IS THERE LIFE AFTER WORK?

CSN

Demand
a decent retirement,
accessible to everyone

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“ Pension plans in the public and parapublic sectors are too generous, just like they are at large corporations. We do not have the means to maintain our current public pension plans. Saving for retirement is a personal responsibility, not a collective one. ”

These are the dominant themes in the current public debate.

The strength of pension plans, including defined benefit plans, (see glossary on page 13), has sharply deteriorated since the 2008 financial crisis. In several plans, returns of more than 10% in 2009 and 2010 helped offset losses caused by a 16% decline in 2008. But weak returns in 2011 and low interest rates reduced them even more. The media, employers and governments are all taking advantage of the situation to put pressure on pension plans, particularly defined benefit plans. Instead of finding solutions to ensure access to a decent retirement for all workers, the calls to reduce benefits from existing plans grow louder.

Governments are improvising to try to remedy the situation. Quebec introduced the Voluntary Retirement Savings Plan (VRSP). Not good enough, says the CSN ! Not only does it fail to require any obligation on the part of employers, it places the entire responsibility on individuals to accumulate the savings that would ensure them a decent retirement income. And the majority of workers who do not have a company plan will still go without a decent retirement income.

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individuals to accumulate the savings that would ensure them a decent retirement income. And the majority of workers who do not have a company plan will still go without a decent retirement income.

The federal government is no exception. In this time of economic uncertainty, Stephen Harper took advantage of his visit to the World Economic Forum in Davos to question the benefits and costs associated with the Old Age Security (OAS) pension. This was placed on the chopping block in the recent Flaherty budget, when it was announced that the age of eligibility would increase from 65 to 67 by 2029. As this universal program is one of the main pillars of the Canadian pension system, these cuts will have a domino effect on some of the system's other components and also on the cost of other social programs. He went ahead with this move, despite expert advice to the contrary, the absence of this issue in his electoral platform and any public debate.

The CSN does not deny that pension plans face real problems, both cyclical and structural: low interest rates, low returns, increased life expectancy. But we believe that political conservatives are exploiting the current crisis affecting several plans to attack their sustainability. For us, the establishment of pension plans, private and public, was and remains a key demand as a social measure during collective bargaining. It is a real challenge to ensure the population does not age in poverty and it's a challenge we must meet. There has to be life after work. This is why we demand a decent retirement that is accessible to all !

The publication of this document is the first step of a major education and awareness campaign on the pension issue. This campaign will explain the structure of our pension system and the challenges it now confronts. At the same time, we will stress the importance of solidarity as right-wing forces attempt to pit workers who have pension plans against those who do not.

WHEN WE TALK ABOUT OUR PENSION SYSTEM, WE REFER TO THE THREE PILLARS THAT SUPPORT IT. WHAT ARE THEY?

FIRST PILLAR: universal public plans such as the Old Age Security (OAS) pension and the Guaranteed Income Supplement (GIS) at the federal level.

SECOND PILLAR: public plans, but linked to employment, including the Quebec Pension Plan (QPP) or the Canada Pension Plan (CPP) for other provinces.

THIRD PILLAR: supplemental pension plans through companies and personal savings (example: RRSPs).

You will find definitions of these various programs and plans in the glossary on page 13.

WHAT WILL INCOME CONSIST OF WHEN WE RETIRE?

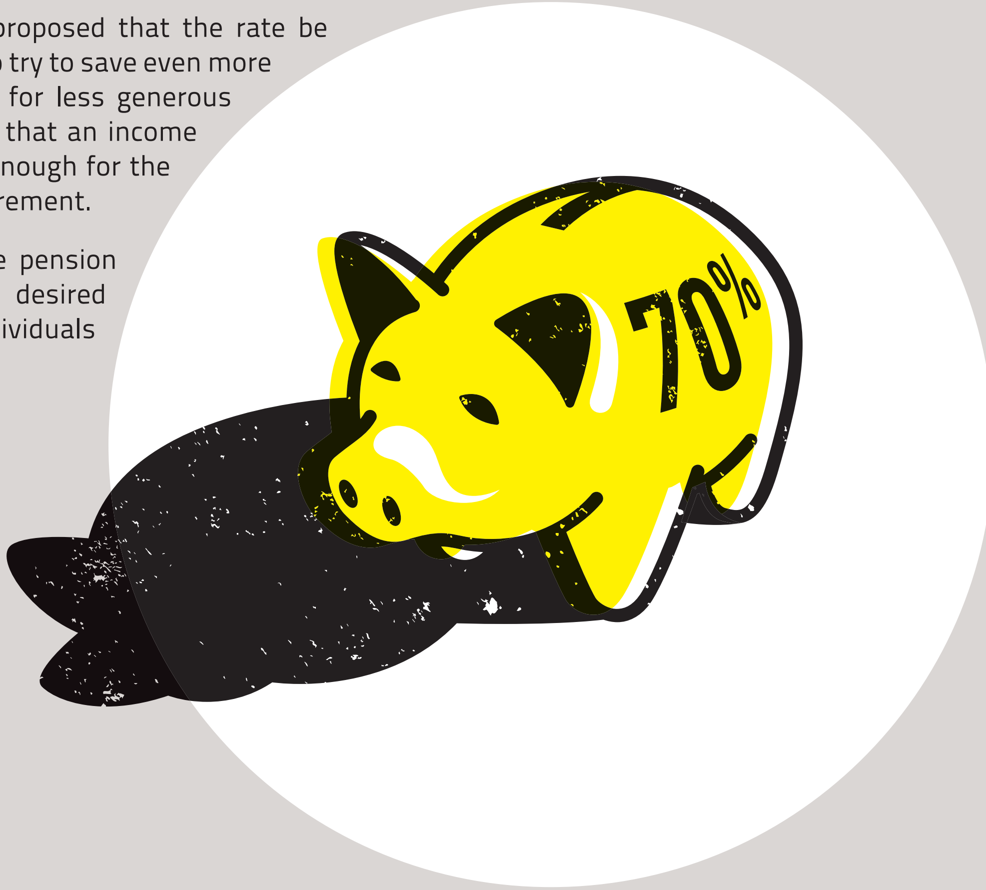
In Quebec, all retired workers will receive income from OAS when they turn 65 (and eventually 67) and from QPP when they turn 60. An annuity from a supplemental pension plan will be added to this if one exists in your workplace. The goal is for private plans to supplement income from government programs. Finally, if applicable in your case, you will receive money from RRSPs or other investments.

HOW MUCH INCOME WILL WE NEED WHEN WE RETIRE?

Until now, we have always estimated that a person needs the equivalent of 70% of pre-retirement income in order to have enough income to support him or herself at retirement. This is called the income replacement rate. There are concerns that governments are trying to challenge this premise through a review of the entire pension system.

Remember the Castonguay report proposed that the rate be lowered to 60%. This would force us to try to save even more individually in order to compensate for less generous public plans. We must acknowledge that an income replacement rate of 70% is still not enough for the lowest earners to enjoy a decent retirement.

Thus, as part of our analysis of the pension system, we must ensure that the desired income replacement rate allows individuals to receive enough income.

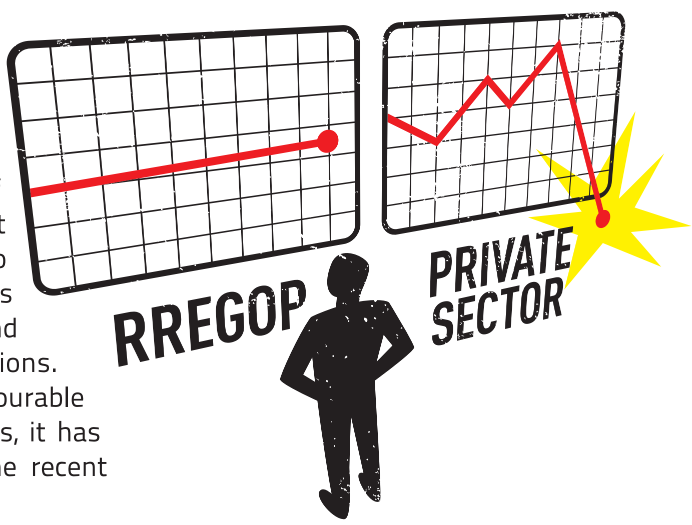


HOW MANY WORKERS HAVE ACCESS TO A SUPPLEMENTAL PENSION PLAN?

It's estimated that only 40% of Quebec workers benefit from a supplemental pension plan in their company. This means that 60% of workers do not have a pension plan and after retirement rely solely on public plans (QPP, OAS, GIS) and on personal savings for their retirement income. Furthermore, the presence of a supplemental pension plan does not necessarily mean a "golden retirement."

WHAT DISTINGUISHES QUEBEC'S PLAN FROM SUPPLEMENTAL PLANS IN THE PRIVATE SECTOR?

The Government and Public Employees Retirement Plan (*Régime de retraite des salarié-es de l'État québécois*), called RREGOP, consists of two separate funds. Each party, the government and employees, has assumed half the costs of the plan and the payment of benefits to retirees since 1982. The government is responsible for one of these funds and no money is added to the account. Rather, it is a debt recorded on the government's books and is not subject to financial market fluctuations. Though this historic decision has been unfavourable to the government in periods of strong returns, it has allowed the government to easily weather the recent financial crisis.



The other fund consists of contributions from workers paid into an account managed by the Caisse de dépôt et placement du Québec. Workers assume the risk for this and their contribution rate can vary. Since the collapse in 2008, the rate has risen and now stands at nearly 9% of their pensionable earnings. It is not true to state that taxpayers pay for this.

IS THE PENSION BURDEN OF GOVERNMENT AND PARAPUBLIC WORKERS NOT SUSTAINABLE?

The right-wing propaganda machine has already launched its campaign to discredit government and parapublic service employees. The various voices in this highly orchestrated echo chamber all claim, falsely, that taxpayers fund all of these public sector workers' retirement benefits while invariably noting that many of these overburdened taxpayers will have to struggle through their own retirement years without a pension plan.

Remember, for example, that the RREGOP was designed like many other plans to allow government employees to achieve an income replacement rate of 70%. According to the latest actuarial valuation, the average pension of RREGOP retirees is $21,847 per year before age 65 and $8,979 after age 65. The RREGOP plan is coordinated with public plans, meaning it is reduced at age 65 to take into account the benefits received from QPP and OAS.

If we properly understand the propaganda pressure mounted by the political right, it is abhorrent that the government uses difficulties faced by company plans to attack gains by RREGOP.

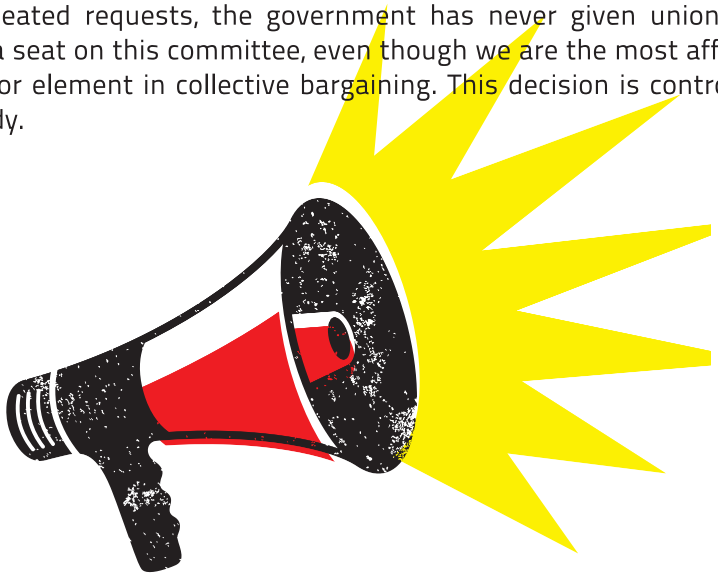
WHAT IS THE VOLUNTARY RETIREMENT SAVINGS PLAN (VRSP) THAT THE QUEBEC GOVERNMENT ANNOUNCED IN ITS LAST BUDGET?

On the day the budget was tabled, CSN representatives stated the Voluntary Retirement Savings Plan (VRSP) was a mistake, a false solution to a real problem for a majority of workers who do not have a supplemental pension plan.

This measure places the obligations and risks associated with retirement on the shoulders of individuals. The CSN believes we must collectively ensure that retirees do not live in poverty. Of course, we support personal savings, but employers also have a responsibility to contribute to the retirement of their employees. One question remains for the CSN: why is the government so eager to impose this system before an expert committee has had a chance to complete its analysis of the pension system? This is putting the cart before the horse! The CSN, along with other union and employer groups, demands that a tripartite committee – consisting of government, employer and union representatives – be struck to study the entire system.

WHY ARE WE DISSATISFIED WITH THE EXPERT COMMITTEE SET UP BY THE QUEBEC GOVERNMENT?

Despite our repeated requests, the government has never given union organizations and employers a seat on this committee, even though we are the most affected. Pension plans are a major element in collective bargaining. This decision is controversial, not to mention foolhardy.



WHAT ARE THE MAIN CHALLENGES FACING OUR PENSION PLANS?

It is often said that pension plans are facing the perfect storm because all the negative elements that can affect their costs are in play: low interest rates, low returns and increased life expectancy.

A lot of money is lost to problems in the operations of financial markets. Low interest rates reduce the capacity of plans to meet their obligations. Increased longevity, of the assets as well as the retirees, increases the costs associated with promised pensions. Add to this a large mass of workers who are reaching retirement age at the same time with fewer workers to replace them. The result is a reduced workforce to financially support the plans.

WHAT IS THE IMPACT OF RECENT FEDERAL DECISIONS?

In his budget delivered on March 29, 2012, Minister Flaherty attacked both the retirement system of the Canadian population and the pension plans of government and Crown corporation employees.

First, his decision to gradually increase the eligibility age for OAS from age 65 to 67, for people born after April 1, 1958, penalizes those with the lowest incomes. Many will have no other choice but to rely on social assistance two years longer or to prolong their working life for this period.

This decision also calls into question the structure upon which the coordination of various plans in the retirement system is based. Remember that this complex web is based on what is called a coordinated annuity.

We must distinguish the eligibility age for OAS from the legal retirement age. Tax law determines the legal age; it is currently age 65. The greatest impact is perhaps yet to come if the government decides to amend the tax law to increase the retirement age from 65 to 67, as it just did for the OAS. In all likelihood, if this change is made then supplemental plans will follow and the first eligible year of retirement will no longer be age 55, but age 57. Currently, several supplemental plans provide compensation for the QPP and OAS until the retiree is eligible to receive them. This is called a bridge. However, supplemental plans provide for a bridge until age 65 and not until age 67. So there will be significant pressure to adjust pension plans if the tax law is amended to this effect.

The Conservative government decided to amend the OAS against the advice of experts who believe this program is sustainable over the long term and despite the fact that our situation does not compare to many other OECD countries that chose to increase the retirement age (see box). As we have seen, if nothing changes, it will certainly have a very damaging effect on the poor and working poor who will be forced to delay their retirement. As well, supplemental plans may face further constraints and individuals will be required to further increase their personal savings.

THE NUMBERS

- In 2012, the Office of the Chief Actuary of Canada predicted that the cost of federal benefits to seniors, compared to the gross domestic product (GDP) currently at 2.2%, will reach 3.1% in 2030, and decrease thereafter.
- The Parliamentary Budget Officer arrived at roughly the same numbers. The cost of federal benefits to seniors will reach 3.2% of GDP in 2036, and decrease thereafter.
- In its report entitled *Canada's Retirement-Income Provision: An International Perspective*, the OECD calculated the Canadian government will spend 4.5 % of GDP, a percentage much lower than the OECD average of 7.4%. The OECD report concluded that no foreseeable financial pressure justifies delaying the age of access to retirement benefits in Canada.

WHAT HAPPENS TO THE PENSION PLAN FOR FEDERAL EMPLOYEES?

Minister Flaherty's budget unilaterally modified the pension plan of federal public servants and employees of Crown corporations. They will see their retirement age move, without actuarial penalty, from 60 to 65 and the employer's contribution will decrease from 64 to 50%. New employees will pay more for less.

HOW IS THE CSN REACTING TO THE PENSION PLAN CRISIS?

The CSN is leading a campaign to:

- Inform and mobilize its members;
- Develop alliances in Quebec and Canada to confront the attacks and go on the offensive;
- Mobilize public opinion about the need for a decent retirement for everyone;
- Force the Quebec government to include unions and employers in this debate;
- Develop new models to cover those who do not have a supplemental plan;
- Protect defined benefit plans and improve defined contribution plans;
- Share responsibility for pensions among individuals, employers and governments.

GO ON THE OFFENSIVE

The magnitude of the attacks on pension plans effectively compels us to go on the offensive. There must be discussion within our ranks about the immediate challenges we face. We have to continue our work with the federations to develop possible solutions allowing us to guarantee a decent retirement for everyone. This work is based in particular on propositions adopted during the last two CSN congresses, everything from a proposition on the development of new bargaining policies allowing unions to maintain and improve their pension plans to a demand for the pension plan system to be reformed so it relies on shared responsibility between governments, employers and workers.

These propositions also promote the introduction of sectoral pension plans. We have already made progress for workers in CPEs, small municipalities, as well as paramedics. For the CSN, public plans are the cornerstone of our pension plans. We will continue to defend them and also ensure that necessary improvements be made so the plans fully realize their role.

Our work can also allow us to develop new opportunities. We have to take the diversity of workplaces into account, the reality of each, as well as work led by other players. Knowing that governments are reviewing our pension plan system from the ground up, it is essential to form alliances and seek the involvement of our unions and our members to counter their plans. Our pension plans are the only tool to ensure that workers do not grow old in poverty. We must protect these plans and also extend them to cover as many people as possible.

For those of us at the CSN, the scandal is not that we were able to negotiate plans to lift workers out of poverty, plans that enabled them to live and not simply survive. We believe it's outrageous that governments are now trying to impoverish workers and forcing them to bear the responsibility for the unpredictable results of the financial markets and the economy.

GLOSSARY

WHAT IS THE OLD AGE SECURITY (OAS) PENSION?

- You must be a Canadian citizen to qualify;
- The universal fixed amount paid is payable at age 65 until 2023 and at age 67 starting in 2029. There will be a gradual transition from 65 to 67;
- In January 2012, the annual benefit paid was $6,481.44;
- However, this payment is reduced for income exceeding $69,562;
- OAS is funded by the Consolidated Revenue Fund of Canada.

WHAT IS THE GUARANTEED INCOME SUPPLEMENT (GIS)?

- GIS provides additional income to low-income seniors. This annual benefit can reach $8,788.32;
- To qualify for the GIS, you must be eligible for the OAS and your combined family income must not exceed a specific amount;
- If in addition to the OAS ($6,481.44), you receive income equal to or greater than $16,368 (in June 2012), you will not be eligible for the GIS benefit;
- GIS is funded by the Consolidated Revenue Fund of Canada.

WHAT IS THE QUEBEC PENSION PLAN (QPP) OR THE CANADIAN PENSION PLAN (CPP) IN OTHER PROVINCES?

- The QPP or CPP are programs linked to employment;
- The benefit is based on employment earnings;
- The objective is for these programs to replace about 25% of income during retirement;
- To receive the maximum QPP benefit, you must earn wages equal to the maximum pensionable earnings (example, $50,100 in 2011), and this, for at least 35 years;
- In 2010, the average benefit paid by QPP was $5,432 annually compared to the maximum benefit of $11,210.

GLOSSARY – CONTINUATION

WHAT IS A DEFINED BENEFIT PLAN?

- The implementation of such a plan is the subject of negotiations between the parties in unionized workplaces;
- The income amount is known and based on a fixed amount or a percentage of salary;
- Contributions are made by the employer or by the employee and the employer;
- An actuarial valuation determines the contributions required to ensure sustainability of the plan;
- A large part of the risk is assumed by the employer;
- Contributions are made into a global fund.

WHAT IS A DEFINED CONTRIBUTION PLAN?

- The implementation of such a plan is the subject of negotiations between the parties in unionized workplaces;
- Contributions are made by the employee and the employer;
- These correspond to a percentage of salary;
- Contributions are credited to individual accounts;
- They accumulate with interest;
- At retirement, the amount is used to purchase an annuity;
- Risks are assumed entirely by the worker.

HOW LONG IS THE BRIDGE?

The QPP benefit cannot be paid until age 60 and eligibility for OAS will gradually rise from age 65 to 67 for those born after April 1, 1958. Supplemental company plans that include a bridging pension aim to fill in the income an individual will receive until they become eligible for these two programs. For example, if you retire at age 58, as QPP cannot be paid until age 60, your plan may include rules to offset the shortfall from age 58 to 60. The same goes for OAS until age 65.

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