

# Submission to the Standing Committee on Finance

Pre-budget consultations August 14, 2009

## ***Pension Reform - The status quo is not an option***

The current economic crisis has focused public attention on the role of government in the economy to such an extent that no politician can choose to do nothing.

This has led to unprecedented levels of government bail outs and stimulus spending which are aimed at pulling the economy out of its nosedive. Missing however, are adequate measures to provide a soft landing for those most affected and least able to change their own circumstances.

There has been growing recognition that Canadians are not saving enough for their own retirement and that even those with workplace pensions are at risk in 'the current economic climate. Incremental, or minimalist, change is no longer acceptable to a growing segment of the Canadian public, not least because this market turmoil has reached deeper and wider than ever before. This crisis has exposed the flaws in the existing pension regulatory regime which fails to protect pensioners when their employers face insolvency. So now, people with "guaranteed" pensions find common cause with the people, without such pensions, watching their RRSPs evaporate. And with or without this crisis, government has a direct role in addressing the legitimate expectations of the low wage sector.

CARP is a national, non-partisan, non-profit organization with 350,000 members across the country. CARP is committed to advocating for social change that will enhance the quality of life for all Canadians as we age. One of our advocacy priorities - financial and retirement security - has gained prominence publicly and among our members in the current market chaos. These are our recommendations to help older Canadians weather the economic storm.

### **Urgent reform is needed in all Four Pillars of Canada's Retirement system:**

- 1. Pillars One and Two – increased Public Pensions to Prevent Poverty**
- 2. Pillar Three – Pension Reform to rebalance the interests of employers and employees and to provide a universal pension plan for those without workplace pensions**
- 3. Pillar Four – Support for Family Caregivers**

## ***Retirement Security for All***

The core goal of any country's pension system is to provide an adequate system available to the full breadth of the population that is sufficient to prevent poverty in old age. It must be affordable by employers and employees and other participants and robust enough to withstand major shocks, including economic, demographic and political volatility.<sup>1</sup> Recent events have demonstrated that Canada's retirement system is not meeting this goal.

There are dramatic inequities. Ninety percent of private pension savings are held by only thirty-one percent of family units [who have \$100,000 or more in savings]. While 85 percent of public sector workers have an employer sponsored pension plan, only 26.4 percent in the private sector have access to such a plan.<sup>2</sup>

<sup>1</sup> [http://siteresources.worldbank.org/INTPENSIONS/Resources/Old\\_Age\\_Income\\_Support\\_FM.pdf](http://siteresources.worldbank.org/INTPENSIONS/Resources/Old_Age_Income_Support_FM.pdf) Holzman, Robert, 1949– Old-age income support in the 21st century : an international perspective on pension systems and reform / Robert Holzman, Richard Hinz.  
[http://siteresources.worldbank.org/INTPENSIONS/Resources/395443-1121194657824/PRPNoteConcept\\_Sept2008.pdf.pdf](http://siteresources.worldbank.org/INTPENSIONS/Resources/395443-1121194657824/PRPNoteConcept_Sept2008.pdf.pdf)

<sup>2</sup> 2005 Survey of Financial Assets, Statscan

Nearly 30 percent of Canadian families have no retirement savings. Also without retirement savings are 45 percent of unattached individuals, 27.5 percent of Canadians over 65 years of age and 23 percent of those 45-plus and 55-plus.<sup>3</sup> It is estimated that one in three working Canadians retire without any retirement savings.

And despite the success of public pensions in dramatically decreasing the rates of poverty among Canadian seniors over the past twenty years, the prevalence of poverty among Canadian seniors is still unacceptable; not only in their raw numbers but also because of the differential impact - especially the lack of opportunity to materially change their circumstances.

In 2005, Stats Can estimated the incidence of poverty using the After-tax Low Income Cut-off [LICO] by age and gender. The estimated rate of poverty for people over 65 was 6.7%. Even more dramatic are the differences between men and women. The rate of poverty among women seniors [8.6%] is nearly twice that of men [4.4%].<sup>4</sup> Applying this to the 2008 population figures provides the estimate of 305,728 Canadian seniors living in poverty. If nothing is done to improve rates of poverty among seniors, then by 2031, there could be well over 600,000 seniors living in poverty.

The federal and provincial Finance Ministers and Premiers have recognized the urgency and have called for a Pension Summit. Such a Summit should be convened as soon as possible to review all the various recommendations and consultations that have already taken place and knowledgeable representatives of the people who will be most affected, retirees, must have a seat at the table. And beyond dealing just with pensions, the Summit must consider all Four Pillars of Canada's Retirement System with a view to materially improving on the status quo.

## ***The Four Pillars of Retirement Security***

The pension or retirement system is often described as having three pillars. The first two so-called pillars of Canada's retirement income system consist of the public pension benefits: Old Age Security ["OAS"], Guaranteed Income Supplements ["GIS"] and Canada/Quebec Pension Plan ["CPP/QPP"]. The third pillar consists of private employer sponsored pensions and private savings in the form of Registered Retirement Savings Plans ["RRSPs"] etc.

The World Bank in its conceptual framework of any country's retirement system includes a fourth pillar: "Informal support (such as family) or other formal social programs (such as health care or housing)..." Such support networks not only alleviate the potential for ill health, social isolation and depression but also living costs. As such, the social support system plays a major role in the retirement security of people and the nation as a whole. Canadians are proud of their social safety net but their political leaders often dismiss the category as a luxury for good economic times rather than as a major contributor to the social and economic fabric of a nation.

## **Pillars One and Two – increased Public Pensions to Prevent Poverty**

The first two pillars of Canada's retirement income system – generally referred to as public pension benefits - consist of the OAS, CPP and GIS. The combined maximum OAS and CPP/QPP topped up by GIS is about \$19,000 at age 65 but since the average CPP/QPP is about half the maximum, the typical individual retiree who relies only on public pension benefits today receives about \$16,000 annually<sup>5</sup>.

<sup>3</sup> 2005 Survey of Financial Assets, Statscan

<sup>4</sup> 2006 Census, Statistics Canada, Income Status Before Tax and Income Status After Tax (8) and Economic Family Status and Age Groups (80) for the Persons in Private Households of Canada

<sup>5</sup> Ambachtsheer, Keith: The Canada Supplementary Pension Plan (CSPP) Towards an Adequate, Affordable Pension for All Canadians. C. D. Howe Institute May 2008 at p. 4

Some 35 percent of Canadians 65-plus, including those with some CPP/QPP benefits, currently receive a Guaranteed Income Supplement (GIS) benefit which ensures a minimum annual income of \$13,636. Those without any CPP benefits would receive a maximum of \$13,636 [consisting of OAS and GIS] for 2008<sup>6</sup>.

After tax LICO for 2008 was \$12,019 for a single person living in a rural community and \$18,373 for a person in a city with a population of 500,000 or more. A majority of low income seniors live in major urban centres and the argument can be made that there should be a higher LICO for major centres such as Montreal, Vancouver and Toronto.

Thus the Canadian public pension system does not meet its essential goal of mitigating poverty in old age since the guaranteed level of income falls below the government's own poverty line.

And as noted in the National Seniors Council Report on Low Income among Seniors<sup>7</sup>: "Many seniors live on fixed and limited incomes, slightly above LICO. So while they "may not be 'officially' living in low income, they may be only one major expense or cost-of-living increase away from the threshold. Consequently, they face many of the same challenges."

Special note must be taken of low income women who are at a particular disadvantage. According to Stats Can<sup>8</sup> 18% of senior women living on their own are living in poverty according to this measure and the OAS allowance for people aged 60-64 excludes people who are single, divorced or separated, or married to someone who has not yet reached age 65.

**CARP recommends that the levels of OAS and GIS be substantially increased to bring the guaranteed income to at least the LICO appropriate for urban centres. Claw backs in GIS for casual earnings must be removed and the Allowance should be available based on income regardless of marital status.**

### **Pillar Three – Pension Reform to rebalance the interests of employers and employees and to provide a universal pension plan for those without workplace pensions**

Most of the public discourse in recent months has centred on Pillar Three Pension Reform, in particular, the regulatory regime covering existing workplace pensions and the provision of a retirement savings vehicle for those without access to a workplace pension.

Three provincial pension review panels [BC-Alberta, Nova Scotia and Ontario] have issued their recommendations<sup>9</sup>. To a greater or lesser degree, they all acknowledged the need to rebalance the interests of the employees/retirees and the employers/plan sponsors and the need to provide broader access to larger well-managed pension funds for Canadians who do not have access to workplace sponsored plans.

<sup>6</sup> The guarantee level for 2009 is \$15,672

<sup>7</sup> Report of the National Seniors Council on Low Income Among Seniors", Human Resources and Skills Development Canada, (February 2009) pp. 3-4.

<sup>8</sup> 2006 Census, Statistics Canada, Income Status Before Tax and Income Status After Tax (8) and Economic Family Status and Age Groups (80) for the Persons in Private Households of Canada  
<http://www12.statcan.ca/english/census06/data/topics/RetrieveProductTable.cfm?TPL=RETR&ALEVEL=3&APATH=3&CATNO=&DETAIL=0&DIM=&DS=99&FL=0&FREE=0&GAL=0&GC=99&GK=NA&GRP=1&IPS=&METH=0&ORDER=1&PID=94204&PTYPE=88971.97154&RL=0&S=1&ShowAll=No&StartRow=1&SUB=815&Temporal=2006&Theme=81&VID=0&VNAMEE=&VNAMEF=>

<sup>9</sup> Ontario: [http://www.pensionreview.on.ca/english/report/Pensions\\_Report\\_Eng\\_web.pdf](http://www.pensionreview.on.ca/english/report/Pensions_Report_Eng_web.pdf)  
ABC: [http://www.finance.alberta.ca/publications/pensions/pdf/2008\\_1125\\_jepps\\_final\\_report.pdf](http://www.finance.alberta.ca/publications/pensions/pdf/2008_1125_jepps_final_report.pdf)  
Nova Scotia <https://www.gov.ns.ca/lwd/pensionreview/docs/PensionReviewPanelFinal.pdf>

Recent events have brought into sharp focus the inadequacies of the current pension regulatory regime to protect employees and pensioners in the event of the insolvency of their employers. CARP has called for changes to better ensure the solvency of pension funds such a prohibition on contribution holidays and enforcement of deficiency funding obligations as well as legislating a priority for pensioners in the event of a bankruptcy or insolvency.

As noted, there is growing recognition of the need for a new broadly based retirement savings vehicle but that is where the consensus largely ends. There are competing visions of what level of coverage is necessary, whether it must be mandatory, how big it should be, who should manage it and whether it can or must adequately address the needs of those most likely to face poverty in old age, low income Canadians.

The federal and provincial governments must work cooperatively to address the urgent need to provide a retirement savings vehicle that is universally accessible, affordable, adequate and sustainable.

CARP recommends a Universal Pension Plan modeled on the CPP with mandatory enrolment, utilizing the existing payroll deduction mechanism, professional management, a governance role for the members, a mandate that is focused entirely on optimal performance and independence from government or any single employer and defined benefits as one way to achieve all of these goals.

In offering this model, CARP recognizes that alternatives may be found that may achieve some or all of these goals to a broadly acceptable degree. But the process must get started.

At their May 2009 meeting, the Finance Ministers agreed to establish a research working group which is due to report back in December 2009. The provincial premiers indicated a greater sense of urgency at their August 2009 meeting in Regina, calling for a Pension Summit.

**CARP recommends that the federal and provincial/territorial governments convene a Pension Summit as soon as possible to start the process of pension reform to rebalance the interests of employers and employees and to provide a universal pension plan for those without workplace pensions and ensure that knowledgeable representatives of retirees, those who have pension plans and the majority who do not, have a material role at the Summit.**

## **Pillar Four – Support for Family Caregivers**

The World Bank<sup>10</sup> in its formulation of the pillars of retirement security defines the fourth pillar as including the informal support sector, whether family support or the public housing and healthcare sectors and states the need to incorporate this fourth pillar explicitly into the design of the pension system.

In a similar vein, the 2002 Romanow report recommended that home care services be treated as the next essential service<sup>11</sup>. With hospital downsizing, the aging population and shorter lengths of stay, the last decade and a half has seen the rapid expansion of the post-acute home care sector. The result is an increased reliance on family and friends to fill home care service gaps. The Romanow Report recommended that the massive Home Care Transfers to the provinces be used to support medically

<sup>10</sup> [http://siteresources.worldbank.org/INTPENSIONS/Resources/Old\\_Age\\_Income\\_Support\\_FM.pdf](http://siteresources.worldbank.org/INTPENSIONS/Resources/Old_Age_Income_Support_FM.pdf) Holzman, Robert, 1949– Old-age income support in the 21st century: an international perspective on pension systems and reform / Robert Holzman, Richard Hinz. At page 4.

<sup>11</sup> [http://siteresources.worldbank.org/INTPENSIONS/Resources/395443-1121194657824/PRPNoteConcept\\_Sept2008.pdf.pdf](http://siteresources.worldbank.org/INTPENSIONS/Resources/395443-1121194657824/PRPNoteConcept_Sept2008.pdf.pdf)

<sup>11</sup> Romanow, Roy J. "Building on Values: the Future of Homecare in Canada" National Library of Canada, (2002) 171. Available Online at [http://www.cbc.ca/healthcare/final\\_report.pdf](http://www.cbc.ca/healthcare/final_report.pdf)

necessary home care services via the formal healthcare system<sup>12</sup> but also recommended that the federal government provide direct support for informal family caregivers.<sup>13</sup>

According to a 2008 Statistics Canada report,<sup>14</sup> in 2007, about 2.7 million Canadians aged 45 and over, or approximately one-fifth of the total in this age group, provided some form of unpaid care to seniors (people 65 years of age or older) who had long-term health problems. Between 2002 and 2007, the number of people providing care to seniors increased by more than 670,000.

A factor that will affect caregiving for seniors is the aging of the population. According to census data, the population of seniors surpassed 4.3 million in 2006, up 11.5% from 2001. Population projections suggest that the proportion of seniors in the general population will increase from 13% in 2006 to 21% in 2026.

Many people giving care to seniors are balancing this with other responsibilities, such as jobs and care for their own children. About 43% of caregivers were aged between 45 and 54, when many Canadians still have children living at home. Caregivers were more likely to be women who were employed and married. In 2007, one in four caregivers, or about 675,000 people, were themselves seniors, and one-third of these senior caregivers were over the age of 75.

Estimates of the value of the unpaid labour contributed by family caregivers vary but one estimate provided to the Senate Report on Aging is \$25 billion<sup>15</sup>. The Health Charities Council of Canada (2002) estimated that, in 1997, 93 million hours of formal volunteering were provided in Canada, on top of over 2 billion hours of informal caregiving. The combined value of these services was estimated at between \$20 and \$30 billion<sup>16</sup>. The monetary value of relieving the formal health care system of the responsibility to provide this care of older Canadians if family caregivers were unable to make this contribution has not been estimated.

From the standpoint of the retired person, such needs and the attendant expenses are all part of the calculation when considering their retirement security.

The Romanov Report had this to say about what should be done to support family caregivers<sup>17</sup>:

“To acknowledge the important role of informal caregivers, various forms of support are possible from direct remuneration to tax breaks, job protection, caregiver leave, and respite. In the Commission’s view, informal caregivers should be able to take time from their jobs to provide the necessary care at home. The most direct way of providing this support would be through Employment Insurance benefits. People should be granted time off for informal caregiving at home for family members and loved ones at critical times. While the specific eligibility criteria should be developed by the federal government, it should be possible to introduce this new benefit within the resources that are currently available in the Employment Insurance program.”

**CARP recommends a National Family Caregiver Strategy to support the millions of Canadians who are providing informal care to an older loved one by providing them with financial support, workplace protection as well integration with the formal health care system.**

<sup>12</sup> Recommendation 34 p. 174

<sup>13</sup> Recommendation 35 p. 183

<sup>14</sup> <http://www.statcan.gc.ca/daily-quotidien/081021/dq081021a-eng.htm>

<sup>15</sup> Hollander, Marcus J. et. al. "Who Cares and How Much? The Imputed Economic Contribution to the Canadian Healthcare System of Middle-Aged and Older Unpaid Caregivers Providing Care to The Elderly" *Healthcare Quarterly*, 12(2) 2009. 42-29.

<sup>16</sup> Cited in Romanov, in op. cit. at p.184

<sup>17</sup> Romanov, in op. cit. at p.184