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 board staff (other than teachers), and transit and hydro workers. Currently, some 440,000 people are covered by the plan in Ontario.

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

With over $65 billion in assets under administration as of the end of 2013, it is one of the largest institutional investors in Canada – which means it isn't going to run out of money any time soon.

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.

Naturally, 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. Over the past 20 years, 2/3 of the capital added to the OMERS Plan has been through investment returns; only 1/3 has come from contributions, which are shared 50-50 by members and employers.[4]

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. The 2014 contribution rate for normal retirement at age 65 is 9.0% on earnings up to the CPP earnings limit of $52,500 and 14.6% on earnings over $52,500. 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 $52,500 in 2014). 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.

4 OMERS. "Things You Should Know About the OMERS Plan". *Member News* Number 95 - Fall 2012. Retrieved from: http://www.omers.com/pension/MN95_Things_You_Should_Know.aspx

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 you become disabled, you may qualify for a disability waiver which would allow you to continue to accumulate credited service in the OMERS Plan, as if you were still working. In such a situation, the OMERS Plan would cover your contributions as well as your employer's contributions. Earnings used to calculate your pension would be increased by the lower of the annual increase in the Average Industrial Wage (AIW) or the Consumer Price Index (CPI). To qualify for a disability waiver you must be totally disabled as defined by the OMERS Plan.

Or if you are totally and permanently disabled, as defined by the OMERS Plan, you may also qualify for a disability pension.[5]

So there's clearly a lot of protection provided by OMERS for Plan members.

Tightening the Screws on Retirees

However, 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 that governments at all levels – particularly 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 federal government will actually make it harder for people to collect retirement benefits.

5 OMERS. *Get ready for life: A handbook for members of the OMERS Plan*. Pp. 5-6. Retrieved from: http://www.omers.com/pdf/member_handbook_english.pdf

The Harper Government – Moving the Goal Posts

One way the Harper Government is doing that is through 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 have the effect of 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 free time so they can go on cruises or play golf. 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.[6] 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.

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

6 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

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

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!

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 signaled its intention to limit its future liability for pension funding shortfalls by:

- Moving pension plans covering Ontario public sector workers to a 50/50 employer/employee funding formula – which would lessen its own share of contributions in those cases where workers currently 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 federal government's insistence on 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. Because 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 tough 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 proposed measures 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.[7]

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.[8] 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.

The Need to Strengthen the Canada Pension Plan

But it's not just a case of what the Harper Government has been doing that is harming public pensions. It's also a case of what it's ***not*** doing – to fix those elements that could use a bit of help.

One such area involves the Canada Pension Plan, which has earned its place as a hallowed element in Canada's social safety net – and whose slogan – "There for You" – says it all. Since its creation, this Plan has done an admirable job of serving Canadian workers and their families. But in order for it to keep up with the times and continue to be there for Canadian workers, it does need a bit of tweaking from time to time – a good example being its woefully inadequate maximum benefit of $12,460 a year.

For while this might have been a healthy benefit in the past, when things were cheaper and life was simpler, it's anything but adequate today, given the rising cost of pretty

7 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/

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

much everything retirees need just to survive. Which is why action needs to be taken right away by the federal government to strengthen the CPP so this important program can continue to serve Canadians as well in the future as it has in the past.

Everyone knows that – that is, everyone except the Harper Government which has stubbornly resisted calls by the provinces, the labour movement and ordinary Canadians for a strengthening of the CPP.

Certainly, that's been the consistent message the trade union movement has been sending the government – a good example being the strategy developed the Canadian Labour Congress, and supported by CUPE, which proposed:

- A phased-in doubling of the benefits provided by the Canada Pension Plan and Quebec Pension Plan; and
- Immediately increasing OAS and GIS for all retirees.[9]

Not surprisingly, given its past record, the Harper Government rejected these proposals out of hand, claiming our economy is still too fragile to handle the additional contributions from employers and employees that would be needed to fund such improvements.

And rather than consider improvements to the CPP – a move demanded by a number of provinces – the Harper Government has chosen not to act – at least not in any way that makes sense. For rather than taking strong measures to shore up our public pension system, it has instead come up with a pitifully inadequate Plan B. Namely, announcing its intention to introduce a third retirement plan option – the 'shared risk' or 'target benefit' plan – which amounts to little more than putting a band aid on a cancer.

According to the Government's spin, this new pension option will occupy the middle ground between defined benefit plans (favoured by most workers since they know exactly how much they can expect to receive upon retirement) and defined contribution plans (preferred by employers since they do not have to make up funding shortfalls).

As the name suggests, this new plan type will involve a considerable level of risk for plan members – something retirees definitely do not need. According to the fans of this plan option, this additional risk is offset by the possibility of healthy returns on capital invested – that is, if everything goes right. (Which is a very big 'if', given the shaky state of our financial markets since the big market crash of 2009.) For under this new pension option, employees and employers would co-manage their plan's assets in hopes of realizing a healthy targeted rate of return.

9 Canadian Labour Congress. *Grow the CPP: A better way to save*. Retrieved from: http://www.canadianlabour.ca/action-center/retirement-security-everyone/retirement-security-reform-1-double-cpp-benefits

While all of this sounds good in federal government news releases, the reality for workers is not so rosy – since achieving a healthy (or even positive) rate of return will depend a lot on good luck and strong financial markets. Not exactly something you would want to pin your financial future on. And should some investments go sour or markets tank – both of which are real possibilities these days – contribution rates might have to increase and benefits might have to decrease. Which means that workers locked into such a plan might well face a great deal of uncertainty – definitely not something anyone approaching retirement would wish to face.

But while the news is not all that good for workers, the prospects for employers – particularly those currently offering defined benefit plans – are very good indeed. For should they be able to convert their existing defined benefit plan to this new plan type, employers would no longer be responsible for making up any funding shortfall, as is the case with defined benefits plans. So employers have a strong incentive to try and move employees to the shared risk model – yet one more example of how the Harper Government takes care of its big business friends.

Of course, that's not the only problem with this new plan option – an equally serious matter being the small percentage of workers who would qualify. For as things currently stand, this would only be available to workers in federally regulated industries or those working for Crown corporations.

Help on the Way – From the Provinces

In face of this stubborn refusal by the Harper Government to get serious about fixing our public pension system, a number of provinces have decided to act on their own to ensure that their citizens are properly taken care of – with Ontario leading the way.

After a stormy meeting of federal and provincial finance ministers in December 2013, the Ontario Government decided it could wait no longer. It announced that it was going it alone and laid out plans to set up its own provincial pension plan to ensure a better financial base for retiring Ontario workers. This new plan, which will begin operation in 2017, will require workers to set aside 1.9% of their pay on earnings up to a maximum of $90,000 a year. Employers would be required to kick in a matching amount. The estimated $3.5 billion that would be collected annually would be used to create a huge pool of capital which would be invested by a board operating 'at arm's length' from the Government.[10] The program would be mandatory for all workers except for the self-employed, those already enrolled in workplace pension plans, and those in federally regulated industries, such as banking. Workers could start collecting benefits at age 65 – although this will almost certainly be phased in over a number of years, which means those about to retire will receive little if any benefit from the proposed plan.

10 Ontario Ministry of Finance. *2014 Ontario Budget*. Retrieved from: http://www.fin.gov.on.ca/en/budget/ontariobudgets/2014/ch4.html

However, for those just entering the workforce, this plan could make a significant difference in their income upon retirement. For example, it is estimated that for those workers who retire at age 65 with 40 years of service:

- Those earning $45,000 a year would collect $17,090 annually (including $10,680 from CPP).
- Those earning $70,000 would collect $22,430 ($12,460 from CPP).
- And those earning $90,000 or more would collect $25,275 ($12,460 from CPP).[11]

These numbers are even more striking when you consider that the average CPP recipient currently receives only $6800 per year.[12] So it is clear that the additional monies retirees can expect to receive in the future from this new provincial plan will be very welcome indeed.

The Road Ahead

Still, even though the new Ontario Retirement Pension Plan is good news for many young workers and those who will enter the workforce in the future, we are not out of the woods yet – not by a long shot. For a great deal of work lies ahead if we are to ensure a comfortable retirement for all Canadian workers.

To begin with, the new retirement pension plan announced by the Ontario Government, while a major step forward, is far from perfect – which means that workers will need to follow its implementation closely to make sure their concerns are addressed.

One obvious problem is that it will not apply to all Ontario workers – which means there are large segments of the Ontario workforce which will not benefit from the program, most notably self-employed workers. To make sure such workers get the help they need, new programs and enhancements to existing ones will have to be developed at both the federal and provincial levels of government.

And those close to retirement are unlikely to benefit much – if at all – from this new Plan since it will be phased in over a number of years.[13] So some thought has to be given to the situation they are likely to face upon retirement.

Another concern is that, as things currently stand, the ORPP may benefit middle and upper income earners more than low-income workers. For example, UBC economist Kevin Milligan suggests that some low-income wage earners may not do all that well under this proposed program since:

11 "Ontario's Retirement Pension Plan: How would it work?" *CBC News*. May 6, 2014. Retrieved from: http://www.cbc.ca/news/canada/toronto/ontario-votes-2014/ontario-s-retirement-pension-plan-how-would-it-work-1.2633448

12 Ibid.

13 Tamsin McMahon. "Saving face: Dissecting Wynne's pension reform plan". *Macleans*. May 14, 2014. Retrieved from: http://www.macleans.ca/news/saving-face-dissecting-wynnes-pension-reform-plan/

- OAS and GIS already do a good job of income replacement for low income earners – given that 95% of those in the lowest fifth of the earnings scale have a 70% income replacement rate already and 2/3 enjoy a 100% income replacement rate following retirement[14]
- Any increase in public pension benefits reduces GIS payments and is taxable – which means that lower-income individuals have little to gain.

And because many people with earnings $25,000 or less already have income replacement rates at or above 100%, some of them might actually be worse off under this new Ontario Plan – as a result of having to make additional contributions during their working years with little to gain in retirement.[15]

To address these issues strong pressure will have to be exerted on the Ontario Government to make sure that the needs of low-income workers get the attention they deserve.

One final concern is that the Plan, as currently envisaged, would offer a 'targeted' rather than guaranteed income to those retiring. This means that the amount Plan members would receive upon retirement will depend on the investment return achieved and how well the investment portfolio performs at any given time – which stands in stark contrast to the Canada Pension Plan which pays out a fixed amount, no matter what happens in the markets.[16] As such, it would bear some resemblance to the Harper Government's recently announced "targeted" or "shared-risk" retirement plan option. However, the sheer size of the Plan and the large number of members who will be covered by it should reduce some of the risk for contributors.

In spite of these problems – which clearly must be ironed out before the new Plan sees the light of day – the ORPP is a step forward. And it will almost certainly be emulated by a number of other Provinces who can be expected to come up with their own pension plan.

However, even these additions to Canada's retirement income system are not the end of the story for a great deal of additional work will be required if we are to address the many challenges that will face us over the next few decades as a result of any ageing population. So we've got a lot of work yet to do if we are to ensure that Canadian workers can enjoy an adequate retirement income when they finally leave the workforce.

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Strengthening Pensions – Doing it Right

Canada's retirement income system is an accomplishment any nation could be proud of, given its success in reducing poverty among seniors. 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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