
Pension options

*Comments on Canada's
retirement income system*

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Who we are

The B.C. Federation of Retired Union Members represents several thousand retired workers, and workers nearing retirement, throughout British Columbia. It is run by a volunteer Board of Directors.

We negotiate group rates on extended health insurance and other services that are needed by our members. We advocate on issues that affect the well-being of our members and their families.

Thank you

We thank the minister and the Government of Canada for recognizing the urgency, and for advancing the pension issue in discussions with other governments. We appreciate the opportunity to comment on Canada's retirement income system.

Retirement realities

Future retirees and governments examining our pension system can benefit from looking at the financial pressures facing retirees today.

Shrinking income and higher costs

For many, the pension that seemed adequate at age 65 has failed to keep up with rising costs. Many private pension plans have no inflation protection. By the time you reach age 85, that's a problem.

Recently, a BC FORUM member observed an elderly couple at the supermarket, counting how many slices there are in different loaves of bread. It breaks your heart. They were choosing their food based on how many days they can make it last, not nutrition, quality or taste.

For those who had no workplace pension, and relied on their own savings, it's also bleak. With falling financial markets and interest rates, savings have shrunk.

"I've run out of money," one person told us. He was a very high income earner – a surgeon. He planned carefully for his retirement. But after 20 years, the savings are gone.

British Columbia has the highest overall rate of poverty in the country, including among seniors. Twenty percent of single senior women live in poverty, and 11.6 percent of single senior men. For retired workers who are already squeezed financially, increased costs for long-term care, the HST, and Medical Service Plan premiums are serious concerns.

Family obligations

Future retirees should be forewarned that the sense of responsibility to family does not diminish with age. We all want our children and grandchildren to have a life at least as good as we have enjoyed.

An important part of that is owning a home. With B.C.'s high housing prices, this is increasingly difficult for young people.

Many current retirees sacrifice their own standard of living to help. It's a family obligation that cannot be ignored.

Considering the strong link between home ownership and good citizenship, it is a benefit to society as a whole – a reality that must not be ignored by governments examining our pension system.

Pre-retirement realities

Many Canadian workers nearing retirement are in a grim spot. More than six million workers have no workplace pension and no RRSP savings. A clear majority of workers have no workplace pension. The worst record is in B.C., where more than 70 percent of private sector workers have no pension other than the CPP.

Household debt is higher than it has ever been.

One third of workers have no retirement savings.

Many of those who have put away money for their retirement have lost a large portion of it as a result of the economic downturn, which has also threatened many private pension plans.

Additionally, in today's economy, workers change jobs frequently. They're not with one employer long enough to build up a pension, even if the employer happens to be one of the few who offer a pension plan. Given the well-publicized failures of some private pensions, they also have doubts that the company pension would be there for them in 30 years.

As a result of these factors, many workers, including those with good paying jobs, are justifiably wondering when or if they can retire.

With black humour, they talk about "Freedom 95."

The dream of early retirement

We note with concern the government's proposal to increase the penalty for early retirement. The current reduction in CPP payments of 0.5% for each month adds up to a 30% reduction for a worker who retires at age 60. Increasing the penalty to 0.6% would reduce workers' pensions by 36% for every year of their lives.

With many current retirees already struggling, we urge you not to make things worse for future retirees.

Security for people, not banks

When reforming and improving pensions, the first priority must be people. Pensions must be secure, adequate and fair to workers.

For this reasons, we are opposed to further expansion of the voluntary contribution schemes offered by banks and life insurance companies whose mandate is to generate profits for shareholders.

The *Globe and Mail* (April, 2010) reported that Federal Finance Minister Jim Flaherty seems to be leaning towards "a private sector solution" to address the shortcomings of Canada's retirement system. This is not a solution. It is part of the problem.

Private sector retirement plans are, almost without exception, defined contribution plans. They are designed to protect the profits of financial institutions, and leave the retirement incomes of workers to the vagaries of the market. For example, any worker unlucky enough to reach retirement age during a recession or financial meltdown will lose much of the retirement income that he or she had been counting on, and spent a lifetime of work to accumulate.

We urge Canada's finance ministers to meet the priorities of people, not the wishes of financial institutions which already collect disproportionately high management fees on workers' RRSPs.

Retirement with dignity

The CPP is financially sound. However, it pays much less than pensions in other OECD countries. It is certainly not enough to live on.

Nonetheless, the CPP is a solid foundation. It covers all workers. It spreads the risks and minimizes administration costs. It is portable so no worker loses his or her pension when changing jobs.

We urge the government to build on the strength of the CPP.

We urge the government *not* to give more encouragement to financial institutions that have already short-changed so many Canadians who are retired or nearing retirement.

Workers are not asking for a free ride. We know that improving pensions will cost money. We are ready to pay for that – but we want our money's worth. We want our contributions to go to better pensions, not more management fees and private profits.

We support the Canadian Labour Congress proposals to phase in improvements to the CPP over seven years. The proposals are based on the values of security, adequacy and fairness. While the proposals address the retirement needs of everyone, the full benefit would mainly be felt by workers who are under 45 today.

These proposals would:

- Double CPP benefits, financed by gradually increasing worker and employer contributions from 4.95 percent of salary to 7.8 percent over seven years. This will benefit

younger workers the most, and help ensure the next generation of workers can count on a dignified retirement.

- Immediately increase the Guaranteed Income Supplement by 15 percent to help lift seniors out of poverty. This would cost less than 3 percent of what is currently spent on tax subsidies for RRSPs and would immediately benefit the poorest seniors.
- Create a national pension insurance fund – similar to the insurance that protects deposits in banks or credit unions – to ensure workers’ defined benefit pensions are not at risk if their employer goes under or a speculative bubble bursts.

In our opinion, these proposals are fair and reasonable.

They will help provide financial security to the growing number of retirees, more civility to our society, and more stability to our economy.

No bank, bond holder or special interest should be able to take your pension away from you, and no special interest should profit unreasonably from workers’ retirement savings.

The unmatched level of security and scale that can be provided by an improved CPP will help ensure that retirement is something workers can look forward to, not a time they view with fear.

Again, we thank you for tackling this important issue, and for your consideration of the opinions of retired workers, and workers who are nearing retirement.

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