



Ensuring the Ongoing Strength of Canada's Retirement Income System

Submission of Teamsters Canada

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The three pillars of Canada's retirement system require some work if they are to meet the challenges ahead. Given the endless discussion of the Baby Boomers over the years, it should not have come as any surprise that the Boomers retirement age is upon us. It may be too late to do much to protect their retirement income, but that should not dissuade us from getting it right for future generations.

The Old Age Security (OAS) and Guaranteed Income Supplement (GIS) program provides a basic minimum income guarantee for seniors, funded out of federal government revenues. It is a sound as the ability of the federal government to manage its budget by continuing the goal of balancing budgets while managing the debt. The OAS and GIS cannot stand alone, and for this pillar to continue the Government must also ensure the other pillars are sound.

The Canada Pension Plan and the Quebec Pension Plan are mandatory, publicly-administered, defined benefit pension plans that provide a basic level of earnings replacement for all Canadian workers, funded by employer and employee contributions.

Registered Pension Plans (RPPs) and Registered Retirement Savings Plans (RRSPs) / Registered Retirement Income Funds (RRIFs) provide tax-assisted savings opportunities to encourage Canadians to accumulate additional savings for retirement.

The main issues/challenges that Canadians face in saving for retirement is that the cost of living is such that many Canadians live from paycheck to paycheck and they do not have sufficient disposable income to fund retirement savings. Many will rely on OAS, GIS and CPP as their main source of retirement income. The RRSP route has been flawed from the start. The fees charged by financial institutions eat away at the potential retirement income of Canadians. Studies show that passive investments give better returns at lower costs, yet this is clearly not the advice many Canadians receive when investing for their retirement. There is no money to be made in flipping bonds or selling low cost index funds, and that is the problem. Government should demand the industry deal with these investments in the best interests of the clients, educate and regulate.

The appropriate role of governments in supporting Canadians to achieve adequate retirement income is to ensure the current system protects current and future retirees. Most changes to the system will not affect Baby Boomers as there is simply not enough time for those changes to permit compounding of savings. Changes are needed to protect Registered Retirement Plans, especially Defined Benefit Plans.

In previous submissions we noted that Canada's pension regime has been protected by statutory and regulatory enactments for over four decades. Yet, it is claimed that defined benefit plans are facing solvency deficits because of declining interest rates and changes to actuarial standards. One would assume that a proper or adequate regulatory regime would have resolved these issues. Under the current regulatory structure, CEOs and corporate managers have been motivated to operate their pension funds in such a manner to maximize Pensions are not a gift from a company. Pensions are foregone wages, a contract between the company and a worker. Workers forgo these wages today so that the pension fund will provide them a monthly benefit when the worker retires.

Government must act to protect pension plans when the sponsor declares bankruptcy. Pension Plans should be in priority to all creditors other than the existing wage and benefit claims of workers. We do not see evidence to support the claims that this would increase costs in any meaningful way. We do believe that companies that have sound business practices, including have a sound pension plans, would be rewarded by creditors. Those that do not should bear those risks. Beneficiaries should not. We must never see another situation like that at **Nortel** and **Flextronic** where Executives are rewarded for bankrupting a company, and workers receive from 25-75 cents on their pension dollar.

To achieve this end we must revisit the broad concept of appropriate investment policies and allowable investments for pension plans. Pension plans should have similar investment policies and allowable investments as an insurance company selling life annuities. It may limit investments and reduce investment returns; however, the certainties of delivery of the pensions that are promised are of paramount importance. Bond and bond equivalent passive investments offer predictability of benefits coupled with lower costs.

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All Employee pension plans should be governed by a Board of Trustees of which at least one-half are appointed. It is our experience plans run in this manner most often are fully funded protecting the retirement of current and future beneficiaries.

Multi-Employer Plans (MEPs) offer an interesting opportunity to expand private savings. MEPs give employers a defined contribution option, while providing a defined benefit to beneficiaries. The current system can make it difficult for employers and workers to join suitable MEPs. Greater flexibility would permit plans such as Teamsters Canada Pension Plan to expand its coverage to more workers. Our plans are fully funded and invest in bond and bond equivalents. The recent market meltdown did not affect the Plan. This option should be examined as a way to increasing the mix of private retirement savings.

The Government will decide whether or not it has the political courage to increase mandatory retirement savings. We support the Canadian Labour Congress in its position that increasing the CPP/QPP is sound method of increasing retirement income. How that should look, increasing the cap, reducing the deductible or increasing the rate above the 9.9% level is worthy of further investigation. It is our experience that such changes will only achieve policy goals if it is made mandatory.

Some business and workers would complain today of the increased costs. We can pay a little today or a lot later on in taxes if retirement income is insufficient in the future. For companies is a small insurance premium to ensure their taxes stay low and retirees have money to pour back into business. It is our experience that when workers near retirement they come to appreciate the pension and often wish even more had gone into their plan. It would be the same for contributions to CPP/QPP.

Retirement savings, whether mandatory or voluntary, should be locked-in for retirement purposes. All retirement savings should be creditor proof, and be safeguarded for their purpose.

Individuals provide the largest share of government revenue. Tax expenditures for pension contributions today become tax revenue in the future. Even “employer” contributions for EI or CPP/QPP are really from workers’ wages. All employer contributions to private plans, defined or contributory, are really foregone workers’ wages. Workers will pay for increased pension coverage or not; either increased protected benefits with golden years, or not. The former is a better policy goal for Government, Canadian workers, and business.

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