



**Submission to the  
Alberta Finance and Enterprise  
Pension Consultation**

**Canadian Union of Public Employees  
Alberta Division**

**April 2010**

## Introduction

On behalf of the Canadian Union of Public Employees – Alberta Division we appreciate the opportunity to make this submission to the Alberta Finance and Enterprise Consultation on Pensions.

Retirement security for all Canadians is a very high priority for CUPE. As stated in the Alberta Consultation Paper “in the future many Albertans may find themselves without adequate retirement income”. This is an urgent and immediate concern for CUPE members, their families and all Albertans.

CUPE is actively participating in federal and provincial pension consultations as part of the efforts of our union to address this priority issue. The announcement of the Alberta consultation was welcome as an opportunity to contribute to “public input on ways to strengthen the provincial retirement system”. The consultation document states that the Government of Alberta has not approved or endorsed any of the options described. However a wide range of alternatives currently part of public debate in Canada were included in the interest of “stimulating public discussion”<sup>1</sup>. Increasing the Canada Pension Plan figured centrally among the options participants were asked to consider in the Alberta Finance and Enterprise Consultation Paper.

Despite the stated intention of the Alberta Finance and Enterprise Pension Consultation, it appears that public discussion and input on this and other issues identified in the consultation document is not likely be considered in the decision making process in Alberta. At the April 13<sup>th</sup> National Retirement Summit hosted by the University Calgary, the Calgary Herald reports that:

*Finance Minister Ted Morton is balking at aggressive reforms to the country's retirement income system, declaring Alberta won't support bolstering the Canada Pension Plan and may wait a decade before adopting a provincial option.*

*...Morton retreated on the province's former position to quickly proceed with pension changes, saying there's no rush to overhaul a retirement system that "is not broken."...*

*He cautioned against forging ahead too swiftly on reforms, rejected calls to boldly increase CPP contributions and questioned whether the retirement age of 65 should be increased.*

*"The problem is not immediate. The problem is also not universal," Morton told conference delegates.<sup>2</sup>*

We are very concerned when credible public consultation in Alberta is undercut by Government statements declaring that the issues have been decided - three days before the public submissions to the Alberta Consultation are due. It is an even greater concern that the Finance Minister's comments suggest that the system is “not broken” and “the problem is not immediate”. A very large number of Albertans and Canadians have a different view.

A significant poll of Ontario residents released this week indicated that some 86% of those surveyed feel that there is an “emerging retirement income crisis in Canada”.<sup>3</sup>

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<sup>1</sup> Alberta Finance and Enterprise Pension Consultation Paper. March 12, 2010, Pg 3

<sup>2</sup> **Calgary Herald**, Wednesday, April 14, Pg. A4

<sup>3</sup> **Hospitals of Ontario Pension Plan**, “Government must act on looming retirement income crisis: HOOPP”, Press release, 14 April, 2010

The Alberta Finance Minister's comments are not even in step with the views of his colleagues, as captured in a January 2010 paper published by the Steering Committee of Ministers on Pension Coverage and Retirement Income Adequacy:

*...workplace pension coverage has been steadily declining. Employers are not required to offer a pension plan... Today, sixty-seven percent of the Canadian labour force and three in four private sector employees are not covered by an occupational pension plan. This may not create a problem if other types of savings fill the gap. But evidence indicates that the average Canadian is not saving enough for retirement.<sup>4</sup>*

Pensions and retirement security have been identified as a priority across the country as the economic downturn undermined retirement plans, created income losses for retirees and focused attention on the broader issue of poverty for seniors. Public debate and media attention on the issue of retirement security underlines these concerns.

The challenges we face in order to address retirement security and poverty in old age in Canada are significant:

- 11 million Canadian workers have no workplace pension plan;
- Only one-in-five employed in the private sector belong to a workplace pension plan;
- Most Canadians aren't able to save enough to cover basic retirement expenses;
- Existing pension plans are under added stress because of the global economic meltdown, while employers are shirking their responsibility to ensure workers have decent retirement incomes.
- The RSP retirement savings model is struggling because too few Canadians are able to afford contributions. And the global meltdown has exposed individual RSP investors to extreme risk and significant financial loss.<sup>5</sup>
- Poverty for seniors and for women in particular continues to be an urgent concern. According to Statistics Canada low income cut-off (poverty line), "more than 14% of senior women on their own are living in poverty".<sup>6</sup>

The Alberta Consultation Paper presented a framework for addressing many of these issues based on the following Principles and Objectives:

- 1. Canadians should have effective means to achieve a smooth transition from work to retirement, suffering no significant drop in their standard of living.*
- 2. Individuals should have effective means to save sufficiently over their working lives to achieve income security in retirement.*
- 3. A pan-Canadian approach is preferred to facilitate labour mobility, protect retirement savings, and benefit from economies of scale.<sup>7</sup>*

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4 Steering Committee of Provincial/Territorial Ministers on Pension Coverage and Retirement Income Adequacy, "Options for increasing pension coverage among private sector workers in Canada," January 2010, accessed at:

[http://www.fin.gov.bc.ca/pension\\_plan\\_options\\_paper.pdf](http://www.fin.gov.bc.ca/pension_plan_options_paper.pdf)

5 <http://cupe.ca/pensions/securing-future-its-time-fix-canadas>

6 *What Can We Do About Pensions.* Monica Townson. **Canadian Centre for Policy Alternatives.** October 2009, Pg 3

7 Alberta Finance and Enterprise Pension Consultation Paper. March 12, 2010, Pg. 3.

Our presentation also addresses the goal of economic security for all Canadian seniors – in retirement from work, those who depend on spousal and survivor benefits from workplace pensions and CPP as well as Old Age Security/Guaranteed Income Supplements.

To achieve these goals, CUPE supports the Canadian Labour Congress position that includes:

- Doubling the benefits for the Canada Pension Plan (CPP).
- Increasing low-income (GIS) pensions by 15%.
- Introducing a national system of pension insurance.

In making these proposals, we are building on the same progressive values that changed our health care system supporting the development of Medicare more than forty years ago. We can make a similar choice for pensions today and create a system where no Canadian is left behind.

### **CUPE's Position – Summary**

*It is CUPE's position that the pension crisis should be addressed through a balanced approach that combines strong workplace pensions with public pension plans that cover all working people.*

*Strengthen the Canada Pension Plan (CPP) with a phased-in doubling of benefits to a maximum of about \$23,000 a year would offer secure and enhanced pension benefits for the 93 per cent of Canadians who make CPP contributions.*

*The CPP is extremely efficient – management and administrative fees are a fraction of those charged by mutual fund companies. Expanding benefits can be achieved with a very small contribution increase for workers and employers.*

*The guaranteed income supplement (GIS) must be raised to lift hundreds of thousands of poor pensioners out of poverty.*

*Better regulations are required to protect existing workplace pension plans from bankruptcy, high-risk investments and employer underfunding. Workers should never again have to pay for employer bankruptcies with their pensions.*

(<http://cupe.ca/pensions/securing-future-its-time-fix-canadas>)

## Why we should support expanding the Canada Pension Plan

The arguments for expanding the CPP as a priority to address retirement security are well documented. In a recent analysis, *Options For Pension Reform- Expanding the Canada Pension Plan*<sup>8</sup> by pension expert, Monica Townson, the strengths of the Canada Pension Plan are presented. This report includes the following points:

- *The CPP is seen as secure, reliable, cost-effective, and well managed...it is a defined benefit plan, guaranteeing retirement benefits related to earnings and years of contributions.*
- *(The CPP) covers virtually all Canadian workers, whether employed or self-employed, full-time or part-time; it is fully portable when workers move from one job to another; it is indexed for inflation; and it accommodates the different work patterns of women — for example, allowing parents to exclude periods when they had a child under age seven from the calculation of average earnings on which their pension will be based.*
- *(S)ince it is a social insurance program, the CPP also provides pensions for workers who become disabled.*
- *(T)he CPP is working well and providing pensions to virtually all Canadians, whether they have spent their adult lives in paid employment, or whether they are associated with those who have — as spouses and partners who may share a contributor's pension in the event of retirement, disability, divorce or death, or as other dependants who may be entitled to benefits on the death or disability of a contributor.*
- *Expanding the CPP, whether by increasing the replacement rate or increasing the level of covered earnings, or both, would address the issue of coverage, security of benefits and low cost of administration — all key objectives of pension reform.*
- *In an analysis of the fair value of a public defined-benefit pension plan, economists from the CPP Investment Board and the University of Toronto concluded that “partly-funded defined benefit plans like the CPP rely on both a fund and future contributions to meet future liabilities. They exploit economies of scale and pool longevity and investment risks across all participants. These features enable the CPP to deliver a low-risk benefit at a cost below that prevailing for risk-equivalent market alternatives” [James et al. 2009: 16]. ...*
- *Among ... advantages of the CPP cited by (David Denison, president and chief executive officer of the CPP Investment Board), he notes that, “by providing the certainty of a fully-indexed defined benefit, the CPP provides a predictable level of income and eliminates the risk that beneficiaries will outlive this element of their retirement income” [Denison 2009: 5].*
- *Reports from the current Chief Actuary indicate the CPP will be sustainable in the long-term and able to withstand economic and demographic ups and downs for at least the next 75 years — the projection period used in CPP actuarial reports — a finding which was endorsed by a group of independent actuaries who reviewed the most recent report.*

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<sup>8</sup> *Options For Pension Reform- Expanding the Canada Pension Plan.* Monica Townson. **Canadian Centre for Policy Alternatives**, April, pg 3-4.  
2010.<http://www.policyalternatives.ca/sites/default/files/uploads/publications/reports/docs/Options%20for%20Pension%20Reform.pdf>

The benefits of CPP expansion as an option for expanding retirement security are currently high on the agenda of debates underway across the country. Considering the importance of this debate for Albertans and all Canadians, it is essential that the debate on improving the CPP should not be pre-empted in Alberta as a result of statements by the Minister of Finance.

## **Supplementary Voluntary Defined Contribution Plans are *not* the Solution**

The supplementary, voluntary defined contribution pension plan option, as identified in the Alberta Pension Consultation has many problems. A major shortcoming relates to the “defined contribution” character of the proposal. The serious weaknesses in attempting to achieve a level of retirement security through the private markets and individual retirement saving accounts such as registered retirement savings plans or defined contribution pension plans has been clearly exposed. After years of paying outrageous fees that have eaten away at member accounts and the devastating effects of the financial meltdown, the use of individual accounts as a means of securing retirement income can no longer be considered as a model for securing a life-long adequate retirement income.

Creating a provincial or even national program based on a model of individual, defined contribution accounts will not address the high level of risk and dysfunction of this type retirement income system. If implemented, this approach would afford plan contributors and retirees significantly less pension and retirement income assurance than that found with the policy option of bolstering CPP benefits.

The voluntary aspect of employer participation is a major shortcoming of this policy option. If the objective of this consultation process is to find policy solutions that enhance pension coverage and retirement income security, then the voluntary character of employer and/or employee participation has to be seen as working at cross purposes with this objective. Voluntary employer participation represents a fundamental weakness characterizing the supplemental plan option.

Voluntary participation combined with the investment risks associated with individual defined contribution savings, additional costs of DC Fund management, and possible proposals for flexible contribution rates – all combine to undermine the security of retirement income that would be available to plan participants. In addition, participation in plans of this design might impart a false sense of security to participants regarding future income assurance or potential.

Other than the claim that a new “pension option” exists, the voluntary supplementary DC plan option provides no advantage over group RRSP’s from the point of view of the plan member, who continues to bear the risks associated with investment of retirement income. The limitations of RRSPs are well documented. According to a recent Statistics Canada report “The share of employed tax filers contributing to a Registered Retirement Savings Plan (dropped) from 41% in 1997 to 34% in 2008”.<sup>9</sup> This fact reinforces the comment made last year by Don Drummond, outgoing chief economist of the TD Bank: “After 50 years of promoting RRSP’s we have to conclude they haven’t turned out as envisaged. I don’t know why we don’t just recognize this and make the needed adjustments to the retirement income system”.<sup>10</sup>

By contrast, the CPP is an established pension plan with a long track record of managing the pension savings of working Canadians at very low cost. Unlike supplemental pension plan proposals, enhancing pension incomes through a doubling of CPP benefits would therefore incur virtually no new or additional administrative cost overhead.

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<sup>9</sup> *Participation in Private Retirement Savings Plans, 1997 to 2008. Statistics Canada*, March 2010

<sup>10</sup> *The Globe and Mail*. Wednesday May 6, 2009, Pg. A4

Most important, the CPP relieves individual working and/or low income Canadians of having to face potentially risky or ill-informed decisions regarding retirement investment, an area for which they may lack required expertise or background.

## **Pension Regulation and Retirement Security**

The issue of pension regulation and consideration of regulatory changes is raised by this Consultation Process as it was in the 2008 Alberta/British Columbia Pension Standards Review. CUPE Alberta's position on pension standards and regulation is contained in the joint CUPE BC/CUPE Alberta brief to the Alberta-BC Pension Standards review.<sup>11</sup> Many of the same concerns were raised in the Submission by the Alberta Federation of Labour to that same Review process.<sup>12</sup> The following points provide a summary:

- CUPE Alberta supports regulatory change which will strengthen our system of defined benefit plan coverage. Our current system of defined benefit pension plans has withstood many economic and financial crises and stands as a testament to the practicality, affordability and feasibility of defined benefit plan arrangements.
- CUPE Alberta does not support regulatory changes that address inadequate pension income with changes such as phased retirement that permit a worker to collect a portion of their pension benefit from the workplace pension plan and continue to work in the same workplace. We see these as potential increasing the pool of less the full-time workers and subsidizing employer payroll costs. Nor does the Union support proposals to increase access to locked-in pension benefits. Pension funds are created to provide a lifetime income on retirement, not a source of cash when needed.
- On the issue of pension surplus ownership, CUPE Alberta sees pensions as representing the deferred wages of workers. For this reason ownership of surpluses should belong to the plan members and should only be used for benefit improvements and not things like employer contribution holidays.
- CUPE Alberta supports efforts to maintain high standards of investment as regards the nature and type of securities acquired by pension plans. The past two years in particular has seen spectacular volatility affecting financial markets around the world. If anything, the lesson to be drawn from the experience should be one of avoiding having pension plans suffer the risk inherent in exposure to this kind of volatility. This kind of risk can only endanger the security of member contributions and plan entitlements.
- CUPE Alberta rejects the concept of “principles-based” regulation, seeing it as opening the path to plan deregulation and a downward harmonization of pension standards. In addition, the Union sees movement in this direction as invariably leading to greater liabilities and costs for pension plans and their beneficiaries.
- CUPE Alberta can support the concept of a national harmonization of pension standards but only if it entails movement in the direction of the highest standards of law, practice and experience in all of the provinces and territories.

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11 Specific details regarding pension regulatory changes endorsed by CUPE BC and CUPE Alberta are contained in the *Submission to Alberta / British Columbia Pension Standards Review*, February, 2008.

12 *Alberta Federation of Labour Submission to the Alberta/British Columbia Pension Standards Review Joint Panel*, March 2008.

## **Pension Reform – the Importance of Transparency and Accountability**

The Albert Finance and Enterprise Pension Consultation process is introduced with the following statement:

*All submissions become the property of the Government of Alberta and will be subject to the Freedom of Information and Protection of Privacy Act. All information received, including the names of organizations and individuals that provided comments may be used or disclosed in the future in accordance with that Act. For example, comments received will be shared with Alberta's provincial, territorial and federal counterparts but will not include the name and contact information of the submitter.<sup>13</sup>*

The issues at stake in charting a future course for pension system reform are of sufficient weight and importance that the review process must be beyond reproach in regards to openness and transparency. Any perception that policy choices emerging out of this review might be driven by interests and perspectives not fully disclosed can only compromise this integrity of the process and its outcomes.

For CUPE, the opportunity to participate in public consultation and debate on issues of importance to all Canadians is essential. The standards for participation must ensure transparency and accountability for the benefit of all groups and organizations involved. Every group or organization interested in the process and making a submission should have its proposals made available to any and all who care to review them, in a timely and accessible way.

Thank you for the opportunity to provide input to this Consultation on behalf of CUPE members in Alberta. Full public participation in the debates about options for the future is essential to achieve good pensions and retirement security for all Canadians.

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<sup>13</sup> Alberta Finance and Enterprise Pension Consultation Paper. March 12, 2010. Pgs 1 and 10