FAIR PENSIONS FOR ALL NEWSLETTER NO 1 ONTARIO SUMMER 2012

FAIR PENSIONS FOR ALL

OMERS Pension Crisis Explained

Municipal workers' pension costs

Hidden City Worker Compensation Costs Rising 10% per year

Compensation costs are the single biggest budget item at City Hall. Yet the total compensation paid to public sector employees is hidden from taxpayers and elected officials.

A big part of compensation is pensions. Taxpayer contributions to pensions for municipal employees in the Ontario Municipal Employees Retirement (OMERS) plan are increasing at more than 10% a year.

These increased costs are not negotiated as part of "headline" wage increases because they are non-taxable benefits. The total package includes salary, employee benefits, pensions and special severance pay such as sick time payouts, vacation payouts sand severance bonuses.

In 2012 the OMERS plan will be short some $9 billion of being able to pay pension promises made to municipal workers. Despite the fact that pension contributions into the plan last year were $2.7 billion, the shortfall grew by a stunning $2.8 billion.

One mayor compared pensions for city employees to cancer: "It started a long time ago, it goes for a long time, and then it becomes life-threatening." In Ontario an increase of 1% in contributions costs property taxpayers $150 million a year. The contribution for city employees has risen from 2.9% of salary in 2003 to over 14% last year for the highest cost pensions. This means an increase to taxpayers of $1.6 billion dollars. This is not a one time expense but a cost that will continue every year into the future.

Taxpayer contributions need to be included in wage negotiations so taxpayers know exactly how big the raises we give our employees really are.

Top 10 Pensions at the City of Hamilton

Position	Sunshine List Salary	Annual Pension (estimated)	Lifetime Pension (estimated)
Medical Officer of Health	280,677	184,973	6,368,343
Assoc.. Med. Off of Health	259,602	103,488	5,368,343
Police Chief	233,410	151,887	3,846,232
City Manager	216,872	139,956	3,657,748
Deputy Police Chief	199,245	127,971	3,624,435
GM Community Services	183,279	115,962	3,343,567
GM Planning/Economic Dev	178,809	104,126	3,125,555
GM Finance/Corporate	178,809	104,126	3,125,555
GM Public Works	171,888	103,898	2,997,678
Chief Librarian	164,269	103,488	2,884,901

Total Lifetime pensions $43,474,258

Notes: Pension estimates are based on fully qualified employees (30 years for police, firefighters, 35 years for all others)

INSIDE THIS ISSUE

COMING EVENTS

June 27, 5 pm - Official Launch of Fair Pensions For All
Royal Hamilton Yacht Club, foot of MacNab St., Hamilton
All proceeds to Fair Pensions For All

Tickets $60

ON THE HOTSEAT

Ontario's debt is the highest in Canada. More than 50% of all government spending is for employee compensation.

Premier McGuinty and Finance Minister Dwight Duncan continue to downplay the seriousness of Ontario's debt, despite the recent lowering of the Province's credit rating.

The Province removed itself from responsibility for OMERS shortfalls, passing the buck to the municipalities, but it remains responsible for many other large pension shortfalls, including Ontario Power Group and the massive $45 billion Ontario Teacher's Pension Plan deficit.

OMERS Pension Deficit Threatens All Cities

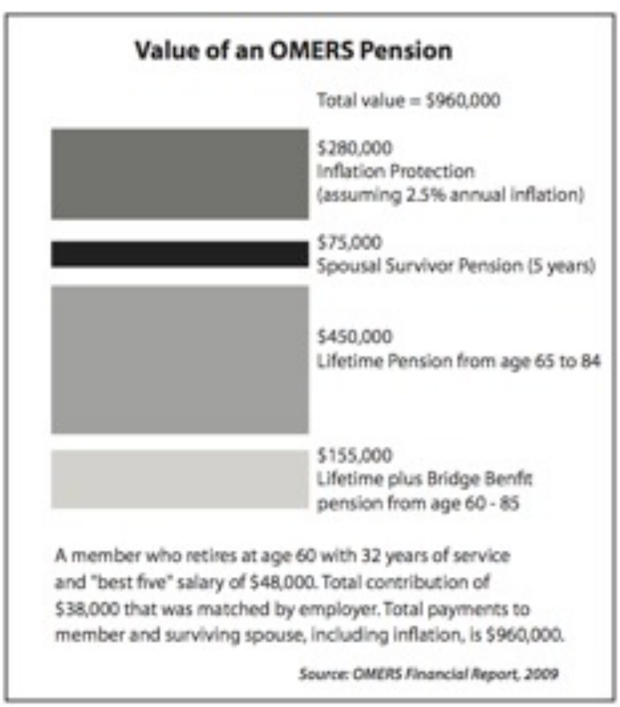
The Ontario Municipal Employees Retirement System (OMERS) is the pension plan for most municipal workers in the province. While it is province-wide, the financial responsibility for it lies not with the Provincial Government, but with the individual municipalities.

Like all public sector pensions in Canada, OMERS is under severe financial distress and battling major shortfalls. Investment results for the plan were not bad (3.2%) in 2011. What is alarming is that despite positive earnings it added another $2.8 billion of liability onto the backs of Ontario taxpayers.

At the end of 2011 OMERS had a declared shortfall of $7.3 billion on the promises it has made to the employees and retirees in the plan. The shortfall is expected to rise to more than $9 billion in 2012.

Public sector pension fund managers point to slumping stock markets as the reason for the increasing shortfalls, but this is only one of many factors. In truth the plans are built on overly generous benefits and false assumptions.

For instance, contributions are made on actual salaries paid, so they rise slightly over the years through negotiated wage increases. Pension benefits however are based on "best 5 years of salary".



The gap between contributions from lower income levels and benefits from highest income levels doom these funds to deficiencies, even if they achieve high returns.

During the stock market's go-go years, when investments were performing well, OMERS increased the already generous plan with earlier retirement and more benefits. During one four-year period there was a "contribution holiday," when no contributions were made at all. Today the plan is in crisis and OMERS managers expect current employees and the taxpayer to ante up for the money not put aside earlier, and to pay for the extra benefits promised.

At Fair Pensions For All we believe public sector pension plans should follow the lead of the private sector and be changed from guaranteed defined benefit (DB) plans, to market-based defined contribution (DC) plans - the same as your RRSP.

Taxpayers should not be expected to pick up the tab for the unrealistic promises of underfunded pensions.

Salary Grid & OPEBs Add to Your Tax Bill

Salaries, pensions and work-place benefits are still only part of the compensation paid to public sector employees by taxpayers. For many workers there is yet another level of hidden raises paid through the implementation of a "salary grid," and still other perks known as "Other Post Employee Benefits," or OPEBs.

Salary grids and OPEBs are rarely publicized. Most taxpayers were shocked when Don Drummond sounded the alarm in his now-famous - and largely forgotten - "Drummond Report" as chair of the Commission on the Reform of Ontario's Public Services.

Drummond commented that Ontario teachers have seen their compensation rise by 8.5% per year on average over the past decade, yet "headline" wage increases showed a 2% or 3% raise. Not included were automatic grid increases or promotions and raises based on union seniority.

These additional benefits increase the cost of compensation by another 30% to 40%.

At contract negotiation time we hear about "headline" wage hikes that target the cost of inflation. However the cost of ancillary benefits is not included. Nor are the automatic salary grid increases, which move teachers (and police officers and the military) from one pay scale to the next while performing exactly the same task for the taxpaying public.

Most public sector workers retire at an average age of 59, long before Old Age Security programs kick in for non-government workers. To ensure that

these lucky workers never miss a benefit, they are often given extended health care insurance from early retirement until age 65. In addition, they receive a "bridge benefit" designed to match the CPP payment which they are not eligible for, until age 65.

On retirement, most government workers can also expect lump sum payments for benefits not used.

These items include:

- Sick leave payouts
- Vacation payouts
- Retirement gratuities and allowances

Drummond reported that the average sick leave payout for retiring teachers in Ontario was $46,000 last year.

As a result of these OPEBs cities have outstanding liabilities to employees totaling billions of dollars. Toronto for example, owes its employees $2.588 billion for these "retirement" costs.

Decades ago people chose careers in the public sector because they wanted to serve the people. They accepted lower pay in return for job security and pensions. Today they have the best total compensation packages in Canada.

This would be great news if not for the fact that our country is drowning in red ink. Last year the combined Federal and Provincial debts surpassed $1 trillion, and this does not include many of the municipal liabilities mentioned here.

Truly it is time for our public sector employees to understand the financial plight they have put us in, and for them to become part of the solution. Private sector workers have given up benefits, raises and pension guarantees to maintain their employment.

The public sector needs to do the same.

Join Us - Speak Out Against Unfair Pensions

We don't hate our public sector employees. We admire and respect them for the work they do. However the balance of power in our country is now in the hands of public sector unions, who are highly organized, well-financed and professionally managed.

Over the past 20 years they have negotiated unrealistic pension promises for most of our three million public sector workers. Many employees will earn far more in retirement than they did over their working careers. Some will be retired longer than they ever worked. This is all financed by you!

At Fair Pensions For All we are bringing the reform message to politicians and the media. We need your support.

Membership and Donation Form

Name: ______________________ Phone: ______________________

Address: ___________________________ City: __________________

Province: ____________ Postal Code: __________________________

Email: ____

Mail to: FPFA Ste 824, 1063 King St. W., Hamilton, ON, L8S 4S3
or donate online at www.fairpensionsforall.net

Fair Pensions For All newsletter is published quarterly and distributed to members and stakeholders across the country. To join our subscription list go to www.fairpensionsforall.net

NEWSLETTER STAFF

Publisher: **Bill Tufts**

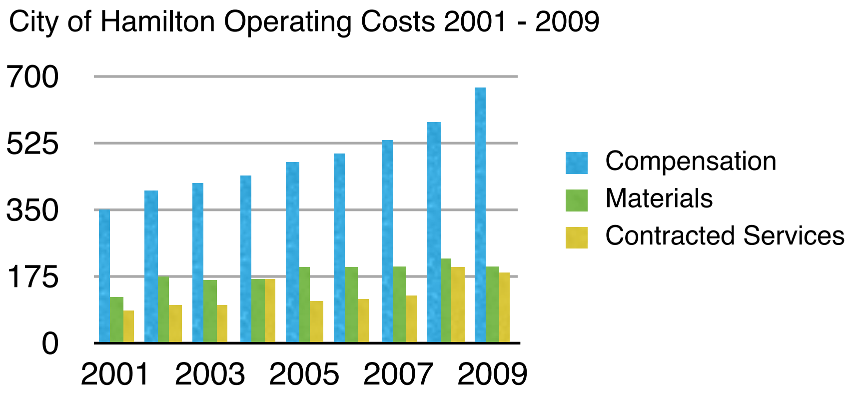
Editor: **Lee Fairbanks**

Contributors: **Dave Kudsia**

Fair Pensions For All
Ste 824, 1063 King St. W.
Hamilton, ON L8S 4S3
905-741-1904
info@fairpensionsforall.net

FAIR PENSIONS FOR ALL

Ste 824, 1063 King St. W.
Hamilton, ON, L8S 4S3



June 1, 2012

To Mayor and City Councilors
City of Hamilton
71 Main St. West
Hamilton, ON
L8P 4Y5

This year the provincial government is required to undergo a review of the OMERS pension plan. So far any proposed changes on the plan including from MEPCO are woefully inadequate. For example the first recommendation calls for pensions to be limited based on an income of $350.000. At the standard 70% of income goal this would provide an employee a pension with a lump sum value of $4.9 million.

The other proposed changes are merely tinkering around the edges to give the impression of "pension reform" This is not acceptable to property taxpayers.

We urge the City to investigate the costs of employee pensions to the city taxpayer. Pensions are one of the fastest rising expenses at City Hall.

In 2010 the City spent $36 million on pension contributions to OMERS, the Ontario Municipal Employees Retirement System. This is up 75% from 2004, when $20.6 million was contributed, increasing at the rate of 12.5% a year. In addition the City has promised employees additional compensation during early retirement in the amount of $272 million for "Post Employee Benefits". These include sick time payouts for time not taken, vacation payouts and health benefits after retirement. This is up from $199.3 million in 2004.

Taxpayers Paying Hidden Costs

The city contributed 14.1% of city salaries into the OMERS pension plan in 2011, this having increased from 9.8% in 2005. This increase was passed without public announcement or debate. Province wide OMERS contributions were $1.36 billion in 2004 and $2.4 billion last year, however the deficit in the fund increased to $7.3 billion from $4.5 billion the year before. Currently Hamilton taxpayers are responsible for part of this deficit. This means contributions will rise at an even faster rate than they have in the past.

Pension Changes Needed

It is time to change the City's pension system and we recommend these immediate changes to city pensions:

- Move the age of retirement to 67, in line with the Federal Government’s new OAS regulations. This year some employees will retire on a full pension as early as age 50, with the average age being 58.
- Move all new employees into a defined contribution pension plan.
- Eliminate the SERP (executive) pension plan at the City. The Canada Revenue Agency Income Tax Act set limits for pension fairness and many senior executives at the City will exceed these limits.
- Eliminate the tax funding of “Post Employee Benefits” offered to early retirees. Once an employee ceases to be an employee, paid benefits should cease also. Retirees should be offered extended benefits at their own cost.

As an elected official responsible for the fiscal management of our tax dollars, we urge you to be courageous. Taxpayers, tired of paying for excessive and underfunded retirement plans, deserve fair pensions for all.

William Tufts, GBA
Executive Director
Fair Pensions For All