, senior government officials or private sector CEOs – who make big salaries, have gold-plated pensions and spend their days sitting behind a desk telling other people what to do. But for many ordinary working people who do back-breaking work – often in all kinds of weather – or who cope with incredible job stress, working past 65 is simply not an option. For years of hard physical labour or coping with a toxic work environment take a heavy toll on both body and mind – which may in part explain why people with low incomes or who work in manual and trades occupations tend to die earlier than other Canadians. For such people retirement – whether early or at 65 – is not a silly whim that can be simply put to one side in hopes of a bigger pay day later on. It's what you need to do to save your life and your sanity. So penalizing people for making that decision is not just hard-hearted. It's potentially life-threatening as well.

TROUBLE AHEAD - FIXING WHAT ISN'T BROKEN

Still, as bad as these changes are, even worse ones are possible in the future - as the federal government hits the panic button on how to pay the retirement benefits of an ageing population. And a lot of what they are doing today or planning to do in the future will not help – and almost certainly will do a great deal of harm.

Take for example the measures contained in the most recent Budget which would push back the age at which people could collect OAS and GIS – presumably to maintain the long-term sustainability of the programs which the government claims will be undermined by the ageing of the population.

One of the main problems here is how unnecessary these changes are. For the latest OAS Actuarial Report states that OAS/GIS expenditures will only increase from 2.43% of GDP today to a peak of 3.16% in 2030 – after which time the ratio will start to fall back to more normal levels. This is about the same time the full impact of the higher eligibility age will kick in in 2029. And OAS/GIS expenditures will have already hit 2.91% of GDP in 2023 – pretty close to the peak - when the phased-in increases begin.[5]

In other words, increasing the eligibility age amounts to closing the barn door after the horse has bolted – and fixing something that will be well on its way to fixing itself by the time the changes kick in. This suggests the real reason for these changes may have more to do with keeping people in the workforce longer so they can continue to pay taxes on their employment income.

But there's a bigger problem here - one that goes far beyond what the current government has done so far to damage our system of public pensions. That is what it plans to do in the future – should it decide that its cost-cutting measures have not gone far enough, thus motivating it to slash even more from these programs. One possible approach might be to move back the age of entitlement for the CPP to 67 – as is the case with the U.S social security program where the normal age of retirement for those born in 1960 and later is now 67.[6] This has caused some to worry that such a change might also be in the offing in Canada – with the recent changes to CPP, OAS, and GIS simply a prelude for something much uglier. While such a thing seems unthinkable now, the reality is that, based on what we have seen so far, anything is possible. Apparently, this is an idea that has also occurred to some provincial governments, including the Ontario Government. For it is currently busy trying to protect itself from future unpleasant surprises by reducing its liability to possible pension deficits that might occur in the years to come – whether due to downloading by the federal government or for some other reason.

[1] Andrew Jackson. "OAS, the Budget and the Baby Boomers". *The Progressive Economics Forum*. March 30, 2012. http://www.progressive-economics.ca/2012/03/30/oas-the-budget-and-the-baby-boomers/

[2] Social Security Administration. "Normal Retirement Age". November 12, 2009. Retrieved from: http://www.ssa.gov/OACT/ProgData/nra.html

STRENGTHENING PENSIONS – DOING IT RIGHT

Canada's retirement income system is an accomplishment any nation could be proud of. As such, it represents a national treasure that needs to be protected and enhanced.

But for this to happen, any changes we make to it have to make sense. They have to strengthen the system so it can do an even better job of serving Canadians in the future. And the focus needs to be on providing retired workers with the help they need rather than looking for more ways to save money off the backs of retirees to provide even greater tax breaks to the rich and powerful.

But whatever route we take, we need to act now to preserve our retirement income system. And we need to get involved at all levels of government on this issue and demand that our elected officials work to strengthen the system – not gut it in hopes of financing even more tax breaks for large corporations.

For only then can we ensure that Canada's seniors – both now and in the future – get the help they need to provide them with the comfortable retirement they so richly deserve.

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