



Nanaimo, Duncan & District Labour Council Brief to: Task Force on Financial Literacy

Financial Literacy Just Part of Improving Pensions and Retirement Income Adequacy in Canada - Not Just a Result of Financial Literacy

The NDDLC

The Nanaimo, Duncan & District Labour Council represents 65 affiliated local unions with a combined membership of 14,000 men and women trade unionists in the central Vancouver Island area, from Cobble Hill to Qualicum Beach, and the Gulf Islands north of Salt Spring. Our members work for private industry as well as federal, provincial, municipal, educational government and public and private health care organizations.

Disappointment in Task Force Structure

The NDDLC is extremely disappointed in the makeup of the task force. We do not see a single elected union official. We don't see anyone from those actually dealing with poverty in its many forms. We don't see any representation from Canada's Credit Unions and Caisse Populaires. We don't see representation from Provincial Ministries of Education or School Boards.

The lack of elected union officials is especially troubling since Unions are involved every day in educating, negotiating and advocacy to improve both financial literacy and economic security of working people.

Here's an example of a course held four times a year in our Area by the Canadian Union of Public Employees (CUPE). It's a course in retirement planning that encourages participants to formulate realistic retirement plans. It encourages spouses to attend. It uses individual and group exercises to help participants establish long term plans of action, and covers such subjects as:

- Orientation to Retirement Planning
- Pension Benefits and Retirement Income
- Financial Planning
- Good Health in Retirement
- Legal Affairs – Wills and Estate Planning
- Leisure Time
- Living Arrangements
- Relationships and Organizing Personal Resources



It seems to us this is exactly the kind of financial information Canadians need, yet your task force leaves out all the people actually doing this work in the trade union sector. It seems to us that having no elected officials from the trade union sector on the task force itself indicates no perception of the role unions play in financial literacy and economic security for everyone. We ask that you recognize the role unions play in helping to create financial literacy among Canadian workers, and that you also deal specifically with groups dealing with low income Canadians.

Task Force Consultation Document Misses the Point

Reading through the task force consultation document reveals that although the task force is concerned about the low level of Canadians participating in preparing for financial security in retirement, the answer seems to be implied that if only Canadians were smart enough, motivated enough, and literate enough to participate in the myriad of financial investment possibilities they could fix the problem of inadequate financial resources for retirees themselves.

The answer is not in blaming Canadians for not investing in their own retirement. Nor is it finding yet another way for private investment firms to extract funds meant for retirement from workers. Those living on "minimum wages" are so far below the poverty line they simply cannot afford to put away money for retirement.

Those living in my area of Vancouver island have seen their careers and retirement plans built around the forest sector disappear as a result of federal and provincial mismanagement of their industry and international trade. Workers who gave up wage increases in favour of negotiating pensions for their retirement have seen their pensions evaporate when the companies they worked for went bankrupt. 15 years ago, we had 3,500 Union Woodworkers in the I.W.A, with good defined benefit plans and wages. Today, in their successor local of the Steelworkers, we have less than 700. How would financial literacy have helped them?

And let's have some financial literacy for those attacking public sector workers who are now finding their negotiated deferred income – their pensions - attacked by scoundrels calling them 'gold-plated' while upper management CEOs are getting \$1.4 Million defined benefit plans topped up with RRSPs. Those who try to contribute to their personal retirement via RRSPs find much of their accumulated savings eaten up by Canada's extraordinarily high management expenses.

Information on financial saving products is useless if you can't afford any of them!

Lack of financial literacy is **NOT** the reason Canadians have low savings rates! They don't save because they don't have the money to save more! According to Census data, since 1981, middle class real wages have remained at about the same level, while the rich got richer and the poor got poorer. No wonder savings is not increasing. If you want to increase savings, we need to go back to better distribution of income amongst all income groups.

Economic Security Should be the Goal

We support the idea that everyone should be financially literate, but we should not imagine that making people financially literate will achieve economic security for them. Understanding financial products doesn't guarantee security or help in a recession. It does help people make better decisions, but only when they can buy products and they have the means to afford them.

According to Statistics Canada, 60% of those who did purchase RRSPs in 2008 had incomes over \$80,000. Considering what a small proportion of Canadians earns over \$80,000 it's not surprising that RRSP contributions were only received from 31% of eligible tax filers in 2007, and their contributions only represented 6% of the total tax room available. And someone making over \$80,000 can afford financial advice.



The goal, therefore, of all of us, and the task force specifically, should be to improve economic security for everyone, not just to improve financial literacy. And financial literacy should be just one of the areas where government should intervene to improve the situation.

Improving Financial Literacy About Financial Products

One way the Canadian government could improve financial literacy is to provide accurate unbiased information to consumers about financial products. Most of the information that is available about RRSPs, for example, comes only from those offering the RRSPs. In Canada, RRSPs as a group, have failed to deliver.

Canada's extremely high management expenses and administration costs have a significant impact on accumulated retirement savings. A recent study (*Mutual Fund Fees Around the World*, Khorana 2007, of 46580 mutual fund classes in 18 countries) revealed not only that total shareholder charges (investment management costs, administration costs, and distribution charges) charged by Canadian mutual fund providers higher than similar costs in the US, but that they were *generally higher than any other country surveyed*.

When Alberta Finance and Enterprise looked at the amount of accumulated savings earned by an employee earning a salary equal to the Years Maximum Pensionable Earnings, saving 6% of salary, over a 35 year career. If the Management Expenses Ratio (MER) was 2.5% a year, a typical figure, the accumulated savings after 35 years was \$375,000. If the MER was 0.5% the accumulation was \$550,000.

In fact, after investment management expenses in the period 1997 to 2004, Canadian mutual funds net value added was negative and roughly equal to investment management expenses. If we're going to improve financial literacy Canadians should understand that they might be much better off contributing more to the CPP than putting it into RRSPs.

It would be very useful if there was a government website that accurately compared various financial products, including their Management Expenses Ratios and Total Expenses Ratios accurately.

Financial Literacy About Employer Pension Plans

The Labour movement has negotiated many defined benefit plans to provide economic security for our members. We have trained our members and pension trustees. Despite our best efforts, and despite the financial literacy our trustees have, they're only available to a small minority of workers, leaving most Canadian workers without retirement security.

Even so, there is a perception that defined benefit plans cost the employer too much to fund. Defined contribution plans are increasingly being used as a way to reduce employers costs, but they place a large burden on those in the DC plans to individually manage them, and the result is that retirees fare less well.

According to a recent study done for the US National Institute on Retirement Security in 2008, to deliver the same level of retirement benefits a DB plan can do the job at almost half the cost of a DC plan. DB plans offer both employers and employees a "better bang for the buck".

The value to employers DB plans have built in savings making them highly efficient plans, capable of delivering retirement benefits at a low cost to both employer and employee. The DB plans better manage longevity risk, by pooling longevity risks of large numbers of people, avoiding the "oversaving" of more than people need on average to avoid running out of cash. So, DB plans do more with less.



Second, DB plans can take advantage of enhanced investment returns from having balanced portfolios throughout an individual's lifetime. Third, DB plans which are professionally managed get better returns than DC plans managed by individuals. The study concludes that ***“Specifically, our analysis indicates that the cost to deliver the same level of retirement income to a group of employees is 46% lower in a DB plan than it is in a DC plan.”***

Surely financial literacy would include making employers widely aware of this.

Improving financial literacy needs to include:

- Financial literacy in elementary and secondary education system
- The government should publish **independent** evaluation and comparisons of common financial investment products, including the MER and TER.
- Financial literacy needs to include the fact that pensions are deferred wages and an employer's underfunding of a DB plan is theft from employees.

Encouraging Canadians to Participate in Saving For Retirement

Calling Canada's current form of providing retirement income the “Retirement Income System” is a cruel misnomer. The RIS is not a system – it's a patchwork quilt with a great many holes through which countless Canadians do not receive sufficient income to allow them to live in dignity in their retirement years. Calling it a system implies that everyone's situation has been considered and addressed, which is far from the case.

In your consultation paper, you seem to consider the combination of retirement income from the OAS, GIS and CPP “full coverage and high income replacement rates for low income Canadians”. The rate is certainly not very high for thousands of individual Canadians who live below the poverty line with this level of income. My 85 year old mother worked her whole life, and gets the combined income from all three of CPP, OAS and GIS of \$16414.92 per year. To call this a high income replacement rate is a cruel joke.

Improvements to Pensions Badly Needed

In our view financially literate Canadians would agree with us that the best way to improve pension and retirement income to Canadians is to improve Public Pensions.

One third of Canadians have no retirement savings of any sort. Only 38% of Canadians have a private pension plan of some sort. Many benefit plans are seriously underfunded, most are not portable, and they are far more subject to pension fund collapse if employers go bankrupt.

The recent panic in financial markets caused those markets to slump in value by about \$4 Trillion. As a result, employer funded pensions have also taken a big hit, especially with interest rates as low as they are now. According to the Canadian Labour Congress, the average private pension plan is underfunded by 20-30 %. As a result, many of them cannot deliver what they are expected to deliver.

So part of necessary financial literacy is ensuring that we are knowledgeable about the state of funding of private pension plans. We cannot continue to let employers hide insolvency of their pension plans.

And since the goal of having financially literate Canadians is to better provide for retirement with adequate income, we should mention that the best way to do that is to improve public pensions.



We urge the Canadian Government to do the following:

- **Increase the Guaranteed Income Supplement by 15%.**
- **Double the Canada Pension Plan payout.**
- **Create a Pension Insurance Plan**

Increase the Guaranteed Income Supplement by 15%

While Canada has lower poverty for seniors than many other countries, the Old Age Pension (OAS) and the Guaranteed Income Supplement (GIS) together provide only a bare minimum income. Raising the Guaranteed Income Supplement by 15% would move all seniors above the poverty line, and end the situation where one senior woman in six lives in poverty.

Currently Canada foregoes some \$18 Billion in federal and provincial income tax to subsidize RRSPs, about half of what we spend overall on the Old Age Pension. To provide better pension benefits, we could reduce tax subsidies to RRSPs slightly to finance an increase in Old Age Security benefits paid to everyone. The GIS is means tested, so only those in need would receive it.

Double the Canada Pension Plan payout

Secondly, we propose that the Canada Pension Plan payout be doubled.

The CPP was only designed to provide about 25% of pre-retirement annual income and private pensions were expected to cover other needs. Employer sponsored pension plan coverage has declined to 38% in 2007, and two thirds of the Canadian Labour force and three quarters of private sector employees aren't covered by an occupational pension plan.

Not only has pension coverage reduced, there has been an increasing trend to move towards defined contribution plans from defined benefit plans, leaving the actual payout to be far more dependent on the state of the markets and therefore creating even more uncertainty for retirees.

RRSP contributions were only received from 31% of eligible tax filers in 2007, and their contributions only represented 6% of the total tax room available. RRSPs have also failed to deliver. Management Expenses of 2-3% eat up funds, making it extremely difficult to accumulate funds. The average RRSP has only \$60,000, which will only provide some \$250 per month as an annuity. Not only were RRSP's vastly undersubscribed, they were also very undercontributed to as well.

We do not, therefore have any confidence that private pensions and RRSPs have, or can, pickup the slack in providing for the needs of Canada's retirees. They've had decades to show that they can and they have failed dismally. In our view, the third pillar, voluntary savings through RPPs, RRSPs and TFSAs simply is not working well enough to continue to assume it can or will fill the gap between needed income and the present amounts derived from pillars one and two.

We agree, therefore, with the CLC proposal that we increase CPP premiums by roughly half – an additional three % of salary for workers and the same for employers – over a period of seven to ten years. In this way we could double the payout of CPP to an employee – from 25% of average salary to 50% of average salary. Since contribution is not voluntary, there will be a much higher level of participation. The proposed expansion would be fully pre-funded as is now required by CPP legislation.



Since the CPP is fully portable, and fully indexed, it will provide far better security for all retirees. Raising the CPP will also reduce the amount paid out for the GIS. In addition, because workplace pension plans are usually “integrated” with CPP benefits means employees will be paying less for their workplace plans. Those with workplace pensions will thus get the same pension income, but more of it will be from CPP, which is far more secure than private plans. And those without workplace plans at all will also get the increase in CPP benefits.

Create a Pension Insurance Plan

Our last suggestion regarding financial literacy has to do with the hazards of private pension plans. Employees are far more at risk with private pension schemes. Nortel employees found out the hard way when they didn't get their severance and they discovered their pension plan had been underfunded by some 33%. A Canadian Auto Workers local in New Brunswick discovered that for years their employer had been diverting pension money to operations, so their pension plan was underfunded by 50%. A 20 year employee ended up with a total pension of \$400 per month.

We need Pension Insurance. We already have home insurance, insurance for bank and credit union deposits, and our vehicles. One of the most important assets a worker owns is their pensions. Employers that underfund negotiated pension plans are stealing deferred income from their employees. Certainly we should boost the allowable amount of surplus that may be held in pension plans from 10% to 25% of liabilities.

We prefer that Ottawa create a federal system of pension insurance, to which any province could opt into. As part of this plan, the Pension Insurance scheme should adopt pension plans abandoned in corporate bankruptcy, so workers get a minimum retirement income. It could be funded by a 0.1% transfer tax on the Canadian stock market. We understand that currently 13 other countries extract a tax on financial speculators.

Fairness is the Issue.

This is an issue of fairness. We simply must bring the same sorts of values to pensions that we see in Medicare. Everyone must be covered, and no one should be locked out in the cold. We need to reduce poverty levels for seniors, especially for women who were not in the labour force full-time. We need to ensure that unscrupulous employers don't underfund pension plans. Pensions need to be of an adequate amount for persons to live in dignity.

Financial literacy, while a worthy goal in itself, is not and cannot be regarded as the main reason Canadians are failing to invest sufficiently in their retirement. They're not investing in retirement because they don't have enough money left over from the necessities of life for savings. The answer is not in blaming Canadians for not investing in their own retirement. We need to broaden the distribution of income over a much broader range of individuals in Canada, so Canadians will have the financial capacity to save more.

While we can, and should improve financial literacy, we need to do it in all ways possible. It needs to include:

- Financial literacy in elementary and secondary education system
- The government should publish **independent** evaluation and comparisons of common financial investment products, including the MER and TER.
- Financial literacy needs to include the fact that pensions are deferred wages and an employer's underfunding of a DB plan is theft from employees.



Real Answer is to Improve Public Pensions

What we need to do is to focus not just on a small part of Retirement Income security, that of financial literacy, but to improve Public Pensions in Pillar One and Pillar Two so that continued failure of the Pillar Three portion is not so catastrophic for retired workers. We need to:

- **Increase the Guaranteed Income Supplement by 15%.**
- **Double the Canada Pension Plan payout.**
Increase the fully indexed, fully portable, highly efficient CPP so that workers will get 50% of their average salary when they retire.
- **Create a Pension Insurance Plan**
Ensure that all Canadian governments protect private pension plans from underfunding and corporate bankruptcies.

Thank You for Listening .