

## 1.9 Retirement and Seniors' Benefits

Many Canadians, working or retired, worry about financial security in their golden years. The reasons why aren't hard to find. Today's research on pension and income trends offers an unsettling picture.

Only 20% of Canadians working in the private sector have workplace pensions,<sup>1</sup> and almost one-third have no retirement savings at all.<sup>2</sup> Since 2002, over 300,000 high-paying manufacturing and resource sector jobs have been lost. Most new jobs are non-standard and precarious, and offer little room for retirement planning.

As of September 2005, Canadians owe more than they earn. Canada, like the U.S., now has a negative national savings rate, approaching 114% of earnings.<sup>3</sup> An alarming number of retirees — particularly single women, Aboriginal peoples, recent immigrants, and those with disabilities — still live in poverty.

These trends have produced a crisis outcome for working people and retirees. The “haves” with workplace pensions are told their benefits aren't affordable, and many fear losing them in corporate bankruptcy. The “have-nots” are either gouged by excessive RRSP fees, or forgotten altogether.

Despite these discouraging trends, there is good news: it doesn't have to be this way. To meet the needs of our ageing society, working people and retirees deserve better.

For this to happen, decision-makers face a key policy choice: move forward together, or fend for yourself? The answer to this question will determine federal policy on retirement and seniors' benefits.

Will Canada be ambitious, and expand pension coverage through Old Age Security (OAS) and the Canada Pension Plan (CPP)? Or will we ignore elder poverty, and a third of the workforce with zero retirement savings?

Will Canada protect workplace pensions, or will companies be allowed to rob workers' retirement savings? Will we create publicly-funded opportunities for elder care, or will working women continue to fill the gap?

In each case, the same policy choice applies: move forward together, or fend for yourself. At the moment, despite some improvements, the second choice is winning out on Parliament Hill.

Working people need policies to move forward together in retirement. Canadians shouldn't

have to “fend for themselves” while a select few hoard the pension wealth.

These are the measures the 2008 AFB will initiate:

### **Increase benefits for public pensions**

Canada’s public pension system, the OAS and Guaranteed Income Supplement (a sub-program of OAS which targets low-income seniors), offers a basic level of income security for Canada’s seniors.

The OAS and GIS exist because unions, the women’s movement, working people, and seniors campaigned for public pensions. They wanted seniors to have access to public pensions that would be indexed to wage increases and to the rising cost of living.

But benefit levels remain inadequate. As of January 2008, the maximum OAS monthly pension was \$502.31, and the maximum monthly Guaranteed Income Supplement (GIS) for single seniors was an additional \$634.02 (or \$418.69 per person for couples).<sup>4</sup>

Even with this low amount, the OAS and GIS played a major role in lifting seniors out of extreme poverty in recent decades. Because of this, some believe elder poverty has been solved. But this is hardly the case. Today, 257,000 seniors live below the low-income cut-off established by Statistics Canada, and 148,000 seniors earn less than \$10,000 per year.<sup>5</sup>

Particularly vulnerable are single women, recent immigrants, First Nations, and seniors with disabilities. Low-income rates for senior women, for example, are double those of senior men (8.4% compared with 3.2%). Most alarmingly, 20.3% of older women living alone live with low incomes — up 3% from last year.<sup>6</sup>

The 2005 and 2006 federal budgets increased GIS benefits by 7%, but this amounted to \$39 per month for individuals and \$58 per month for couples. This was a modestly positive step, but more must be done.

The AFB will increase GIS benefits a further 8% to strengthen public pensions for seniors. We estimate the cost of this measure to be \$600 million in the first year.

### **Expand the Canada Pension Plan**

As several researchers have noted, the best means to extend decent pension coverage involves expanding benefits for the Canada Pension Plan. The CPP covers the vast majority of working Canadians, and has a benefit design most workplace plans can’t match.

CPP benefits are indexed to inflation and portable across jobs. CPP benefits are available to same-sex couples, and sensitive to the needs of those who take time off work to raise children. The CPP’s Chief Actuary also confirms that the plan is financially sound until long after the “baby boom” retirement will end (2085).

The problem with the CPP (like the OAS and GIS) is its limited benefits. From its inception in 1968, the CPP was targeted to replace no more than 25% of the average industrial wage. As of January 2008, the maximum monthly benefit for individuals at age 65 was \$884.58, though many don’t qualify for this amount.<sup>7</sup> Also, because CPP benefits are solely based on contributions, equality-seeking Canadians (women, recent immigrants, workers of colour, First Nations, people with disabilities) fare worse, given lower earnings, their predominance in part-time jobs, and the time off many require for family responsibilities.

Though the CPP is an employer-worker funded benefit, it is governed by the Finance Ministers of federal and provincial governments. The federal government also plays an administrative role in designing the plan’s administrative framework and operating policy. Since 1997, CPP assets have been invested by an arms-length body (the Canada Pension Plan Investment Board) and, as of 2007, any benefit level changes require proposals to fund them in advance.

The AFB calls on CPP decision-makers to undertake an ambitious expansion of the CPP that will double benefits through one (or all) of the following methods:

- increasing the yearly maximum pensionable earnings (YMPE) for CPP contributions (currently \$44,900);
- raising CPP premiums for employers who do not offer workplace pensions; and
- initiating a modest CPP premium increase.

The AFB opposes any effort to create a so-called “defined contribution” or “money purchase” tier of the CPP. Such a reform could lead to the slow privatization of the CPP itself, where investment risk is borne by CPP holders.

The AFB also introduces an elder care or caregiving dropout period for CPP benefit calculations. This measure will assist those caring for family members with disabilities or older relatives.

**Enhancing the security of workplace pensions**

Canada is facing a protracted crisis in its manufacturing and resource sectors, one with serious implications for workers’ pensions. The lack of government action to address this crisis has intensified fears around waves of corporate bankruptcies.

As Industry Canada has observed in its own research, 10,000 to 15,000 workers every year suffer unpaid wage and pension claims in corporate bankruptcies.<sup>8</sup> Thousands of others have seen massive benefit cuts as bankruptcy proceedings favour claims by executives and “secured creditors” over the needs of working families.

On December 14, 2007, Parliament did implement some legislation to address this crisis. Bill C-12 introduced a new Wage Earner Protection Program to help workers recover some wage and pension losses in corporate bankruptcy. Bill C-12 also reaffirmed the integrity of collective

Policies that protect senior’s benefits are beneficial to women. There has been no comprehensive attempt to address women’s poverty in Canada. Existing programs and policies seem inadequate for the task and often work at cross-purposes.<sup>11</sup> Often when a benefit is offered by one level of government it may harm the recipient’s eligibility for other benefits at another level of government.

Increasing benefits for public pensions will benefit senior women. In 2003, the low-income rate for women aged 65 and over was 8.7% compared with 4.4% for senior men.<sup>12</sup>

Where Canada Pension Plan (CPP) benefits are based on contributions, many women only qualify for minimal benefits, Guaranteed Income Supplements (GIS) and Old Age Security (OAS), due to lower participation rates in the paid workforce.

agreements against judicial interference by pro-employer bankruptcy judges.

This was a positive step, but more must be done. To protect workplace pensions, the AFB will implement a national pension insurance plan funded by employer contributions, similar to the Pension Benefits Guarantee Fund that exists in Ontario. Such a fund will guarantee the workplace pensions (up to a certain limit) of workers whose pensions are put at risk in corporate bankruptcy. Provinces will also be allowed to participate in this system.

Federally regulated pension plans are governed by the federal Pension Benefits Standards Act. While the PBSA only applies to workplace pensions in the federal jurisdiction, its provisions can serve as a model for standards set by provinces and territories. The AFB will have the PBSA reviewed to ensure that the law and its application are focused on setting the highest standards of protection for the pension rights of workers and retirees.

## Registered Retirement Savings Plan (RRSP) Limits

In 2006, Canadians were allowed to contribute 18% of their previous years' income to an RRSP, to a maximum of \$18,000. The forgone federal tax revenue from the RRSP deduction amounted to an annual tax expenditure of \$8.445 billion.<sup>9</sup> A 2006 study by Statistics Canada found that RRSPs constitute less than 10% of the incomes of seniors, and overwhelmingly benefit those with above-average incomes.<sup>10</sup> Such higher RRSP contribution limits cannot be justified, so the AFB maintains the RRSP/RRP maximum contributions at the 2007 level of \$19,000. Maintaining maximums at this level will generate revenue to help pay for the proposed increases in GIS benefits.

## Notes

<sup>1</sup> Statistics Canada, "Pension Plans in Canada", *The Daily* (June 21, 2007). A additional note for readers: in this paper, the term "workplace pension" is used instead of traditional references to "registered pension plans".

<sup>2</sup> Statistics Canada, "Survey of Financial Security", *The Daily* (December 7, 2006).

<sup>3</sup> National Advisory Council on Aging, *Seniors on the Margins: Aging and Poverty in Canada* (2005).

<sup>4</sup> "Old Age Security — Canada Pension Plan (Rate Card)" (January 2008), [www.servicecanada.gc.ca](http://www.servicecanada.gc.ca). Benefits for GIS are also cut off for seniors with incomes of over \$36,500 per year, and OAS benefits (in 2007) were reduced back for seniors with incomes over \$63,511 (only 5% of seniors fall into this category).

<sup>5</sup> National Advisory Council on Aging, *Seniors on the Margins: Aging and Poverty in Canada* (2005).

<sup>6</sup> Monica Townson, "Financial Security for Women Seniors in Canada", paper prepared for the Canadian Association of Social Workers (September 2007)

<sup>7</sup> "Old Age Security — Canada Pension Plan (Rate Card)" (January 2008), [www.servicecanada.gc.ca](http://www.servicecanada.gc.ca)

<sup>8</sup> Industry Canada, "Backgrounder: Government Announces Reform of the *Bankruptcy and Insolvency Act* and the *Companies' Creditors Arrangement Act*" (June 3, 2005), [www.ic.gc.ca](http://www.ic.gc.ca).

<sup>9</sup> Department of Finance Canada, Tax Expenditures and Evaluations, 2006

<sup>10</sup> <http://www.statcan.ca/english/freepub/75-001-X1E/10406/art-1.htm>

<sup>11</sup> [http://www.swc-cfc.gc.ca/resources/consultations/ges09-2005/poverty\\_e.html](http://www.swc-cfc.gc.ca/resources/consultations/ges09-2005/poverty_e.html)

<sup>12</sup> [http://www.swc-cfc.gc.ca/resources/consultations/ges09-2005/poverty\\_e.html](http://www.swc-cfc.gc.ca/resources/consultations/ges09-2005/poverty_e.html)