ONTARIO ENGLISH
Catholic
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ASSOCIATION

# OECTA Submission to the Ministry of Finance

## Re: *Securing Our Retirement Future: Consulting with Ontarians on Canada's Retirement Income System*

James Ryan
President

Marshall Jarvis
General Secretary

December 2010

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The Ontario English Catholic Teachers' Association (OECTA) represents 45,000 women and men who have chosen teaching careers in the Catholic schools in Ontario. These teachers are found in the elementary panel from junior Kindergarten to Grade eight, in the secondary panel from Grade nine through Grade 12, and occasional teachers in both panels, in publicly funded schools.

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## 1. INTRODUCTION

1.01 The Ontario English Catholic Teachers' Association (OECTA) is pleased to provide its views on the Ministry of Finance's document entitled Securing our Retirement Future: Consulting with Ontarians on Canada's Retirement Income System. This consultation paper specifically seeks input on a possible modest CPP expansion and on pension innovation. OECTA will not comment on the entire range of questions posed in the consultation paper. Rather, we will confine our response to the following issues that were identified therein.

## 2. HOW MUCH INCOME DO YOU THINK YOU WILL NEED IN RETIREMENT TO MAINTAIN YOUR STANDARD OF LIVING?

2.01 Many Canadians are fearful that they may retire without adequate pensions. Without question, recent events have exposed major faults at the heart of our pension system. While our public pension system – Old Age Security (OAS), the Guaranteed Income Supplement (GIS) and the Canada Pension Plan (CPP) – provides a secure income in retirement, the maximum value of public pensions falls well short of replacing the 50 per cent to 70 per cent of pre-retirement income that many experts believe families need in retirement to maintain their previous standard of living. Low income families, in particular, need more than 70 per cent of their earnings to meet basic needs and to live above the poverty line after a lifetime of work. All Canadians share an interest in preserving their retirement future because it benefits everyone by enhancing the economic system while providing collective and individual security.

2.02 OECTA believes that Canadians should not have to "fend for themselves" in retirement. After a lifetime working, to make a positive contribution to our country's development, all Canadians deserve security and dignity in retirement.

## 3. EXPAND DEFINED BENEFIT PENSION PLANS

**3.01** OECTA believes that a defined benefit pension plan which provides a pre-determined level of pension income, usually based on previous earnings, will provide the best long-term retirement income stability. Conversely, defined contribution plans provide a pension income based solely on investment returns, which can vary according to the markets. The three stock market meltdowns within the last fifteen years clearly demonstrate the volatility of defined contribution plans and highlight the instability of such plans for those who are planning retirement or for those who are currently retired. In addition, it has been demonstrated, as noted in the consultation paper, that the majority of Canadians do not contribute to registered retirement savings plans (RRSPs) and of those who do contribute few make the maximum allowed contributions.

**3.02** Canadians are not taking full advantage of tax-assisted savings. In 2008, there was $540 billion in unused RRSP "contribution" room, which represented 87 per cent of the total RRSP room available. Recent analysis suggests that today's households are saving less than previous generations. (*Serving our Retirement Future*, p. 9)

**3.03** The key factor behind low contribution rates to RRSPs are stagnant real wages which have been flat or falling for most working people for the past twenty years, combined with the reality that Canadians now carry a high level of personal debt.

**3.04** In addition to the volatility of the markets, the excessively high management fees charged by the financial industry on investment products have impacted on RRSP returns for individuals. Management fees for retail equity mutual funds of the kind which are commonly held in RRSPs average 2.5 per cent to 3 per cent or even higher, compared to the management expenses of one half of one percent for the Canada Pension Plan.

**3.05** Therefore, the strength of public plans lies in the security of what they do promise – they are defined benefit pension plans that are highly valued in large measure because they are not simply savings and investment schemes.

**3.06** OECTA believes that it is in the best interest of all working people, who want a secure retirement income, to support defined benefit pension plans. This would promote the defense of employer defined benefit pension plans in order to reduce the possibility of Canadians relying solely on public pension plans for their retirement income security.

**3.07** OECTA agrees with the Minister that Ontarians will have more economic security in retirement if they participate in a defined benefit pension plan, fully portable within Canada, indexed to inflation, and not subject to the volatility of the marketplace as are private investments.

## 4. EXPANSION OF CANADA PENSION PLAN

**4.01** Governments must put in place an adequate system of public pensions so that Canadians have security in their retirement after a lifetime of work. If Canadians have a better CPP that replaces more than the current 25 per cent of the maximum pensionable earnings it would be easier for them to save enough for retirement. The best way to secure the retirement future of all Canadians is to increase future CPP benefits beyond the current 25 per cent of maximum pensionable earnings (currently $47,200).

**4.02** The consultation paper examines the expansion of CPP as an "Attractive Vehicle for Change" and states specifically:
Canadians are saving less than they once did and many do not take full advantage of voluntary tax-assisted savings opportunities. A declining

portion of the working population has access to employment pension plans. This means that many Canadians could experience a material decrease in their standard of living upon retirement unless changes are made. The CPP provides a secure, fully indexed, defined benefit pension to virtually all working Canadians and is fully portable across Canada. The CPP does not carry the risk of default that is inherent in private plans due to bankruptcy or insolvency of the employer. (*Securing our Retirement Future*, p. 14)

**4.03** The CPP is a secure and sound pension plan – there is enough to pay for its defined benefits for at least 75 years, which is the furthest into the future that actuaries will forecast. The CPP is a low cost pension plan which provides workers with a defined benefit that is indexed to inflation. Unlike the vast majority of workplace pensions, the CPP is fully portable, to different jobs and provinces: one can work for several employers over time without suffering any loss of CPP pension income. The portability of the CPP and low overhead costs are key to ensuring fair pension outcomes given the reality of job turnover and uncertainty as to the future of individual employers in today's economy.

**4.04** Expanding the CPP would likely result in lower contributions to RRSPs by middle income earners, but as previously noted, Canadians have already resisted contributing to RRSPs in recent years due to the turmoil in the stock markets. Low and middle income earners simply don't want to take risks with their hard earned savings. Moving retirement savings from high cost RRSP accounts, which deliver low returns, to a secure well-managed, low cost public pension plan would benefit the great majority of Canadians. Besides, many higher income Canadians would continue to buy retail investment products, so the impacts on the financial sector would be limited.

## 5. APPROACHES TO EXPANDING THE CPP – INCREASE THE REPLACEMENT RATE

**5.01** The most viable approach to CPP expansion must take into account the positive features of a defined benefit plan and enhance these provisions for the greatest number of Canadians. To this end, OECTA would support the approach to increase the replacement rate. Increasing the maximum replacement rate from the current 25 per cent to a higher rate, such as 50 per cent (doubling CPP benefits), would benefit all CPP contributors. This would elevate the replacement rate income of Yearly Maximum Pensionable Earnings (YMPE) or $47,200 per year earner from 21 per cent to 34 per cent; a $70,800 per year earner from 14 per cent to 22 per cent; and a $94,400 per year earner from 11 per cent to 17 per cent.

**5.02** OECTA would urge the Ontario government to take the lead in the federal/provincial discussions by advocating for a doubling of the CPP replacement rate. Although a CPP benefit increase will require a gradual phased-in increase in CPP contributions, it will not require a doubling of premiums. A gradual doubling of future CPP benefits can be spread out over seven years. It would only require an increase of 0.43 per cent of pensionable earnings each year for seven years. Modest CPP contribution rates were absorbed by Canadians between 1996 and 2003 without any negative economic repercussions.

## 6. CPP ASSET MANAGEMENT

**6.01** The CPP Investment Fund is a very large, diversified investment fund which operates at arm’s length from the government at very low cost. Its management expenses on average are less than 0.5 per cent – far less than the average management expense ratios of private sector investment vehicles. It is hard to see how this could be improved upon. As well, if the expansion of CPP benefits is the intended vehicle for improved retirement security for Ontarians, the continued management of all their assets would be part and parcel of the increased viability and sustainability of that fund.

## 7. PENSION PLAN INNOVATIONS

7.01 The banks, and the financial and insurance industries should not be relied upon as “pension innovators.” It's a conflict of interest to let industry entities whose primary focus is to make a profit for themselves, act as pension plan sponsors, which is why it is not allowed under *Ontario's Pension Benefits Act*. We have seen the failed promises of the financial services companies, which for decades have trumpeted that they alone can deliver efficient and valuable pension alternatives. The facts speak for themselves - the average Management Expense Ratio for mutual funds in Canada sits at 2.87 per cent of assets. Over a 40 year investment period, the industry pockets over half of their investors hard-earned savings. Given this poor record of performance, government should not be encouraging or compelling workers to be members of finance-industry created retirement schemes. A far better proposal is to expand the benefits under the Canada Pension Plan that would offer more help to Ontario's workers today to help them save for their retirement.

## 8. RECOMMENDATIONS

**8.01** OECTA recommends a retirement system which:

- Supports and promotes the preservation and expansion of retirement security for all Canadians,
- Supports and promotes the maintenance and expansion of defined benefit pension plans,
- Supports and promotes an expansion of the CPP which doubles the replacement rate for all Ontarians,
- Supports and promotes the management of CPP through the current CPPIB asset management structure.