



## **Nanaimo, Duncan & District Labour Council Brief to:**

### **Finance and Corporate Sector Policy Branch**

### **Ministry of Finance**

### ***Improving Pensions and Retirement Income Adequacy in Canada***

#### 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 Saltspring. Our members work for private industry as well as federal, provincial, municipal, educational government and public and private health care organizations.

#### Current Retirement Income System

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.

#### Improvements to Pensions Badly Needed

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.

We urge you 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 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.

In addition, 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.

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.



We propose, therefore, 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 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

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.

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.

The private investment sector has failed to deliver a product that can be relied upon. RRSPs are burdened by some of the highest total expense ratios in the world, and private pension plans are not



only few and far between, but often underfunded as well.

## Conclusion

We reiterate our points, therefore.

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.

Many have seen their careers 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 go bankrupt.

Real income has basically not increased for twenty-five years. 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.

Public sector workers are now finding their negotiated deferred income – their pensions - attacked by those calling them 'gold-plated' while upper management CEO's like Don Stewart of Sun-Life are getting \$1.4 Million defined benefit plans topped up with RRSPs.

What we need to do is the following:

- Increase the Guaranteed Income Supplement by 15%.  
Get Canadian seniors out of poverty. It's doable!
- 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. It's doable, too!
- Create a Pension Insurance Plan  
Ensure that all Canadian governments protect private pension plans from underfunding and corporate bankruptcies. It's certainly doable!

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