POSITION STATEMENT

ON

PLANNING FOR RETIREMENT INCOMES IN CANADA: ENSURING INCOME SECURITY FOR OLDER PERSONS

BY

CANADIAN PENSIONERS CONCERNED, INC.,

ONTARIO DIVISION

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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.

Planning for Retirement Incomes in Canada:

Ensuring Income Security for Older Persons

If we are to look at "pensions" from the perspective of an older person, they need to replace 70 percent of their pre-retirement income if they hope to retain their standard of living in their retirement. We will look at the existing programs and evaluate the extent to which they reduce the poverty level of older persons. It is important to note that while the poverty rate of older persons has declined rapidly since the 1970s, that decline is based to a significant degree on the rapid growth of women's participation in the labour market and the increase in two-income families. Finally, there has been a reversal in the steady decline in the poverty rate since the mid-1990s where there has been a slow increase. There is little doubt that the serious unemployment rate and economic near collapse in the last two years will have a serious deleterious impact on the income of older persons in both the short and term.

1. Public Retirement Income Programs open to all Canadians – but not on an equal basis.

We must first look at the existing public retirement income programs available to older persons and evaluate the role they play in sustaining the standard of living of older persons.

a) Old Age Security, Guaranteed Income Supplement and the Allowance.

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 full benefit under this plan. There are agreements on a government-to-government basis with many countries (primarily European countries) that improve the access in Canada to public pensions by counting the number of years worked in their home country. However, these agreements are not in place with the major sources of immigration to Canada in recent years. For example, Canada has no reciprocal agreement with African countries, India, Pakistan, China, and Central and South American countries (except Mexico and Chile).

Recommendation 1
The Federal Government should adapt the Old Age Security System (OAS) to ensure that immigrants who have been accepted as newcomers to Canada will be eligible to receive income from OAS after reaching the age of 65 and lived in Canada for five years and remain living in Canada.

Old Age Security (OAS) is a significant source of income for older Canadians. It is indexed based on the quarterly increases in the cost of living but it does not match the increases in the average wage. As recently as 2007 it comprised anywhere from 15 percent to 20 percent of the income received by people over the age of 65 whether they have worked or not. However, given that OAS is price-indexed and not reflective of the increases in wages, the replacement rate will decline in proportion to average wages and salaries. This means that individuals will have to have other sources of income to avoid poverty in their retirement. One should also note that the purpose of the OAS is to improve the incomes of people at the low-end of the income scale with no concern for the economic impact of retirement on people in the middle-income groups. Unlike OECD country policies, the OAS payment is targeted to be a low source of income for older persons.

Recommendation 2.
Old Age Security must not only be tied to the increases in the Consumer Price Index but also to increases in the average minimum wage.

The Guaranteed Income Supplement is an income based non-taxable program paid to eligible older persons who have little or no other income beyond the OAS. Increases are determined by the government when it chooses to do so. The payments are on a monthly basis with different amounts paid to those who are single as opposed to those deemed to be married. (The married allowance is not double that of the single person). Most provincial governments provide a modest top up to this program.

Recommendation 3.
Increase the Guaranteed Income Supplement to address the poverty of single unattached older persons. (In 2007, OAS and GIS combined comprised 28 percent of the income of senior women and 18 percent of senior men.)

The allowance is also an income-tested benefit paid to those between the ages of 60-64 but it discriminates in that it is only eligible to those who are married or not re-married widows or widowers of low-income pensioners. Those who are separated or divorced are not eligible.

Recommendation 4.
Single, unattached persons are discriminated against in this program, as they are not eligible for payments under the Allowance. All persons who are in financial need between the ages of 60 -64 must be eligible for this program. It is a modest payment and as it is currently constituted, is seriously inequitable for no good reason.

A single, unattached older person who is dependent on the benefits from OAS and the GIS is doomed to live below the poverty level measured by the after-tax Low Income Cut-Off (LICO) as measured by Statistics Canada. A married couple would be marginally above the LICO. What is clear from this is that someone who has always held low paying jobs may be, if married, in a similar income level in their older years whereas a single, unattached older person will be below the poverty level (LICO). Single unattached older women have a poverty rate that is 13 times that of seniors living in families. Their poverty rate is currently higher than that of children.

Recommendation 5.
Special attention must be paid to the special needs of the Aboriginal peoples, especially women, recent older immigrants, people with disabilities and people from the racialized communities. The discrimination they face in the laws, policies and practices of Canadian institutions and society, doom many of them to poverty and dependency.

Recommendation 6.
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.)

2. The Canada Pension Plan

The Canada Pension Plan (CPP) is a mandatory program. For those who have no private pension plans, it is a critical factor in their retirement incomes. For those who have employment-based pension plans (EPP) the CPP is integrated into their pension plans by paying the first level of benefits. The payment calculation of the CPP is 25 percent of the value of the average wage in the country. Currently the maximum monthly payment is about $908.00. We recognize that changes to CPP can only be achieved with the agreement of the Federal, Provincial and, now, Territorial Governments, but it is important to put recommendations for change on the table to be discussed.

Some key issues;

a) The calculation of the average wage in the country, currently about $46,000, 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 $66,000 is not deemed wealthy. Workers who do overtime work in unionized workplaces can reach pay scales far beyond that.

b) 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, Aboriginals, women, recent immigrants and those from racialized communities receive little benefit because of their low-income status.

c) 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.

d) 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.

e) 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.

f) The bankruptcies of a large number of business that 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.

Recommendation 7.
The cap on the average income level be moved from its current level to $60,000 and be fully indexed to reflect the change in income levels and the cost of living. The payment calculation should continue to be 25 percent. The OECD standards show that the current maximum coverage of CPP is low.

Recommendation 8.
Studies should be undertaken of 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.

Recommendation 9.
Discrimination against the employment of older workers has to be addressed. Given the economic recession, the loss of jobs, the closing of many businesses and the rising unemployment old workers will be forced into low paying or marginal jobs in order to bolster their incomes

3. Employment Pension Plans (EPP)

a) Defined Benefit Plans (DBP)

The introduction of Old Age Security (OAS), the Canada Pension Plan (CPP), Guaranteed Income Supplement (GIS) and the provincial Guaranteed Annual Income System (GAINS) has significantly reduced the poverty rates among older persons. However, a significant factor in the lowering of poverty levels among older Canadians has also been the existence of Defined Benefit Pensions Plans. These plans have enabled workers to retire with pensions that have helped to keep them out of poverty and enabled them to contribute to the economy of the country.

We have particular concerns over the steady decline in Defined Benefit Plans, the rise of Defined Contribution Plans, (DCP) the threat to pensions by the collapse of broad sectors in the economy that previously had pensions and the growing number of marginal and contract workers who will never have an opportunity to participate in workplace pensions. There is a correlation between the loss of Defined Benefit Plans funded and administered by single employers and the loss of large single employer unionized jobs. This is a clear example of the changing nature of our economy and the nature of work and it highlights the need that the issue of worker pensions is brought into line with the changes in the workplace and the nature of employment. We need to focus on improving conditions for the accessibility and stability of Defined Benefit Plans for all workers. Furthermore, a Research Study on the Canadian Retirement Income System, by Bob Baldwin, November 2009 prepared for the Ministry of Finance, Government of Ontario reports that the benefits of DBP outweigh those resulting from DCP.

The increased number of corporate bankruptcies has led to clear threats to existing pension plans of retirees, those living on disability pensions as well as those currently working for such companies. Downsizing and corporate closures have severely threatened the retirement plans of thousands of Canadians and increased the certainty of many thousands of older workers living in poverty.

Another issue that also concerns us, the risk that the current workers face in the future when a combination of circumstances - low savings rates, little if any access to employment pensions, marginal employment over their lifetime, conditional work history – will lead to inadequate income in their older years.

The fiscal cost to government and the impact on the provision of services to persons is rarely taken into account in discussions on pensions. The cost to governments would rise with the fall in personal pension amounts. There would be pressure on GIS and GAINS to supplement what private plans have lost. Tax revenues would also drop as the expenditures by pensioners would drop along with their drop in incomes. Studies have been done to show this is not a small concern especially given the demographic changes in the population.

Finally, the caps on income levels in the current CPP rules that limit the total pension payout, the low level of income provided by OAS and the absence of alternative access to professionally managed pension plans will result in higher levels of poverty. This is turn will drive people to remain in the labour force regardless of health status in order to stave off poverty. Older workers are already facing difficulties finding employment and those that do tend to receive minimum wages and few work hours.

Recommendation 10.
Eliminate the practice of stopping pension contributions if a plan is in surplus. The history of the financial markets is one of boom and bust, and the allowance of holidays has eventually led to the under-funding of plans.

Recommendation 11.
Defined Pension Plans move to the secured creditors' list if a company moves into bankruptcy. These plans usually include deferred wages, thus the retirees and employees should be secured creditors. This policy would require changes to the legislation dealing with the filing of bankruptcy and the protection of creditors.

Recommendation 12.
Tighten regulations to ensure that employers do pay their share of the contributions every year and if there is any change required, it is negotiated with the workers involved.

Recommendation 13.
The Ontario Pensions Guarantee Fund should be raised incrementally from $1000 a month to $2500.

Recommendation 14.
There should be a National Pensions Guarantee Fund (based on the Ontario model) but the fund should ultimately cover up to $2500 in monthly pensions.

b) Defined Contribution Plans (DCP)

Defined Contribution Plans provide less risk to the employer in terms of financial responsibility for maintenance of the plan. The precipitous drop in Defined Benefit Plans has been, in part, counter balanced by the rise in Defined Contribution Plans.

These plans are clearly better than no plan at all but we are concerned by the increased risks born by the employees. It is their responsibility to invest the contributions successfully and clearly most of the public are not skilled investors. If they invest in mutual funds, the management fees collected by fund managers are very high and reduce the return to the investor quite significantly. Studies have shown that the returns achieved by Defined Benefit Plans are higher than that achieved through Defined Contribution Plans.

There are benefits that could be achieved by encouraging small employer based plans to combine into larger groupings so they could achieve the investment size that could provide greater investment opportunities at lower cost.

Recommendation 15.
A number of experts have suggested the advantage of creating the opportunity for new pension management organizations, or the use of existing large pension plans such as Ontario Municipal Retirement Employees System (OMERS) to manage the investment of an agglomeration of small DCP plans. This would create the size of funds available for investment that leads to better investment opportunities, at lower cost and achieving better returns for members. The larger the scale of the funds being managed the better the opportunity to hire better advisers at lower cost per investor than an individually managed plan.

Recommendation 16.
All employer pension plans should have governance structures that require representation of current active plan members and of retirees on a Pension Advisory Committee.

4. **Tax Incentive RRSPs**

We recognize that RRSPs have proven to be successful in encouraging workers to save for their retirements. However, we also note that after the initial growth in the number of people investing in RRSPs, the growth has flattened and people are not putting aside money to invest for their retirement needs. There are many reasons given as explanations for the limitations in the success of this strategy, but it is important to note that thousands of workers did not have enough money to set aside in savings. The critical issue here is that evidence shows that the hoped for investment of individuals in their own retirement plans has not been realized. There will be a significant shortfall in people’s retirement finances. We are convinced that there has to be another policy option to help people save for their retirement that will fill the gap between the current payments under OAS and CPP.

5. **Innovative Thinking**

As we have noted, there are many workers who are precluded from joining pension plans through their employment and who lack the resources to take advantage of the tax incentives to invest in RRSPS. This would include people who comprise the contingent labour force, part-time workers and those who work at the minimum wage. In particular, we support the proposals presented by the Expert Commission on Pensions led by Commissioner H.W. Arthurs, (*A Fine Balance: Safe Pensions, Affordable Plans, Fair Rules)* presented to the Ontario Minister of Finance, Dwight Duncan, October 31, 2008. In Chapter Nine, *Innovation in Plan Design*, the *Report* makes a number of recommend-ations that we fully support. The *Report* calls for the promotion and facilitation of innovative plan design and calls for legislative and regulatory changes that could facilitate this. (Recommendation 9.1 p.183) In addition, the *Report* also calls for the enabling and promotion of the formation of

> "…large commingled target benefit plans that might provide affordable pension coverage to Ontarians who do not presently have pensions or for whom the costs of obtaining a pension are unnecessarily high. (Recommendation 3.p.187)

We are interested in the further suggestion that when there is a pension plan available in the place of work, membership should be required but that there should be an opting out provision. (The *Report* p.187) The concept behind this is that it would lead to more people participating in pension plans. The idea is an interesting one but we have two special concerns. One concern would be pressure on all workers to not opt out. Two, related to our previous comment, we must not place undue pressure on workers who are living at or below the Low Income Cut Off (LICO) who need every penny they are earning to live on and cannot afford to pay into a pension plan. On the other hand, the use of a "reverse onus" might encourage people to join, leading to a larger accumulation of funds in the plan with the resulting opportunity for better management and investment of the funds and better pensions in the longer turn.

Finally, we know that there is strong interest across the country in looking into the possibility of expanding "the mandate of the Canada Pension Plan, or creating a comparable provincial plan, so as to enhance pension coverage, control costs and improve benefit portability". (The *Report*, Chapter Nine, Recommendation 9.4, p.188) We strongly support this recommendation of the Expert Commission on Pensions.

Recommendation 17.
We urge the federal and provincial governments to explore the innovative ideas put forward by the *Report* of the Expert Commission on Pensions in Chapter Nine. We believe it holds the potential to expand the opportunities for better retirement incomes for workers and their families.

Far too many Canadians are ageing with inadequate retirement incomes and we see a strong possibility that this problem will grow in the coming years. We have noted the shortfall in income support from OAS, GIS and the provincial support programs modeled on the latter program. We have also drawn attention to the inequities and problems that exist with respect to special populations within Canadian society. The recommendations we have made may go some way to addressing these concerns but we believe that there is more that can be done and must be done. We are heartened by the fact that policy makers, the media and the public are becoming engaged in this issue. However, we remain deeply concerned that the particular needs of groups of citizens, who have special needs and challenges, will not be fully addressed.

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