

Pension Reform: An FY two-part special report

THIS MONTH: Problems and Proposals. It has become clear to all, from the poorest pensioner and the nervous boomer right up to Canada's federal and provincial finance ministers, that our patchwork system of public benefits and pension plans, workplace plans and private savings mechanisms is leaving too many retirees behind. We review the problems and proposed solutions.

NEXT MONTH: The Way Forward. Analysis and commentary in the wake of the December Whitehorse Federalprovincial conference on retirement income.

It's time for pension reform

Reforming Canada's retirement income system

By Christopher Guly

Something is wrong with Canada's myriad pension systems when hard-working, frugal Peggy Ross, 83, of London, Ont., having prepared her retirement nest-egg with the utmost care, finds she now has to disrupt her life and downsize to stretch her retirement savings.

Since coming to Canada in 1948 as a war bride, the Scottishborn Ross never collected employment insurance and always paid income tax – “sometimes a goodly amount” – as a result of her job with the onetime telecommunications titan Nortel.

She spent over 27 years working on the assembly line making telephones for what was then known as Northern Telecom Ltd., and for the past two decades has been collecting a pension from her former employer.

But now Ross, like nearly 17,500 other former Nortel employees, could see her pension reduced by up to 40 per cent as a result of the company's significantly under-funded pension plan as Nortel restructures and sells off its remaining assets after filing for bankruptcy protection last January. Gone too will be her retiree benefits, including life insurance and dental coverage.

Before any cuts to her current Nortel pension, Ross, a widow, now only earns a little more than \$2,000 a month from it along with extra income she draws from the Canada Pension Plan (CPP) and Old Age Security (OAS).

“I used to have a two-bedroom apartment, and thought if Nortel is going to take all that money off me, I better downsize to a one-bedroom so it would cost me less in rent,” says Ross, who moved in early October to a one-bedroom.

“I have to think of all those things because at my age, I can’t go and find a job. Who would want to hire me?”

Though younger at 68, Lillian Playford is in the same boat as Ross.

She also worked at Northern Telecom’s plant in London before it closed in 1994, draws a monthly retirement income from her Nortel pension, CPP and OAS – and faces the same significant cutback to the Nortel portion.

“You work and then you retire, thinking you can count on a decent standard of living,” says Playford. “I’ve been frugal, drove older vehicles and never lived beyond my means – and now a lot of my retirement income is going to disappear.” With less income, she expects to sell her house and downsize into a smaller home.

Ross would like to see pensioners placed at the front of the line before creditors and executive bonuses when a company, like Nortel, fails. Meanwhile, Playford thinks all employers should provide guaranteed pensions to their employees whether workers contribute to them or not.

Those two ideas are among the many supported by politicians and pension experts across the country at a time when reforms to Canada’s retirement income have been debated in recent months, leading up to an important federal-provincial conference that took place in Whitehorse, Yukon in December.

In early November, federal NDP pensions and seniors critic Wayne Marston tabled a private member’s bill (C-476) before the House of Commons that would close the loopholes in both the Companies’ Creditors Arrangement Act and the Bankruptcy and Insolvency Act (BIA) to ensure that pensions are given priority status when a company either files for bankruptcy protection or declares bankruptcy. Liberals in the Senate proposed a similar measure but were opposed by Tory senators as well as Conservative MPs and the Liberal’s own finance critic, Ontario MP John McCallum.

“Pensions are deferred wages and deserve the same treatment as unpaid wages,” says the 62-year-old MP Marston, a retired Bell Canada technician, who has represented the Ontario riding of Hamilton East- Stoney Creek since 2006.

As part of its retirement-security plan, the NDP has also called for a \$700-million injection into the Guaranteed Income Supplement (by cancelling the \$1.2-billion corporate tax break scheduled for January 2010); a doubling of the CPP (from \$908 to \$1,817 a month within seven years, a move that has been endorsed by both the Canadian Labour Congress and the Canadian Centre for Policy Alternatives); and the establishment of a national pension-insurance program, funded by a plan sponsor, in which pensioners would receive a minimum of \$2,500 a month in the event of bankruptcy or plan failure.

“Anybody working for Nortel in the U.S., Britain, Saudi Arabia have guaranteed pensions, but not in the country that started the company,” says Marston, who adds that the NDP has also proposed the creation of a national program – administered by the CPP – that would “adopt” the workplace pension plans of companies that have either declared bankruptcy or are in financial difficulty.

The reforms were developed after Marston held two roundtables and a “listening tour” on pension reform that took him to 19 communities across Canada over the spring and summer. Last February, he also met with representatives from the National Pensioners and Senior Citizens Federation.

Ted Menzies, parliamentary secretary to Finance Minister Jim Flaherty, also held his own cross-country consultation on pensions.

Since then the Tories and Liberals have come up with suggested changes to retirement income.

Liberal Leader Michael Ignatieff recently called for the creation of a “Supplementary Canada Pension Plan,” or SCPP, to which Canadians could contribute on a voluntary basis. The Liberals also wants to give pension-plan beneficiaries the option to pool their plans with the CPP if their plan’s sponsor goes bankrupt – a measure currently in place in Quebec with the QPP. Currently, when a company declares bankruptcy, pension assets are converted into annuities, which can lead to major losses in the value of the pension when financial markets tumble.

On the Conservative government side – in advance of a mid-December meeting in Whitehorse in which a federal-provincial task force on retirement income was to consider a report written by University of Calgary fiscal and tax policy expert Jack Mintz for the country’s finance ministers – Flaherty unveiled reforms to federally regulated pension plans that only cover about seven per cent of Canadian plans.

One of the key proposals would restrict an employer’s ability to take a “contribution holiday” unless they are running a funding surplus of at least five per cent, as opposed to the current rules that allow such a break as long as the plan has no deficit.

Whatever the solution, some change is required to provide a financial boost to the nearly one-third of Canadians currently with no retirement savings and those who will follow, argues Marston.

“Most people aren’t saving at all – they’re struggling to get by, with purchasing power today the same as it was 20 years ago. So if we had the CPP doubled, at least we’d have a floor for them to build some retirement income in the future.”

Scott Perkin, president of the Association of Canadian Pension Management, says that while Canada’s public retirement income system (CPP, OAS, GIS) provides protection for seniors, governments could do more to provide incentives to employers and employees to develop workplace pensions.

However, time will tell whether they continue to evolve from defined-benefit plans (favoured by unions) to defined contribution plans, which companies prefer and to which employees contribute over time to “hopefully meet their expectations at retirement,” says Perkin.

For pension expert Keith Ambachtsheer, the solution is a “Canada Supplementary Pension Plan,” or CSPP – an idea the federal Liberals have embraced as the SPCPP and which Alberta and B.C. also support – that would establish an inflation-indexed, income-replacement target of 60 per cent for middle-income workers that would include CPP and OAS. The new plan would feature a default contribution rate of 10 per cent on income over \$30,000, up to the maximum tax-deferral limit on income (\$116,667 in 2009). All Canadian workers without workplace pension plans would be auto-enrolled in the CSPP, with an option to opt out. Contributions would be deposited into personal pension accounts.

He also proposes the creation of an arms-length agency to manage the CSPP.

The defined-contribution-based supplementary pension scheme would allow people “to sensibly build up retirement savings accounts administered by experts, at low cost, who act in their interests,” explains Ambachtscheer, the 67-year-old director of the Rotman International Centre for Pension Management at the University of Toronto.

He says that other countries, such as the United Kingdom (Personal Accounts Delivery Authority) and New Zealand (KiwiSaver), have introduced plans similar to the CSPP to provide coverage for privatesector workers without workplace pension plans.

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