

FAIR PENSIONS FOR ALL

STANDING COMMITTEE ON FINANCE
HOUSE OF COMMONS

BUDGET DELIBERATIONS BILL C-60

by
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Presentation to the Standing Committee on Finance May 23, 2013

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

PENSION REPORT

CANADA'S CROWN CORPORATIONS: BIGGER BAILOUTS AND DEEPER HOLES

BOLD AND COURAGEOUS ACTIONS ARE NEEDED TO FIX THE PENSION CRISIS

FAIRNESS

Canadians continue to be divided into haves and have-nots when it comes to retirement. Most of us save for our own retirement, while the 20% who are lucky enough to work for government are likely to enjoy rich benefits at taxpayer expense.

CFIB - CANADA'S PENSION TENSION

SUSTAINABILITY

"Part of a broader issue, which is aligning the public-service compensation and benefits to private-sector norms and expectations," Treasury Board President Tony Clement

The Globe and Mail. May 1, 2013

The Federal Government needs to exercise control over the compensation levels, and, in particular the pension plans of the Crown Corporations.

Skyrocketing amounts of bailout money into crown corporation pension plans have not stopped the bleeding from the pension crisis. The haemorrhaging caused by defined benefit pensions must be stopped.

We will outline the scope of the problem, how it affects taxpayers and what needs to be done to fix the problem.

CANADA'S BREWING PENSION STORM

What follows is a brief description of the public sector/private sector divide as it exists across all levels of government in Canada. Public sector pension reform is needed for two reasons – one, current pensions are unfair and, two, they are financially unsustainable.

FAIRNESS

Let's examine the fairness issue first.

1. In 2011 there were nearly seventeen and a half million employable workers in Canada. About 20% or three and a half million were in the public sector and nearly 80% - 14 million - were in the private sector.
2. Almost all these public sector workers have a guaranteed, inflation-protected income from the first day of their employment, through retirement and beyond the grave. Think about that. We are not saying they have guaranteed employment – although that is virtually the case but they do have guaranteed lifetime income. And, with a spousal benefit attached to their pensions this income often continues beyond the grave. These pensions are in the order of 30, 60 and a 100 thousand dollars a year and on up.
3. All the while, there are ten and a half million Canadian workers in the private sector who have no employer sponsored pension plan at all. Yet they have to contribute to the cost of these “no worries ever” public sector pension plans every time they pay sales taxes, income taxes, property taxes, buy a case of beer or renew their driver's license, etc. Is that fair?
It cannot possibly be fair for the federal government or any other government in Canada to use its power of taxation to privilege what has become an economic elite group in our society.

It is admirable for the government to want to ensure that the Crown Corporation pension plans are broadly aligned with those available to federal employees but we strongly believe government must go one step further. It must align the pension plans of both the federal employees and the Crown Corporations with plans in the broad private sector.

The original concept of pensions was to keep seniors out of poverty in their "golden years". This is a desirable outcome for our country.

Today in Canadian the median income for those over the age of 65 is \$22,600. Further the average working income of Canadians is \$39,100.¹

The Parliamentary Budget Office (PBO) in a recent report pointed out that total average compensation for federal employees is now \$114,000 a year for with salaries accounting for

¹ Statscan - Table 202-0407 - Income of individuals

71.8% of the total. This means that the average salary is \$81,850 a year. Pensions are targeted to provide 70% of the final 5 years average salary. A fully qualified pension will be in the range of \$57,000 a year including Canada Pension Plan.² The federal wage is expected to increase to \$91,900 in the next three years producing an average pension value of \$64,300 a year, including CPP.

Many in the public sector will retire with a pension income well in excess of the wage of the average working Canadian.

SUSTAINABILITY

Sustainability is another consideration when the government realigns its compensation system for crown corporations

1. Since 2008 taxpayers have funnelled an additional \$2.1 billion in bailout contributions into crown corporation pension plans. Even more alarmingly is that despite this huge bailout the shortfalls have increased by another \$ 4.7 billion. This is only for 8 out of 48 crown corporations that we examined.
2. Not only is there a pension crisis at crown corporations, they have been allowed to offer outrageously expensive "retiree benefits" in addition to pensions and the total liability for these is now almost \$3.8 billion. Combine retiree benefits and pensions and taxpayers are on the hook for over \$8.9 billion in total liabilities at the 8 crown corporations we examined.

The concern is with the cost of rising pensions. but other promised "retiree benefits" are causing financial instability as well. For example, Canada Post now has a current shortfall on promises to its retired and soon to retire employees that total over \$7.1 Billion in pensions and retiree benefits.

Canada Post paid \$446 million into its pension last year and it had a total net profit of \$94 million in 2012. It would take Canada Post 74 years of profits to make good on these current promises.

² Office of the Parliamentary Budget Officer - The Fiscal Impact of Federal Personnel Expenses:

Trends and Developments, 2013

Pension Liabilities and Contributions of 8 Crown Corporations
(\$ millions)

	# Employees	Pension 2012	Shortfall 2008	Retiree Benefits	Contributions	
					Employee	Employer
Atomic Energy	3214	-53.8	60.6	-53.8	100.0	200.6
Bank of Canada	1198	-19.3	53.3	-202.8	40.1	200.5
Business Development Bank	1991	-270	-120	-23	21.0	182.0
CBC	7378	-379	-334.9	-333.2	150.7	193.3
CMHC	1975	-507	94	-716	43.0	128.0
Canada Post	56,342	-3400	-19	-7052	760.0	2138.0
Farm Credit Canada	1,764	-153.2	-33.1	-224	15.2	79.0
VIA Rail Canada	2,716	-343	-101.4	-362.1	40.4	152.0
Total		\$ (5,125.3)	\$ (400.5)	\$ (8,966.9)	\$ 1,170.4	\$ 3,273.4
Notes:	Information from available annual reports on the internet Retiree benefits includes all Future Retiree Employment Benefits and Pensions Liabilities In 2008 there were some pensions in surplus Contributions includes period from 2009 to 2012					

CURRENT REFORMS

The current vision the government has to changes pensions is " The normal retirement age goes from 60 to 65 while employees with 30 years of service will now have to wait until age 60 to receive an unreduced pension which used to be available as early as 55." ³
For example, this change envisions retirement ages rising by 5 years over the next 40 years. In the 43 year period from 1966 to 2009 the age of life expectancy rose 6.3 years. ⁴
Canadian taxpayers will have to wait 40 years to see the impact of this change. Canadian will see the impact of this change in the year 2053.

The current change to retirement ages will only maintain the status quo based on current trends. A more reasonable and fair solution was to increase ages on the same schedule that Canadians will see in the move towards access to Old Age Security.

³ **Fred Vettese** - Federal pensions still 'unusually generous', Financial Post December 22, 2012

⁴ **Sari Harrel** - Actuary, Office of the Chief Actuary, Email sent to Bill Tufts

This plan only affects new employees, the current 450,000 federal employees with an estimated \$200 Billion in their pension plans still will retire a half decade earlier than average Canadians.

A system of "pension apartheid" that favours 20% of workers with union negotiated public-sector DB plans at the expense of the rest who guarantee those pensions through their future taxes.

Johnathan Chevreau - Canada urged to end Pension Apartheid

The other change implemented by the federal government was a move towards 50/50 cost sharing on pension contributions. This is a good theory but the reality is the 50/50 split is still only half of what is really required to fund the plan. The CD Howe Institute estimates that the current contributions required in the federal plan to meet the promises made are 47.7% of salaries.⁵ Currently the annual 2013 contributions are targeted at about 17% of salary.⁶

CANADA'S PENSION APARTHEID

RRSP's VS. PUBLIC SECTOR ASSETS

Public Sector Plans Assets \$ 840 Billion

2011 contributions \$ 30.6 Billion

RRSP's Assets \$ 842 Billion

2011 contributions \$ 33.8 Billion

Source:

Statscan Pension Satellite Account

Benefits Canada - The government's retirement double standard

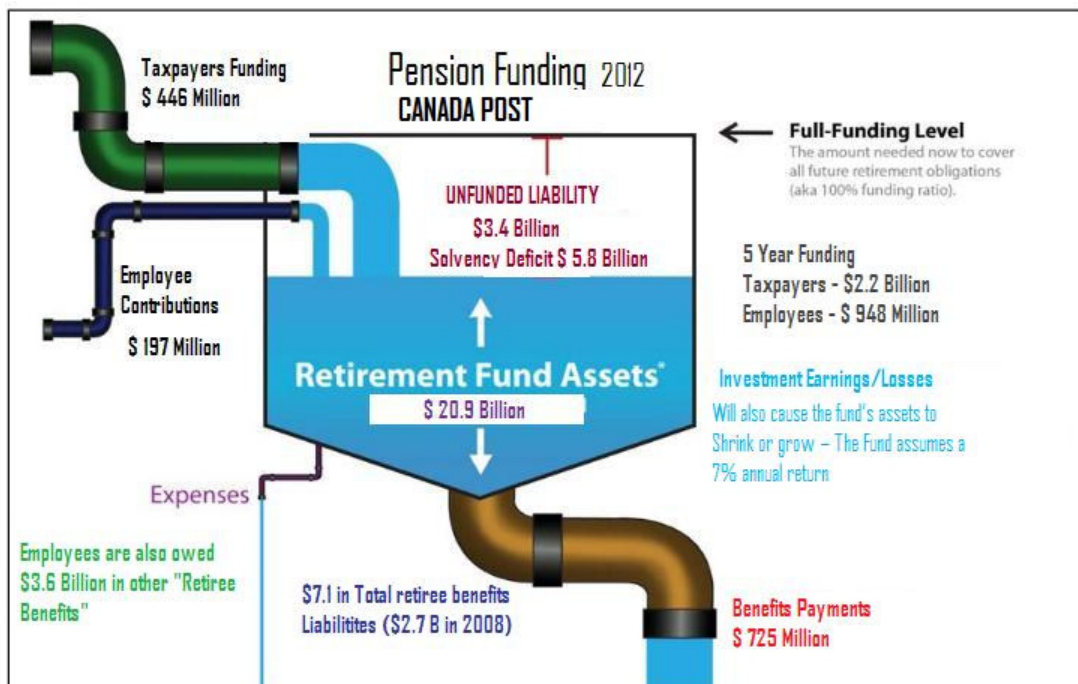
⁵ CD Howe - OTTAWA'S PENSION ABYSS: THE RAPID HIDDEN GROWTH OF FEDERAL-EMPLOYEE RETIREMENT LIABILITIES

⁶

REFORM NEEDED NOW

The second reason public sector pensions must be reformed is that they are not fiscally sustainable. In fact, a perfect storm is brewing:

1. The public sector pensions are based on three sources of funds:
 - a. One, employee contributions;
 - b. Two, taxpayer contributions; and,
 - c. Three, a return on the assets in the pension funds.



2. The real costs of public sector pension plans are only just now beginning to be realized. We mustn't forget that these plans only started about 40 years ago and reached their current form 10 years ago. We have really only just started to pay off on the promises to retiring public sector employees in a major way. And, now, with many plans already in trouble there are five things contributing to a perfect storm:
 - a. One, a tsunami of Baby Boomers is beginning to retire.
 - b. Two, public sector workers continue to retire earlier and earlier.
 - c. Three, life expectancies continue to increase.
 - d. Four, we have now had an extended period of very low rates of return on assets which may continue for some time; and
 - e. Five, the federal and provincial government finances are in shambles across the country, the municipalities are stressed and all levels of government are now ill-equipped to bailout public sector pension funds.

3. Your predecessors in government have left you saddled with a huge fairness and sustainability problem. You and your contemporaries in the provincial capitals and municipalities have three choices.
 - a. One, raise taxes and bailout the plans and let the unfairness continue;
 - b. Two, cut government staff and services brutally and bailout the plans and let the unfairness continue; or,
 - c. Three, fix the root problem – the over generous public sector pension plans.

We strongly urge you to choose the latter course of action.

REAL SOLUTIONS

Changes needed immediately:

- 1) Convert all plans to Defined Contribution.

Anyone over age 55 gets the same provisions but immediately all other employees are converted to Defined Contribution (DC) with the time worked in defined benefit as vested rights but future employment credited towards DC.

- 2) Raise retirement age

The federal government should move to same level for existing employees as outlined in the Old Age Security changes that move the retirement age to 67. The current plan by the federal government to move the retirement age of federal employees to 65 over the next 40 years is woefully inadequate.

- 3) Raise contributions up to a 50/50 level.

At Via Rail for example employee contributions last year were \$70 million from taxpayers and \$10 million from employees. Determine the true cost of these plans and then split the cost with the employees.

- 4) Place a cap on all federal and crown corporation pensions

The original concept of pensions was to keep seniors out of poverty in their "golden years". A reasonable cap needs to be placed on pensions, one based on a factor of the working wages of Canadians, for example one and half times the average working wage. Place an immediate cap at the current levels until the average pension available to the general tax paying public catches up.

Conclusion

Consideration of these solutions will help to control costs at crown corporations, address the federal deficit, correct the unfairness that exists between public- and private-sector lifetime earnings, address issues of intergenerational fairness, and boost the retirement security of ordinary Canadians.

This Paper is a publication of Fair Pensions For All

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This Paper is available at www.fairpensionsforall.net

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