

Expansion of Public Pensions

The Canadian Labour Congress proposes to phase in a doubling of Canada Pension Plan benefits from 25% to 50% of average earnings on a pre-funded basis; and to increase the Guaranteed Income Supplement by 15%.

1. Workers deserve a secure and decent income in retirement

Our retirement income system should give workers an income they can count on through the years they spend after leaving paid work. Most experts believe this means that they should get 60 to 70% of their previous earnings for life, fully indexed to inflation.

Public pensions — the Canada Pension Plan (CPP) and Old Age Security (OAS) — provide secure pensions which are fully indexed to inflation. All citizens (except recent immigrants) get OAS, paid for from taxes, and all workers (including self-employed workers) contribute to the CPP over their working lives. The CPP provides a fully portable, secure, inflation-indexed defined benefit pension at very low cost.

But public pensions provide only a bare-bones pension — a maximum of about 40% of previous earnings in theory, and about one-third on average. The CPP replaces a maximum of just 25% of insured earnings for those earning at or below maximum pensionable earnings of \$47,200. That means that most workers must rely on the private part of our pension system — employer pension plans and RRSPs — for a big chunk of their retirement income.

Experience has shown that private pensions provide, at best, very uncertain returns. In the recent financial crisis, many RRSPs lost a huge chunk of their value, and many employers failed to deliver on

pension promises that workers had paid for, and thought that they could count on.

2. Public pensions are far too low

Our system of public pensions works well, but replaces only a very modest proportion of previous earnings compared to most European countries, and even the United States.

An average worker will see only about one-third of their previous earnings replaced by public pensions. Old Age Security pays \$516.96 per month, and the maximum CPP benefit is \$934.17 per month, for a maximum of \$1,451 per month or \$17,414 per year.

But the average CPP benefit is just \$472 per month, only about half of the maximum benefit. That is because only workers who have earned at or above maximum pensionable earnings (now \$47,200 per year) for almost their entire working lives will qualify for the maximum. OAS plus the average CPP benefit comes to only \$989 per month or less than \$12,000 per year.

Seniors with very low incomes qualify for a public pension top-up through the Guaranteed Income Supplement. But the total amount falls short of raising them to a decent standard of living. The maximum amount of OAS plus GIS is only \$1,169 for a single person, or \$14,034 per year. That is why the CLC has called for a 15% increase in the GIS.

For better paid workers, public pensions replace far too low a proportion of earnings.

3. Our workplace pensions need support

Most unionized workers belong to employer-sponsored pension plans. But two-thirds of all workers, and 80% of private sector workers, do not belong to such a plan, and must save through high cost, very insecure, and unpredictable RRSPs. An expanded CPP is

the best pension reform option for them since it is less costly and more secure.

There are major problems with our pension system even for workers who belong to employer pension plans. Many plans now provide a pension based on uncertain and fluctuating investment returns, not a defined benefit like the CPP. Most plans are not indexed to inflation, so retirement incomes fall a lot after retirement. In tough economic times, some employers will fail to pay the pensions they promised and that workers paid for. Small pension plans are much more costly to run than the CPP and other big pension plans.

Another big problem is that employer pensions work best for workers who stay with the same employer all of their working life. Workers who lose their job, or change jobs, usually lose out.

The great majority of employer pension plans are integrated with the CPP, meaning that the CPP benefit is taken into account when calculating how much the employer plan must pay to deliver a defined benefit. That means that the CLC proposal to double CPP benefits would gradually take the financial burden off employer pension plans. But our plan would still leave space for good pension plans to replace earnings above an average amount, and to pay for provisions such as early retirement.

4. RRSPs don't work

Workers forced to rely on RRSPs to fund their retirement save far too little, and pay far too much for very uncertain returns.

In big pension plans like the CPP, there is no danger of outliving a pension since the risk is pooled across large numbers of people. But people saving on their own may end up with very little retirement income. It is extremely expensive to convert RRSP savings into an annuity that will pay a guaranteed benefit indexed to inflation for life, something which the CPP does very effectively at low cost.

All of the evidence shows that people don't save enough in RRSPs. Only about 3% of income is saved through RRSPs each year, far below what is allowed, and there is now more than \$500 billion of unused contribution room. Less than one in three workers pay into an RRSP each year, and the majority of those contributors earn more than \$80,000 per year.

Average RRSP savings of an older worker nearing retirement are only about \$60,000 — enough to pay for an annuity of less than \$300 per month.

As was recognized in The Mintz Report on pensions for the federal government, RRSPs are much more costly than big pension plans. Most mutual funds have management expense ratios of between 2% and 3%, much higher than the CPP management cost of less than one-half of one per cent. The greater rate of return to saving through the CPP of at least 2% per year makes a huge difference to how much pension can be earned over a working lifetime.

5. Too many seniors have low incomes

The Guaranteed Income Supplement (GIS) paid out on top of Old Age Security provides a guaranteed annual income to seniors, but at a very modest level of just over \$14,000 for singles, and \$23,000 for couples. That is not enough to meet basic needs, especially for singles in large cities.

Over one in three seniors (36%) qualify for the GIS, showing that the pension system is failing to provide adequate incomes to too many Canadians.

Counter Arguments

Claim 1: Canada's pension system is working well

The Mintz Report to the federal government argued that our pension system is working well because a large majority of today's seniors have incomes of 60% or more of their previous earnings.

The main flaw with this argument is that the situation of today's more fortunate seniors tells us very little about the prospects for younger and middle-aged workers who are still many years from retirement.

Compared to today's seniors who were often working 20 years and more ago, today's younger workers are far less likely to belong to an employer pension plan. They are likely to find secure and well-paid jobs, if at all, much later in life. And they are likely to have much higher levels of student and mortgage debt than did earlier generations. In fact, Canadian households today owe 150% of their income in debt, an all-time high.

The CLC proposal to phase in a doubling of CPP benefits from 25% to 50% of average earnings will provide the greatest benefit to those who are many years from retirement. Changing times demand that we shift the balance from private savings to better public pensions.

Claim 2: Canada's poverty rate for seniors is one of the lowest in the world

This claim, taken from an OECD report, is misleading on two counts.

First, it misses the fact that seniors in many European countries benefit from significant non-cash support from their governments, such as affordable housing, low cost home and residential care, cheap transit and very low cost drugs. Canada's seniors have to meet many of these needs and more from their own pockets.

Second, while it is true that the poverty rate among Canadian seniors is relatively low, this is because poverty lines are set at low levels of just \$12,000 to \$15,000 for a single person, and \$14,000 to \$23,000 for couples. Even measured by these very low lines, one in seven single seniors live in poverty. And many seniors have incomes just above the poverty line.

If poverty was defined (as in many European countries) as having an income of less than 60% of a median household of the same size, the poverty rate for single seniors would be 20%, and it would be 15% for senior couples.

Claim 3: Increasing CPP means a costly tax increase for Canadian workers

The CLC plan to double CPP benefits over time would require, according to the former Chief Actuary of the plan, a premium increase of just under 6% of pensionable earnings, divided equally between workers and employers. (Doubling of benefits does not require a doubling of premiums since the current premium is set to cover a prior period of under-funding.) The proposal is to phase in this modest premium increase over a number of years.

This is an extremely modest increase in premiums from the current level of 9.9% divided between employers and workers. For an extra contribution of less than 3% of earnings, a younger worker earning the average wage would get an increased pension benefit of \$934.17 per month, fully indexed to inflation. This is a far greater benefit than would be earned by making the same contribution to an RRSP.

CPP premiums are not taxes but premiums paid in return for a defined benefit at low cost.

The CPP premium increase would not affect the great majority of employers who now sponsor pension plans (since these are integrated with the CPP), and it would not affect the many

responsible employers who help workers contribute to RRSPs. In fact, many of these employers support an expanded CPP since it would deliver better pensions at lower cost.

Claim 4: The CLC plan for CPP won't benefit most workers

The full benefit of the CLC's plan for CPP would go to younger workers who spend their working lives in the new, improved system. But every worker will earn a doubled benefit for each year they are in the new system.

A worker aged about 45 today would not get the full increase from 25% to 50% of pensionable earnings, but they would still get a significant increase from 25% to 37%, worth over \$450 per month.

Claim 5: Individuals should take responsibility for themselves

Some people have attacked expanding CPP and the GIS on the grounds that individuals should fend for themselves rather than be covered by "compulsory" plans.

The reality is that pooling investment funds and risks produces much greater benefits, at much lower cost. That is why very few employer pension plans offer individuals the choice of belonging. And very few workers would turn down the offer of a good job, offering a decent pension, just because paying into the plan was "compulsory."

In the final analysis, our society will not tolerate high rates of poverty among seniors. A bigger CPP and better pension incomes will result in significant savings to governments down the road.

Claim 6: A bigger CPP would hit financial industry profits

True. The end of high cost RRSPs and many inefficient, defined contribution pension plans would greatly reduce the huge profits earned by the financial sector from the pension savings of Canadian workers. Opposition by the banks and insurance companies is self-serving, but entirely understandable.

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