STANDING COMMITTEE ON FINANCE
HOUSE OF COMMONS

BILL C-4 – Economic Action Plan 2013 Act No. 2

by
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PENSION REFORM

Public sector pension reform is needed for two reasons – one, many public sector pensions are unfair to taxpayers and, two, many are financially unsustainable.

OUR VISION

A SUSTAINABLE PENSION SYSTEM THAT IS FAIR TO ALL CANADIANS

INTRODUCTION

As we examine Bill C4 and evaluate why it is important to Canadians we see that one of its main features is the ability to bring fairness and affordability to federal public employment.

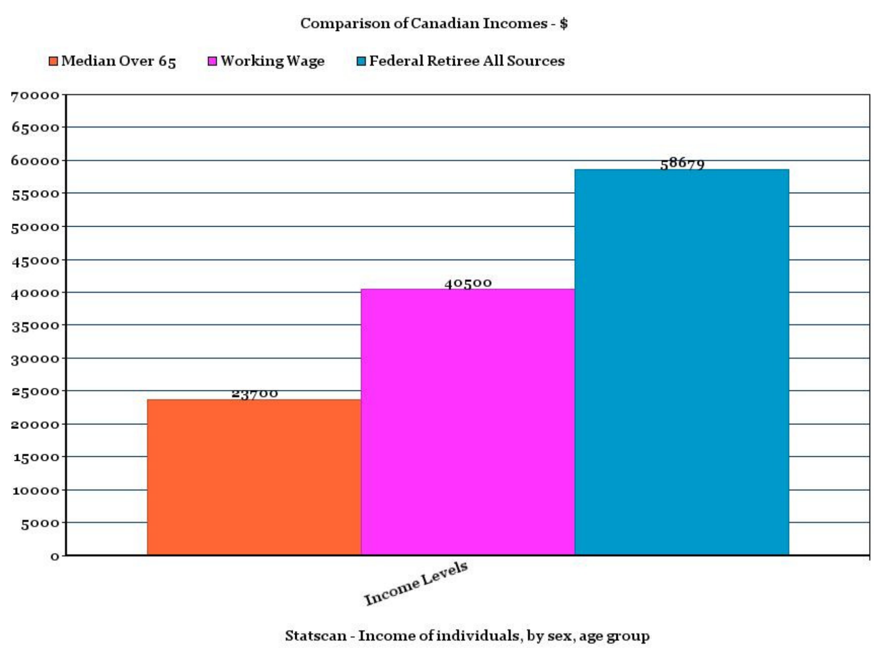
We would like to comment on the aspects,

- Income Equality,
- Fairness in Pensions and
- Seniors Poverty

Addressing these issues in a way that is fair for all Canadians and sustainable for the next generations is of utmost importance.

INCOME INEQUALITY

When we talk about public sector compensation, it seems fashionable to compare their pay with the top 1% in our society. This is a false comparison. If we expand our definition we will find a large portion of the public sector is in the top 10%, upper income level. This income starts at $81,200.[i] In our work we find the average incomes of all levels of government employees entrenches employees into this group. When we move to the seniors group of Canadians over 65 public sector employees with defined benefit pensions make up an even larger portion of the upper crust.



We suggest that the committee keep in mind, the average working Canadian when analyzing public sector compensation. After all, it is the average Canadian that most affected by even the smallest change in taxation levels. In 2001 the average working wage in Canada was $40,500.[ii]

Since 2003 we have seen the average public sector total compensation package rise to $114,100 in a recent PBO report[iii]. It is important that the report shows these average compensation costs rising to $132,400 by 2014-15. The PBO report indicates that salaries are 71.8% of total compensation costs and this would make the average salary $81,900. This number aligns with recent studies we have done for example, the average city employee in Guelph earns $113,394 with an average salary of $87,313 for a city employee.[iv]

What makes this compensation level both alarming and unfair is that the average private sector worker in Canada today earns only $ 40,500[v]. In a time where inflationary trends are causing financial challenges for average families, it is important for this government to put downward pressure on these public sector salaries and give the average private sector family a tax break.

AFFECTS ON PENSIONS

The effect of rising salaries in public sector has also had a negative effect on the public sector pension plans. For every dollar that you give a public sector worker in salary, the pension fund has to find $16[vi] more for the rest of their life.

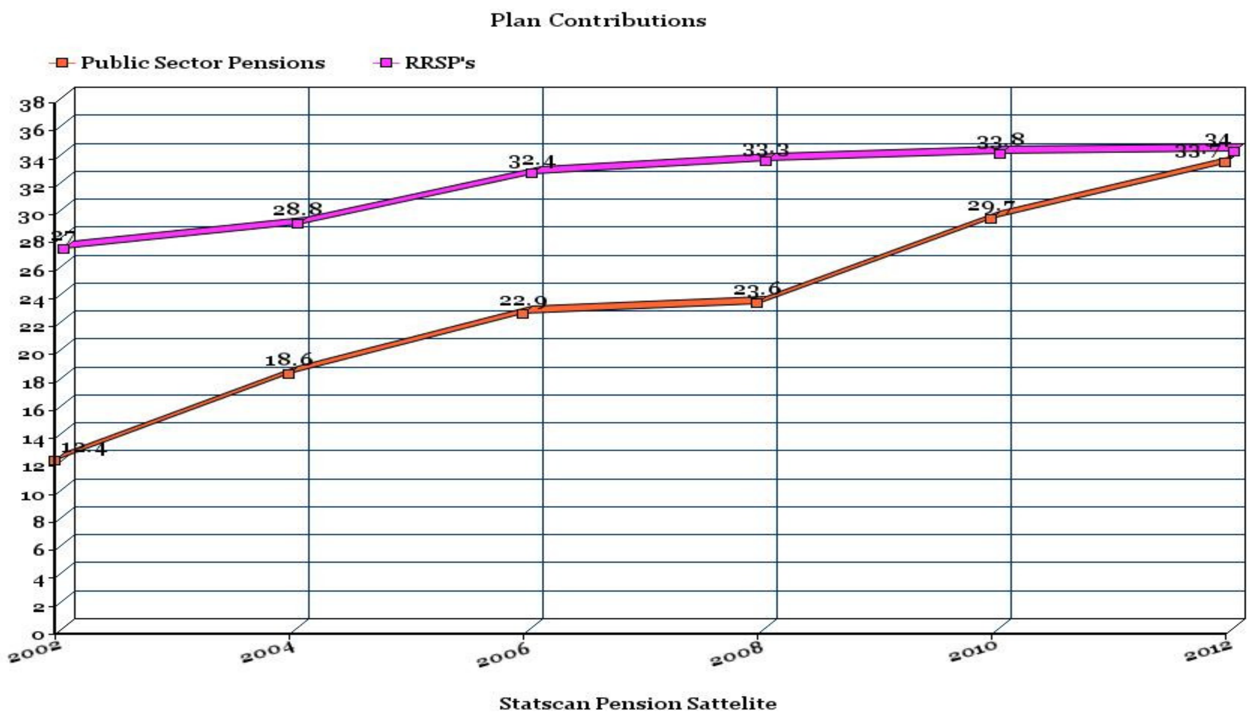
When our pension system was created, the expectation was that an employee would spend 30 years working and retire for 12-15 years.[vii]

> History of the ***Civil Service Superannuation Act**,*
> *When it was implemented in 1924 pensions started at age 65. At this time the life expectancy was only 59, so a retiree was expected to be dead for 6 years before they started their pension. If this plan had kept pace with life expectancies a federal employee would get their pension in their 90's today.*

Preliminary results from a recent study from the Canadian *Institute* of *Actuaries*[viii] shows that the average life expectancy for a female public sector worker is 89.4 years and for a male, it was 87.3. An average federal employee retires at age 6o today. Pension plans were never intended to pay out for longer than an employee paid in.

We are two years in to the baby boomer retirement, and already many pension plans are broken. When we were asked to the Finance Committee in May of 2013 we presented our report, on crown corporations called Bigger Bailouts and Deeper Holes. Just recently, Canada Post has announced they need a bailout in the amount of $1 Billion to fund pensions and that is only for 2014. The shortfall in Crown Corporations we estimated at over $5 Billion and over $8.9 B when retirement benefits are factored in.

So far, the only answer for this problem has been an increase in contribution rates. In fact, over the last 10 years, contribution rates have increased by almost 200% over this decade.



Now Canadians contribute as much into public sector pensions as they contribute into RRSP's every year. The problem is only 20% of the workforce is public sector and 65% have no pension and will rely on RRSP's (Registered Retirement Savings Plans) for their golden years. If Canadians had been able to save at the same rate as they contributed into the public sector pensions there would not be a retirement savings crisis today

This is unfair for the average private sector worker. As they struggle to pay the bills, and have nothing left to contribute to a pension plan, they are forced to match public sector pension contributions dollar for dollar. In fact, last year Canadians contributed $34 Billion to public sector pensions.

At Fair Pensions For All, we believe that everyone should be able to save for their retirement, not just the wealthy and those who work for the government.

BIG CPP – CANADA PENSION PLAN

There has been a lot of talk recently about the big CPP. This is a plan that we vehemently oppose as we believe, that in part it is simply a back door bailout of these under funded public sector pension plans.

When a public sector worker retires a portion of their defined benefit pension is made up of CPP. Not that long ago, about 25% of the average public sector pension was made up of CPP, but that is no longer the case.

The CPP reaches a limit at a salary level of $51,100, the Yearly Maximum Pensionable Earnings. The average public sector salary is over $80,000, and the further away from the CPP limit these salaries get, the higher a percentage~~,~~ the pension plan must pay. At the federal level most pensions are paid from the Public Service Pension Plan.

If the government decides to double the CPP, the average worker will see his CPP go from a current level of $6500 to $13000 which is good. This is what the average retiree will collect but the maximum is $12,100. Interestingly, the public sector worker will not see any more pension money than they already have because of the integration with their pension, a shift of where the money comes from occurs. More retirement income will be paid from CPP and less from the employee's plan.

So why do the unions support the Big CPP? Simple, the big CPP will cover $24000 of civil servant pension income instead of $12000. This increase in cash will almost wipe out the unfunded liability of these pension plans, but once again, it will be on the back of the average private sector worker, 65% who have no pension at all.

We ask the government to reject the Big CPP outright.

We believe that there is a better way.

CRISP- Canadian Retirement Income Savings Plan

The new program we envision will return to the roots of pensions, of keeping seniors out of poverty. It would eliminate the two tier retirement system we have in Canada, a gold-plated one for retirees on taxpayer subsidized gold-plated pensions and the 65% of Canadians who have no pension at all.

Is our current system sustainable, fair and affordable?

Overview of Current Programs
(Annual contributions $ Billions)

Government Mandated	**2011**	**2030**
Canada Pension Plan	$ 40.2 B	$ 85.1[ix]
QPP Contributions	$ 11.7	$ 24.8[x]
OAS/GIS - Old Age Security	$ 29.5	$ 108.5[xi]
GIS – Guaranteed Income Security	$ 8.6	0
Public sector pensions	$ 33.7	$ 64.5[xii]
Total	**$ 123.7**	**$ 282.5**

This new plan would create a guaranteed annual income in retirement for seniors of $25,000. It would have similar qualifications as CPP, such as the number of years living in our country but it would not be limited to how much you have contributed. Every senior would be eligible for this plan. CRISP simplifies our complicated retirement plans by replacing of CPP, OAS, GIS and QPP, if accepted by Quebec

The first part of the CRISP plan calls for ending defined benefit public sector pension plans. We are calling on all governments to convert these plans into defined contribution plans, and cap maximum contributions from taxpayers (employer) at $3000 per year. This would put the pensions of public sector employees on par with those in the private sector who have pension plans offered in their workplace. This would also free up a significant amount of tax revenue, an estimated $9 Billion each year that could be used on infrastructure, transit, tax reductions or debt repayment. More likely a significant portion of this savings will be used to increase current social programs for seniors including tax based income support programs, drug care and health expenses.

It is not fair to simply take away the public sector pensions that currently exist. If a person has already accrued a pension or is receiving a pension, then they will receive that pension, assuming that the pension plan has the financial capacity to meet its requirements. If not, then it is up to the pension plan to handle its financial restraints, not the taxpayer.

We urge the government to act now on the issue of income inequality in retirement. And we suggest that the government institute a program such a CRISP, to bring fairness in retirement income.

REAL SOLUTIONS

Changes needed immediately:

1) Base public sector compensation on private sector averages. Postpone making any significant changes to Canada Pension Plan at this time
2) Convert public sector pension plans to Defined Contribution immediately
3) Combine retirement income support programs for all Canaidna into a plan that is fair sustainable and keeps seniors our of poverty,
4) Income testing for government pension support programs.
5) Create a guaranteed retirement income for seniors in the amount of $25,000

FOOTNOTES:

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[i] Statscan - Table 204-0001
High income trends of tax filers in Canada, provinces, territories and census metropolitan areas (CMA)

[ii] Statscan - Table 202-0407, Income of individuals, by sex, age group and income source,

[iii] PBO Officer – December 2012, The Fiscal Impact of Federal Personnel Expenses:
Trends and Developments
- http://www.pbo-dpb.gc.ca/files/files/Fed%20Personnel%20Expenses_EN.pdf

[iv] Guelph Speaks - Stick handling around the payroll gorilla in the city's 2014 budget

[v] Statscan CANSIM – 202-0407, Income of Individuals by sex, age group and Income source, 2001 constant dollars.

[vi] This calculation is know what we call the pension multiplier. It was provided to us via email from the Office of the Chief Actuary. It refers to the "present value"
For a male age 65 in 2009 with an annual Retirement Pension of $70,000 indexed at 2.5% with a 60% survivor component the present values are:
(1) using a discount rate of 5% : $1,254,426
(2) using a discount rate of 6% : $1,131,461

[vii] A good example is the federal employee pension plan. "*The pension plan* ***established in 1924*** *was a defined benefit plan and remains so today. Benefits were based on a pension formula calculated as 2 percent of the 10-year average salary and a minimum 10 year service requirement up to a maximum of 35 years.* ***The retirement age was 65***" *Treasury Board - http://www.tbs-sct.gc.ca/pensions/history-historique-eng.asp*
[viii] http://www.cbc.ca/news/business/the-pension-downside-of-living-longer-1.1384758 - The pension downside of living longer
Table 204-0001
High income trends of tax filers in Canada, provinces, territories and census metropolitan areas (CMA)

[ix] Report "Intergenerational Balance of the Canadian Retirement Income System" by Chief Actuary Jean-Claude Ménard
[x] Authors assume the same rate of growth as is estimated for the CPP
[xi] IBID. - This includes both OAS and GIS
[xii] The contributions into public sector employees pensions were estimated at the same growth rate as CPP. Actually in the past decade those contributions have risen over 400%

This Paper is a publication of Fair Pensions For All

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This Paper is available at www.fairpensionsforall.net