Ontario Division

Established

1969

Canadian
Pensioners
Concerned

Submission to the Standing Committee on Finance and Economics: Bill 120, *An Act to amend the Pension Benefits Act and the Pension Benefits Amendment Act, 2010*

BY

CANADIAN PENSIONERS CONCERNED
ONTARIO DIVISION

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Securing Our Retirement Future:

A Response from Canadian Pensioners Concerned Inc., Ontario Division (CPC-Ontario)

Canadian Pensioners Concerned, Ontario Division, was founded in 1969, part of a national voluntary organization of seniors committed to promoting issues such as pensions, health care, housing and transportation. We are concerned not only about those matters which involve older citizens but about all of the factors which make for a just, caring, compassionate, civil society for all age groups.

We are very pleased that Finance Minister Dwight Duncan is asking the public to provide him with ideas about strengthening the retirement income system for Ontarians. We responded to the ideas put forward by the Harry Arthurs' report, *A Fine Balance: The Report of the Ontario Expert Commission on Pensions* (OECP), established in November 2006 by the Minister of Finance, reporting December 2008.[1] We supported many of the ideas brought forward by that report, *A Fine Balance*, and continue to do so. However, before we respond to the specific issues raised by Minister Duncan, we would like to make some general comments about the Retirement Income system in Canada.

The Canada Pension Plan (CPP) was never intended to fill more than a quarter of individual's retirement income, unlike the plans found in other OECD countries. It has been well managed, especially in the past few years with the broadening of its investment base. We see it as the foundation upon which other plans must build. We argue that, if we are to improve the foundation of the retirement system, the CPP, it will be somewhat easier to improve the additional structure(s) that needs to be built.

Ontario's Pension Benefits Guarantee Fund (PBGF) has been unchanged since 1992. We believe that, at heart, the PBGF is a very good program but far too limited in the protections it offers to Ontarians. We have made clear recommendations on this before and will do so again. We recognize that this plan is unique to Ontario and

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[1] **A Very Good Balance: A response to the Report of the Ontario Expert Commission on Pensions, Canadian Pensioners Concerned, Inc. Ontario Division, February 2009.**

appreciate that this legislation exists. However, its protections are out-dated in the economic reality of the 21st Century.

Finally, the need for innovative approaches to building a retirement income system is certainly due – if not overdue. We commend you for looking at ways to improve retirement incomes for all Ontarians and will once again repeat some of the recommendations we made in response to the OECP Report in 2009.

What Should the Province of Ontario do to improve the Retirement Income System ?

This is a serious policy issue and one that is growing steadily in importance, accelerated by the recent economic downturn and job losses in Ontario. The first step, in our view, is to clearly identify the issues, as the Minister of Finance has tried to do, and once agreement is reached on those, then discuss strategies for change.

First some of the critical factors that must be considered:

1. There are the very real limits on what the Province can do on its own as opposed to what it can and must do in concert with other provincial and territorial governments and with the federal government. (**FPT**). This will be our starting point.
2. Existing poverty among older people, and the growing threat of poverty for many, is the underlying issue. Some of the groups we are thinking of are single unattached women, members of the Aboriginal communities, people who have immigrated to Canada since 1981 and especially the very recent cohorts. We are increasingly aware of older workers whose employers have closed or declared bankruptcy, employers who have fired full-time workers and replaced them with part-time workers and people in the contingent labour force. We would also include those living with disabilities. The list could go on. If we do not keep this reality in mind any policy or program tweaking will be doomed to fail to meet the needs of those at risk.
3. The drastic changes in the nature of work, the loss of large employers especially in the manufacturing sector, the growth of small employers, the rise of work in the service

sector and the continuing risk of sluggish employment – all these are factors that must be included in our thinking.

4. Finally, specific attention must be paid to the status of single unattached older persons, living on their own. They are particularly dependent on government transfers as a part of their income. (In 2007, these transfers made up 48.5 percent of the income of women and 40.1 percent of men in this category.)

Pillar 1: Publicly funded Income Security Programs for Seniors – OAS/GIS/Allowance/GAINS

Joint FPT Action Required. OAS/GIS

This is the shortest pillar especially for those who have not lived their entire lives in Canada. Old Age Security is paid to all eligible Canadians – those who have lived in Canada for 40 years after the age of 18. There are partial benefits available for those with fewer years based on a formula that is one-fortieth of a monthly benefit for each full year lived in Canada after the age of 18. The key concern is that those who have immigrated to Canada in recent years as older persons will not qualify for adequate benefits under this plan. Unlike the plans in the OECD countries, the Canadian plan is intended to be a very low source of income for retirees.

Recommendations for joint FPT Action

1. The ten (10) year requirement for recent immigrants to qualify is very unfair and ensures that they will be at great risk of poverty. This should be shortened to a maximum of five years for those coming from countries without reciprocal agreements with Canada and who, after reaching the age of 65, remain living in Canada.

2. The minimum floor of $14,160 is far too low given the economic cost of living in Ontario and Canada as a whole. This program has assumed that it will complement private sector defined benefit pension plans. This is clearly not the reality today. The program is out-of-date and needs to be reconsidered in light of the real costs of housing, food, prescription drugs, transportation, etc., coupled with the rapid disappearance of defined pension plans in the private sector.

3. OAS should be indexed to the increase in the minimum wage not just to the Consumer Price Index (CPI).

4. End the discrimination of the Allowance which excludes payments to single unattached individuals between the ages of 60-64. It should be open to all those in financial need within that age group.

Government of Ontario Action - GAINS

5. We suggest that the province increase the maximum allowed under the GAINS program to be increased to a maximum of $200 a month. This could be reviewed if action is taken by the federal government to increase the OAS / GIS / Allowance programs.

Pillar 2 : Canada/Quebec Pension Plan - Joint FPT Action Required

A few preliminary comments:

The CPP pays 25 percent of the actual average annual wage in Canada. The calculation of the average wage in the country is of little benefit to those whose earnings are significantly above that by $20-30,000 or more. When the plan was developed, the idea might have made sense but in today's reality, someone earning $60,000 is not deemed to be "wealthy". Workers who do overtime work in unionized workplaces can reach pay scales far beyond that. Furthermore, where employers do have defined pension benefit plans the CPP is calculated into the value of the total pension payable. It is not added on.

Studies have shown the limited role CPP plays in the retirement income of significant sectors of the population that we have identified: Aboriginal peoples, especially women, recent immigrants, people with disabilities, marginal or contingent workers, racialized communities and women. Increases in the upper limit will do nothing for low-income workers/people but will help the middle income groups very significantly.

Minimum wage earners, the majority of whom are women (60 percent), receive little if any benefit as the CPP is based on earnings and years of work. In particular, Aboriginal individuals, women, recent immigrants and those from racialized communities receive little benefit because of their low-income status.

Workers in the contingent labour force, many of whom are deemed self-employed, have neither pensions, benefits nor job security and thus do not benefit from CPP as it currently exists.

The average wage of women working full-time in the labour force in Canada is 71.4 percent of that of men. They too will have marginal benefit from the CPP. This is clear when one looks at the average monthly pension paid by CPP to men in comparison with that received by women. The difference between the two is around $200.

The sharp recession, the loss of full and part-time jobs, the loss in investment value for RRSPs and pensions will have a lasting downward impact on the incomes of those close to retirement. The fact that, despite the favourable tax incentive to invest in RRSPs, billions of dollars are not put into such instruments. This has raised very serious concerns about the economic future for many Canadians as they move into retirement.

The bankruptcies of a large number of businesses have put the pensions of not only the current workers but also the pensions of retirees and those on disability payments at great risk – if not elimination. These events have put even greater emphasis on the importance of the CPP in the pension plans of workers and retirees.

Recommendations for Joint FPT Action on the Canada Pension Plan

6. Recommend that the current replacement rate be raised from the current 25 percent to the rate of 50 percent. This would not only help all contributors but would significantly help those in the middle and lower income ranges that are falling behind in their voluntary retirement income savings and pensions.

7. We recommend an increase in the earnings ceiling from the current average annual wage of approximately $47,200 to a new cap of $60,000. That earnings cap should then be adjusted to reflect the average wage increase in subsequent years.

8. We accept the need to expand the increases in worker and employer payments gradually as has been done in the recent past. However, we suggest that the pace of increase should reflect the reality that current pensions are low and the private pension plans that were to complement the CPP have not developed as expected. Billions of dollars are not being invested in RRSPs and that led us to a very real concern that people will not have enough money in personal investments to meet their needs in retirement.

9. Two further factors support the focus in increasing the CPP and its place in providing retirement income for the majority of Canadians. One, the administrative costs of CPP are very low in comparison to private pension plan management costs. Two, the rapid decline in private sector pension plans and the shift from defined benefits to defined contributions have put the future income levels of retirees in doubt. We therefore believe that an expanded CPP will be the most beneficial approach for most Canadians.

10. CPP Asset Management.

We recognize that there might be a risk of having an even larger concentration of investment funds in the hands of the Canada Pension Plan Investment Board (CPPIB). Its investment decisions could eventually have a far too dominant role in investment decision-making in Canada. We therefore suggest that policies should be developed that would set broad investment rules for both national and international investments by the CPPIB. The Board must continue to be held accountable for its investment decisions through its yearly public reports. Its mandate and investment decisions must be reviewed every five years or earlier as conditions warrant.

11. Given the fact that Canadians are currently not investing adequate amounts for their retirement, and the successful investment strategy of the CPPIB, we do not see the expansion of the CPP to be a threat to private savings for the average worker. Investment in CPP is a form of personal savings.

Pension Innovation - Pillar 3: Tax-assisted Voluntary Private Savings

New Types of Pension or Retirement Savings Plan Arrangements

A number of Provinces, including Ontario (Alberta, British Columbia and Nova Scotia), have commissioned studies of existing pension plans and the adequacy of current and future levels of retirement income. One of the interesting ideas that we found was the idea of creating provincial pension plans that would encompass or, be open to, employees and the self-employed who did or could not, belong to existing pension plans. Suggestions were made in the reports that people would be automatically enrolled in the plan unless they opted out. This would be a defined benefits plan. This was an idea that appealed to us as it would provide pension options for workers employed in small to medium size companies without pension plans as well as covering the self-employed. This option does not appear in the current consultation paper. We would like the Minister of Finance to reconsider and include this as one of the options for the government to consider.

Government of Ontario Action.

12. The Province of Ontario should consider establishing an Ontario Pension Plan Agency that could establish such a plan and create a body similar to the Canada Pension Plan Investment Board to administer the funds.

Another option was to allow existing financial institutions that manage pension funds, in particular defined contribution plans, to offer services to many employers to provide such services as well as to the self-employed. This too is an option we would support, provided certain conditions were put in place. However, our strong preference is for defined benefits plans rather than defined contribution plans. This approach would reduce many of the risks associated with defined contribution plans where employees have to manage their own plans.

13. We agree with the provision set out in the consultation document for the management of such plans: fixed contributions and pensions based on investment returns; open to all employees and the self-employed; pooled assets which can be transferred to another plan and the plans would be nationally portable.

14. A Provincial Pension Plan Agency should mandate the plans, with a fixed fee established for their management, to maximize the benefits for the members. There must be a public accountability system in place.

15. Given the need for people to have adequate pensions when they retire, we support the idea of automatic enrolment in whatever model is decided on and that members should be able to opt out and then **opt back in.**

16. If plans are going to be able to maximize returns for all members, we believe that contributions should be locked in. However, we recognize that special situations might occur where plan members need access to extra income (catastrophic illness, loss of a home, etc.). We recommend that special conditions be established that would allow the withdrawal of a percentage of contributions – but those conditions should be enforced.

Jointly Governed Target benefit Pension Plan.

17. We supported the recommendation of Commissioner Harry Arthurs in his report on behalf of the Ontario Expert Commission on Pensions when he promoted the existence of such plans .

The Arthurs' Report recommended some important improvements to the current regulations: joint governance by members and retirees comprising half of the governing body, funded on a similar basis to other plan models and required to meet stringent reporting requirements to plan members, retirees and the public. We do not support the idea that employers should have exclusive administrative responsibility for such plans

Joint FPT Action Required.

We recognize that, if any changes to the current range of options for retirement income plans are made, it is critical for joint federal, provincial and territorial action be taken to revise the Income Tax Act. Changes to the Income Tax Act are essential if we are to have new approaches to pension planning and plans. There is no question that new income tax policy approaches have to be developed and it is important that all governments act collectively to effect the necessary changes.

Finally, to return to a concern we raised in our opening comments:

18. We strongly urge the provincial government to reconsider the current cap on pension protection under the PBGF. We believe it must be increased to a minimum of $2000 a month and that the increase be phased in a soon as possible. The collapse of pension plans under company bankruptcies has severely harmed many pensioners today. The constant uncertainties in the economy almost guarantee that they will continue. It is inappropriate that retirees and plan members should pay such a terrible cost for the errors in management by their employers.

We wish to thank Finance Minister Duncan for initiating this public consultation. As soon as a review of the results of the consultation has taken place, we encourage Minister Duncan to act to improve the retirement "system" as soon as possible. The Ontario Expert Commission on Pensions was an excellent start and we believe it is now time to act.