CURC

Congress of Union Retirees of Canada

Pensions for Today & Tomorrow

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Document 1 – Pensions for Today and Tomorrow

Pensions have always been important to seniors. While there had been limited efforts over the centuries to alleviate the poverty that faced most people if they lived to be 60, it was the last half of the twentieth century that saw a dramatic improvement for seniors in Canada. At the beginning of the century, being old and being very poor were synonymous. By the end of the century thanks to what unions accomplished at the bargaining table and what our political allies did in the legislatures, this was no longer the case.

Today these gains are at risk. Many of today's retirees face the problem of loss of or reduction in their pensions when their firms go bankrupt; others lost much of their personal or defined contribution plans in the stock market meltdown. Tomorrow's retirees face even greater challenges. For many of them, the old advertising slogan Freedom 55 has now turned into the revised hope of Freedom 75.

The struggle to gain public pension programs was a long one. Appendix 1 gives a short overview of some important dates. The fight to maintain and improve them is a challenge we must meet.

In addition to pension programs established by government, unions have also sought to set up or negotiate plans for their members. Initially, a number of unions established contributory benefit plans for their members to cover contingencies including disability, retirement and death. Eventually unions sought to have the employer contribute to these plans based on hours that were worked or to set up a plan that was related to the place of employment. Most of these plans were based on a benefit defined on a formula based on years of contribution and wage earned.

In the United States, several events in the years immediately following World War II accelerated the growth of union-sponsored pension plans. In 1946 the United Mine Workers of America negotiated the first industry-wide multiemployer pension plan. In 1947 Congress passed the Taft-Hartley Act which specifically authorized the establishment of pension plans by labor unions, so long as the contributing employers were given equal representation on the governing boards of such plans. Finally, in 1948 the U.S. Supreme Court favorably resolved a lingering legal question when it declared that the Wagner Act required employers to bargain with unions over pensions just like any other condition of employment.

In Canada, railroads were the nation's first large industrial sector to develop pension plans. The first plans were instituted for management and were a way for companies to buy loyalty. Thus the Grand Trunk Railway set up a plan in 1874 which required employees to join by age 37 and to work until at least 55 years. By 1900, only federal employees, railway workers and some commercial banks were covered by pension plans.

Craft unions took the initiative to set up voluntary funds to assist workers and their families in event of death, injury and retirement. Plans for retirement before 1960 were fairly minimal. In the sixties, the unions negotiated multi-employer pension plans.

Following World War II, the spread of industrial unions was matched by the increase in workplace pensions that workers negotiated. An important milestone in this development was the pension plan that the Autoworkers in Canada made with Ford Motor Company in the 1950. The result of these efforts was that pension coverage increased between 1945 and 1960 from 19% to 40%.

While the building trades have a direct say in their pension funds, the breakthrough with public plans was made by the Ontario Teachers Federation which achieved partnership with the provincial government in 1990. A number of plans for provincial government employees have adopted the Ontario Teachers' model of joint governance and cost sharing.

In addition to pushing for workplace plans, unions also were active in the support and expansion of public pension plans. The decrease in rates of poverty among those over 65 between 1960 and 1990 testifies to the effectiveness of these efforts. Alas many of these gains are under increasing attack. Today only one-third of the paid labour force are covered by a pension at work and even these plans are increasingly defined contribution rather than defined benefit plans.

The Special Senate Committee Report on Aging that was released in April 2009 made the following observations:

> As one of its broad themes, the Committee has chosen to focus specific attention on the elimination of poverty among older Canadians. The Committee has heard that poverty among seniors has been reduced radically in recent years; in fact, Canada's income security system for seniors has resulted in the lowest incidence of low income among all developed countries. [Low-income is measured in many ways; in this case, as is often true in international comparisons, low-income applies to incomes below one-half the median income for the nation.]

While in general terms seniors' incomes have increased significantly over the past few decades, this trend has not resulted in the elimination of poverty among Canadian seniors. Using Statistics Canada's low income cut-off lines as a proxy for poverty, Table A shows how different households have fared in that time. Low income cut-off lines are developed by Statistics Canada, based on an income in which a household will spend 20 percentage points more of their income on basics than the average household would spend. It varies by the size of community and number of people in the household. The before-tax calculation is the figure based on income before any taxes are charged or tax credits are paid.

Table A - by family type, Canada, selected years

	1980	1984	1988	1992	1996	2000	2003
				percent			
Low income cut-off before tax (1992 base)							
Married couples	20.1	15.9	12.8	8.3	7.8	4.9	5.3
Unattached individuals – Total	69.2	64.3	56.5	50.5	47.2	42.6	38.4
Unattached individuals – Men	61.0	55.6	39.4	36.0	35.7	34.0	31.7
Unattached individuals – Women	72.2	67.0	61.7	55.2	51.1	45.8	41.0
Low income cut-off after tax (1992 base)							
Married couples	5.9	4.7	3.9	1.7	2.0	1.2	1.7
Unattached individuals – Total	54.4	40.8	31.7	25.9	25.4	20.6	17.7
Unattached individuals – Men	47.0	32.6	18.7	16.9	19.8	17.6	14.7
Unattached individuals – Women	57.1	43.4	35.6	28.8	27.3	21.6	18.9

Source: Martin Turcotte and Grant Schellenberg, *A Portrait of Seniors in Canada -2006,* Statistics Canada, 2007, p. 95.
This table demonstrates that all groups have seen improvements over time, but not equally, and that fewer seniors are poor after receiving tax-related benefits.

Although not evident in this table, the Committee heard there are differences among seniors with respect to both how many are poor and how poor some groups are compared to others. Economist Michael Veall explained this to the Committee:

> If you look at the data, you find that most of the seniors who are below LICO [low income cut-off] are not far below LICO so that the depth of the poverty is not as great. The groups experiencing deep poverty as seniors are basically three. One group includes immigrants who do not yet qualify for the Guaranteed Income Supplement. The second group is seniors who have dependent children, in some cases grandchildren or disabled children they support. The third group is people who do not take up GIS even though it appears from the data that they qualify for GIS. We do not understand why that is so, that is an empirical puzzle with important consequences.

Statistics Canada in 2008 noted that single elderly women still have high rates of poverty:

> The proportion of seniors with low income after taxes fell from 10% in 1996 to 5% in 2006. Despite the decline, the incidence of low income remains higher among elderly women living alone (16%). Quebec and British Columbia are the provinces with the highest levels of low income among seniors.

The best way to tackle poverty among seniors is to raise the GIS by 15%. This would increase the incomes of the poorest seniors by up to $ 110 per month and thereby raise all seniors above the poverty line.

In 1920's when Canada introduced old age pensions at age 70, the average life expectancy was around 60 years of age. By the end of the century, it was over 80 for women and just under 80 for men. For people who do reach 65, their life expectancy is now an additional 20 years. In 2007, those over 65 made up 13% of the population. Statistics Canada estimated that in a medium population growth scenario seniors would comprise 27% of the population by 2056.

These population projections have led some commentators to conclude that the country can no longer allow people to retire at age 65. In support of this view, the government has proposed changes to make it less financially attractive to retire before 65. Currently, Canadian workers can claim their full CPP payout at age 65 but may start taking the pension as early as age 60. There is a 0.5 per cent reduction for each month the CPP is taken before age 65 and a 0.5 per cent increase for each month it is taken after 65, up to age 70. This translates into a 30 per cent reduction if CPP is taken at age 60 or a corresponding increase of 30 per cent if the pension is taken at age 70.

Under the new system, there will be a larger reduction before age 65 (0.6 per cent per month) and a higher increase (0.7 per cent per month) if the pension is claimed after age 65. The reductions will be phased in over a five-year period starting in 2012, while the increase will be phased in over three years beginning in 2011. **CURC opposes these changes.** Workers should have the option of early retirement without the scheduled increased penalty.

While it is commendable that the rate of poverty among seniors has declined in large measure due to government programs, we believe that Canada should set its goal not as seniors living at or just above the poverty line but in a more adequate standard of living. Workplace pensions have been the means to achieve that. However only 38.5% of Canadian workers, the majority of them union members, have workplace pensions. On the other hand, a third of today's working population have no retirement savings at all.

The US National Institute on Retirement Security in July 2009 published "The Pension Factor: Assessing the Role of Defined Benefit Plans in Reducing Elder Hardships" It concluded that:

> Rates of Poverty among older households without Defined Benefits (DB) pension income were approximately six times greater than the rate among older households with DB pension income. Older Households with DB pension income also were far less likely to experience food, shelter and health care hardships.

Their estimates were that 4.7 million American households would be added to the count of poor or near-poor households if not for their receipt of DB pension income. The effect would be to increase the numbers in US receiving public assistance by 40%.

The US National Institute on Retirement Security in their report quoted research that showed that:

> that households with heads born after 1945 with a DB plan are about twice as likely than their counterparts with only a DC plan or no retirement plan at all, to have adequate replacement retirement income at age 65, or income that is sufficient for roughly maintaining one's pre-retirement standard of living.

Today employers are threatening to either eliminate pensions for new hires or to turn the plans into defined contribution plans. As the events of the past year have shown, the reliance on RRSP type of arrangements is a risky one. Thomas Walkom looking at the situation wrote in the Toronto Star on August 1:

> The drive to dismantle the welfare state has a new target. Governments have already gutted unemployment insurance and social assistance. Out-of-date labour laws make it tough to organize unions in the new, decentralized, service-based economy. Now, thanks in large part to the dynamics of the recession, pensions are under attack.

Walkom concluded his column by writing:

> the system is unravelling. Many employers can't pay for the pension obligations they've accumulated. Governments, reluctant to force such companies into bankruptcy, are quietly easing the rules. Public pension plans like the QPP and CPP remain solvent but bruised. Some knowledgeable analysts, like Ontario Teachers' Pension Plan president Jim Leech, argue that with private pensions in retreat, Ottawa should significantly beef up the public CPP. That's a good idea. But it's one that would have to be paid for by a significant tax increase – which is perhaps why no Canadian political party actively promotes it

The state of private pensions has been the focus of reviews at the federal and provincial level. While the recent market downturn was the primary cause of the financial crisis of many plans, the fact that contribution holidays were taken in the past were another important factor. These holidays were in part caused the federal rules which limited fund assets to 110% of estimated need. **These laws need to be changed to allow not only for a rainy day but also to provide for the effects of inflation and increased life expectancy.**

CURC at the national and provincial levels has been an active participant in these hearings. The Ontario Report of the Expert Commission on Pensions chaired by Harry Arthurs was particularly important as forty per cent of the workers with private workplace plans are governed by Ontario law. That report reinforced the importance of defined benefit plans and sought to encourage their expansion by creating larger plans that would achieve the necessary diversity and efficiency to provide these benefits.

Although the federal pension program was beyond the scope of inquiry, the Commission heard so much on this that the report recommended that:

> In addition, the government should investigate the advantages and disadvantages of expanding the Canada Pension Plan, or creating a comparable provincial plan, so as to enhance pension coverage, control costs and improve benefit portability. It should also support the call for a national pension summit to investigate all ideas that might produce such outcomes, including those contained in this report.

Many provincial governments have called for a national summit on pensions. As of the writing of this document, the federal government has not yet agreed. Indeed in its own hearings, the government's concern has been more to allow federally regulated companies more time to fund their pension plans than to improve the lot of pensioners. **CURC has supported the call for the national pension summit and the expansion of the CPP and QPP to 50% of the average industrial wage**. This is a fight we must take on not so much for ourselves but for our children and our children's children.

When companies cease operations and are unable to pay earned pensions to workers, there should be a federal pension insurance plan either alone or in combination with provincial plans that guarantees at least a minimum pension. The Ontario NDP government did bring in such a fund with a guarantee of $ 1,000 a month. Because this amount has not been adjusted since then, Harry Arthurs recommended that the Ontario government increase it to $ 2,500 per month. **CURC will lobby to secure such a fund**.

In fact, an increase in CPP and QPP to at least 50% would do much to lessen the burden on workplace plans.

Last but not least, pensioners deserve a say in the running of the pension plan as it is their money and deferred earnings that built it. This right has been won in Quebec. The Arthurs's report stated:

> every pension plan should be required to establish a pension advisory committee (PAC). A PAC should comprise at least five members, including one representative selected by retired members and one by each class or group of active members.

The CLC Convention in 2008 endorsed the concept. **CURC will continue to press for legislation to require participation of retirees in the governance of their pension plan.**

The CLC has made pensions a priority issue. CURC will fully participate in the CLC lobby for pensions and seek to make pensions a key issue during the next federal election.

There is no more fitting way to conclude this paper than with the Grace said by J.S. Woodsworth, who was key to the creation of the first federal old age pension plan in Canada, as we renew our commitment to join with the rest of the labour movement to fight for decent pensions not just for ourselves but for our children and our grandchildren.

> "We are thankful for these and all the good things of life.
> We recognize that they come to us through the efforts of our brothers and sisters the world over.
> What we desire for ourselves we wish for all.
> To this end may we take our share in the world's work and the world's struggles.

APPENDIX 1 - Short Overview of Pensions Legislation

1884 Bismarck introduces state pensions payable at 70

1898 New Zealand passed means tested old age pension. Applicants had to meet certain criteria to qualify for the £18 per annum pension. Proof was required that the applicant was aged 65 or over and that their income was less than £34 a year. They could not own property worth more than £50, and also had to have been resident in New Zealand for 25 years. Chinese excluded.

1908 UK introduces pensions payable at 70 at but at such a low rate (10 to 25 pence a week) that people would still have to work

1927 Canada introduces its first Old Age pension payable to those 70 years old whose income was $365 per year or less. It paid $240 per year. Status Indians were excluded. This advance was a result of deal that J.S.Woodsworth and A.A. Heaps made with Mackenzie King. See video of this at http://www.histori.ca/minutes/minute.do?id=10201

In 1930's , means test became more restrictive as some provinces insisted that seniors prove that their children could not support them and if they could in some cases they were obliged to sue their children for support.

1952 Old Age Security Act introduced a pension of $480 per year payable to those 70 years of age and without a means test

1966 Canada and Quebec Pension Plans introduced. They paid up to 25% of the average industrial wage. The figure was not higher as large companies said that they would provide plans for their workers. Insurance industry also wanted lower coverage so they could sell private plans. Only in 1988 were Indians working on reserves allowed to participate.

1967 Guaranteed Income Supplement introduced. It was means tested and provided benefits to bring person's income up to $720 per month.

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