

Special Report on Pensions: PART 2

Finance Ministers will follow up on Whitehorse conference with meeting in May in hopes of ‘pan-Canadian’ solution to pension shortfalls

By Christopher Guly

Come income-tax filing time, Bill Scandlan will again be helping fellow members of the Steelworkers Organization of Active Retirees and other seniors in Hamilton with their annual returns.

The 85-year-old retiree has been providing this service for years through the federal government’s Community Volunteer Income Tax Program for low-income Canadians and is fully aware of the limited financial resources often available to seniors.

On average, the seniors Scandlan sees survive on \$17,000 or \$18,000 a year – though, as federal Liberal seniors and pensions critic Judy Sgro has pointed out, 1.6-million Canadian seniors live on less than \$15,000 annually. Scandlan has visited those folks in their homes and has seen how they barely get by.

“When I get there it’s sometimes pretty goddamn cold in the house because they can’t afford the heat. So they have on a couple of sweaters and an extra pair of socks pulled over their slippers because they want to keep warm. And they’ll say things like, ‘Pardon me for it being chilly in here, but I just can’t afford the high price of oil,’ which is over 90 cents a litre,” said Scandlan, who spent 43 years as a steelworker, most of it as a staff member of the United Steelworkers.

He believes that while politicians, financial executives and pension specialists crunch numbers to figure out the future viability of public and private pensions and retirement-income programs, older and impoverished Canadians are mostly forgotten in the proceedings.

“These experts use a whole lot of statistics, but they’ve never gone into the homes of some of these people to see how they exist,” said Scandlan, a former Hamilton alderman who thrice ran as a candidate in for the NDP and its predecessor, the

CCF. “In Toronto, where rents are so bloody high, seniors are forced to live in a one-room shack.”

To help these older Canadians, “who built this country, worked long hours and paid their taxes,” Scandlan would like to see the federal government combine the Canada Pension Plan (CPP) and Old Age Security (OAS) into one program that would pay out benefits upon retirement based on three-quarters of a person’s income. His idea would provide extra retirement income for Canadians who have no private pension beyond their own savings, he added.

Last June, all parties in the House of Commons supported a motion by NDP pensions and seniors critic Wayne Marston that called on the Harper government to increase the CPP (which covers 93 per cent of workers), OAS and the income-tested Guaranteed Income Supplement program.

The idea is one of many under consideration, says Ted Menzies, who serves as parliamentary secretary to federal Finance Minister Jim Flaherty. “All options are on the table.”

In December, Flaherty met with his provincial and territorial counterparts in Whitehorse to discuss ways to reform Canada’s retirement-savings system.

Following a cross-country round of public consultations on the issue, they are expected to meet again in late May to decide on what Menzies describes as a “pan-Canadian model” based on the various options put forward. They include establishing a national, voluntary supplementary pension plan that would include the CPP and OAS – an idea advocated by pension expert Keith Ambachtsheer and embraced by the federal Liberals as well as Alberta and British Columbia.

Another reform would be at the regulatory level to give financial-services firms more flexibility to establish group savings plans. Or, as Marston proposed with his private member’s bill (C-476, also known as the Nortel Bill), loopholes could be closed in both the Bankruptcy and Insolvency Act and the Companies’ Creditors Arrangement Act (CCAA) to ensure that pensions are given priority status when a company either files for bankruptcy protection or declares bankruptcy.

Menzies told *Forever Young* that the country’s finance ministers will also examine ways to promote “financial literacy” to educate Canadians on the importance of properly planning for their retirement.

“You can’t just expect to spend all your money as life goes by and expect someone else to pay for your retirement. There is some responsibility on individuals to prepare for their retirement,” said Menzies.

He suggested that while Canada’s retirement system “isn’t perfect,” it is “working well. And despite losses experienced during the recent economic downturn, pension funds have recovered and those that are federally regulated will be subject to reforms Flaherty unveiled last year.

“We want to ensure that pension funds stay close to being fully funded so that if a company goes into receivership, pensioners get 100 per cent of what was promised to them. We will see the day when pension funds are dealing with surpluses rather than shortfalls,” explained Menzies.

In his summary report on “retirement income adequacy” presented to the finance ministers who met in Whitehorse in December, University of Calgary fiscal and tax-policy expert Jack Mintz concluded that Canadians are “by and large, doing relatively well in ensuring that they have adequate savings for their retirement.”

In an interview, he explained that some of it takes the form of residential real estate equity, which represents \$1.9-trillion (non-taxable when the houses are sold) of the \$5.9-trillion in assets held by Canadians, as of the third quarter of 2009, according to data from Statistics Canada.

The 29-page report found that some 80 per cent of all Canadian households save enough through public pensions, tax-assisted savings accounts and other investments to replace 90 per cent of their working income in retirement.

But one in five households – with incomes between \$30,000 and \$100,000 – might not have enough in retirement.

And, contrary to the popular belief that the most vulnerable Canadians are seniors in the low-income bracket, research suggests that they are “relatively well taken care of” by public pensions, said Mintz, former president and CEO of the conservative, Toronto-based C.D. Howe Institute.

His report states that OAS-GIS, CPP and its Quebec counterpart, and provincial top-up programs provide “high” income replacement rates of about 90 per cent for low-income Canadians earning \$20,000 – and in some instances, “even exceeding 100 per cent” – giving Canada the distinction of having one of the lowest poverty

rates (4.4 per cent in the mid-2000s) for seniors among OECD (Organization for Economic Co-operation and Development) countries, which had an average seniors-poverty rate of 13.3 per cent.

A key factor is whether the worker, or retiree, has a private pension plan in place. Ontario's NDP has called for an Ontario Retirement Plan that would broadly expand the CPP to assist the 65 per cent of Ontarians who lack a pension plan. Nationwide, it's estimated that 11-million private-sector employees – or about 60 per cent of all workers – have no employer-backed pension plan while a 1997 Canadian Institute of Actuaries study found that only about one-third of Canadian families have any significant retirement savings.

Both Mintz, 58, and Menzies, 58 in February, expect employers to introduce or return to offering defined-benefit plans – which provide retirees with pensions based on their working years and salary levels, rather than defined-contribution plans that provide benefits based on the investment performance of the plan held by an individual – to attract and retain employees.

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