

“WORKING FOR SECURE RETIREMENT”

Thursday, November 5, 2009

One of the most significant social programs for Canadian workers is the Canadian retirement system. Yet, to this day, too many Canadians still have little or no access to a secure retirement. As a country, as a society we owe all workers access to retirement based on dignity and security.

The Canadian pension system is sometimes described as a three legged stool. The first leg is the public pension schemes and entitlements; mostly the Canada Pension Plan (CPP) and Old Age Security (OAS). The CPP is a mandatory pension plan for all Canadian workers. It is funded by contributions from employers and employees and is managed and invested as a separate fund. OAS is an entitlement program for all Canadians who turn 65. The maximum combined benefit is about \$17,000 a year. Some retirees are eligible for a supplement and an allowance.

The second leg is the private savings that a worker puts away over the years, frequently a house where the mortgage is paid off. Obviously, low paid workers do not find much comfort and security in this second leg. The third leg is the workplace pension that many workers have. Sometimes it is a relatively risk-free Defined Benefit (DB) plan that pays reasonably secure pensions to retirees. All too often, it is a Defined Contribution (DC) plan where the value of the pension fluctuates with investment performance. The risk falls on the worker.

The recent financial market melt-down brought home some frightening economic truths for workers. Federal governments and central banks were all too willing to bail out huge financial institutions whose behaviour led to the meltdown while a growing number of unemployed workers had to scramble to make a living. Workplace based pension plans that were invested in free-fall financial markets suffered huge losses in 2008-2009, as high as 30- 40%.

This exacerbated two anti-worker developments already in motion. Private sector employers wanted to get out of the business of pension plan sponsorship. As a result, there was an acceleration of the transformation of DB plans (shared risk) to DC plans (worker risk). Secondly, public sector pension plans came under closer political scrutiny because of rising deficits and a threat of higher contribution rates for government employers. This puts added pressure on public expenditures. Conservative groups like the Canadian Federation of Independent Business (CFIB) are using this as a wedge issue between private sector workers and public sector workers.

If governments would have been as willing support pension plans as they were willing to support companies, those pension plans would be more secure. Securing social programs like pension plans is good economic policy. The funds for pension plans eventually end up in the bank accounts of retirees who spend their money. In public sector plans, we heard little or no complaining from the CFIB during the years when pension plans were realizing surplus and governments enjoyed contribution holidays.

Workplace based DB pension plans are positive retirement schemes for millions of Canadians. However, they do have limitations. In times of economic trouble, which seem to be happening more regularly, companies and governments try to divest themselves from their responsibilities to pension plans and retirees. The main limitation of workplace pension plans is that too few Canadian workers are covered.

The Canadian Labour Congress is proposing a sensible and fair solution to the pension conundrum. The Congress is proposing a growth of CPP benefits and an expansion of OAS entitlement. Currently, the CPP covers a maximum of only 25% of the average industrial wage, now calculated at about \$46,300 a year. The maximum CPP benefit is about \$11,600 a year. The CLC is proposing that we raise the coverage to 50% of the average industrial wage and that the increase be phased in with rising contributions. The CLC is also proposing an increase in OAS entitlements.

The best social programs are universal. They apply to all people everywhere regardless of union affiliation, region, type of work, etc. The instability and the unevenness of the workplace pension system make the CLC proposal very prudent and sensible. What about those of us who have pension plans that are reasonably stable and predictable? We already integrate these plans with the CPP where participation is mandatory. An increase of coverage means increasing integration with the CPP.

With the CLC proposals we all win. The first leg of the pension stool is the least risky and the most universal. With more workers participating at higher levels of CPP coverage, the risk is spread over greater numbers. If the government can support the profits of big corporations, they can offer Canadian workers and their families more secure pensions.

The Executive Board recommends that:

1. Labour Council and affiliates work with the Canadian Labour Congress and retiree organizations to mount an effective campaign for pension reform.
2. Labour Council circulate information to prepare union members to resist the coming attacks on union-negotiated pensions, particularly within the public sector.