CUPE·SCFP

Pension History, Trends and Context

CUPE Pension Trustee Training
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Pension history, trends, and context in 2022

1. Canada's Pension System
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2. CPP Expansion: 2016 Success
3. Bargaining Issues
   a. The Attack on DB Plans
   b. CPP integration

1. Canada’s Pension System and issues we face today

1952-1967: Public Pension System Established

- **Old Age Security** – 1952 – Universal, no means test, basic pension to all Canadians based on residency, funded by federal government
- **Canada Pension Plan** – 1966 – Mandatory public plan for workers, 25% replacement rate, funded by worker/employer contributions
- **Guaranteed Income Supplement** – 1967 – means-tested, designed to keep seniors out of poverty, intended to be a temporary program

Private, Individualized Approaches

- RRSP created in 1957, expanded in 1990s
- TFSA created in 2009
- Home buyers program 1992 + housing prices?

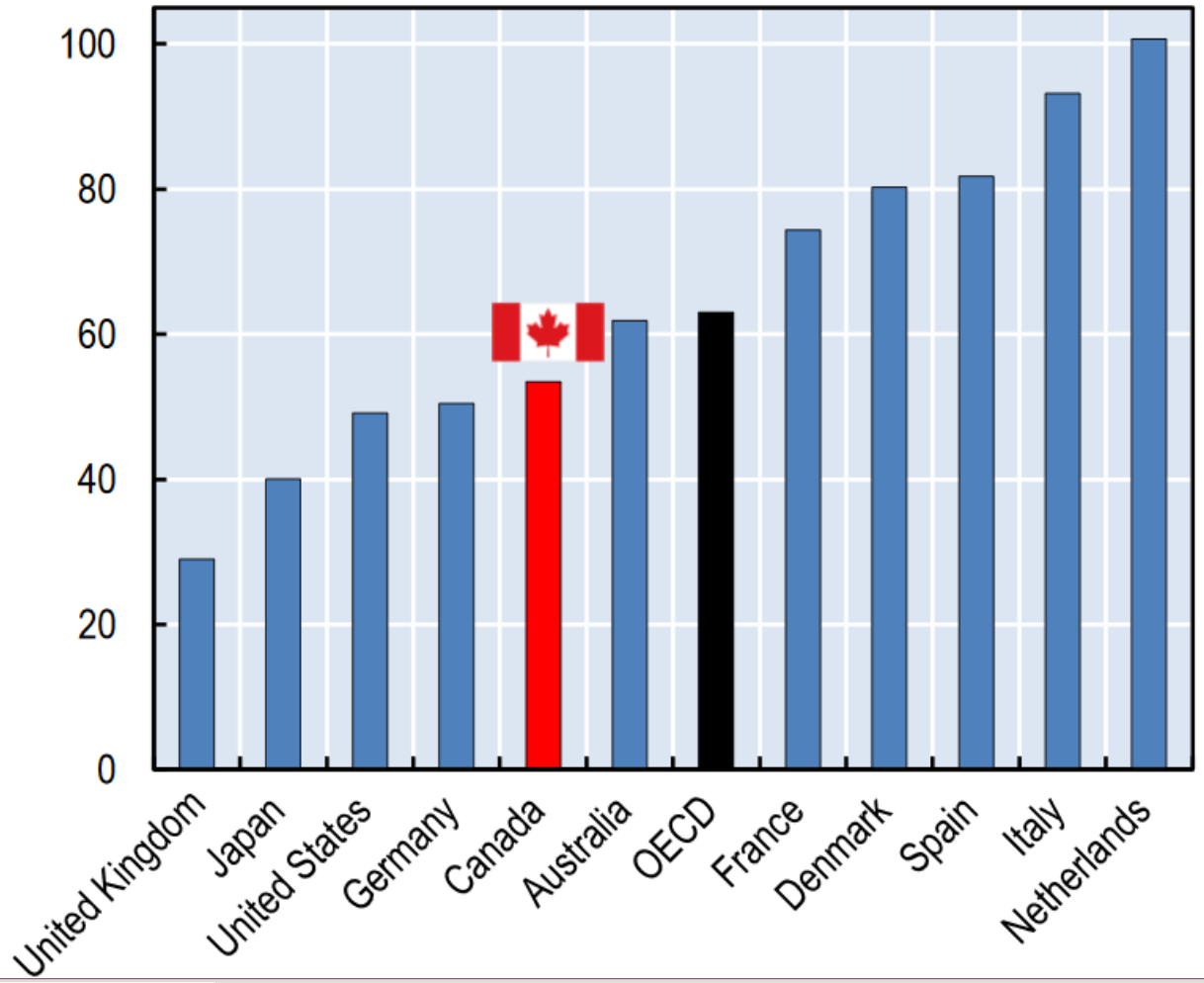
Modest Public Pensions

- OAS pays ~$600/month
- Maximum CPP = $1154/month
- Average CPP = $720/month (new beneficiary)

- Average OAS + CPP = less than $16K/year

Replacement rates are below the OECD average

Net pension replacement rates for a full-career average-wage earner from mandatory schemes



Pre-1980s Employer Views on DB Pensions

- DB plans an effective tool to attract and retain talent
- DB plans also a tool to shed workers when they stopped being productive through mandatory retirement
- Early on, no accounting requirements and no/little pension regulation
- DB plans were designed to serve employers' business needs

1980's to Present

- From 1960s to 1980s, pensions became more strictly regulated
- Private sector accounting standards required recognition of pension liabilities on company books
- Private sector begins shedding DB plans starting in 1980s – mass exodus
- After 2008-09 financial crisis, public sector employers began attack on DB

Workplace pension coverage in Canada

Canada's modest public pension system (OAS+CPP) creates a need for workers to rely on workplace pensions & private savings arrangements to secure an adequate retirement income.

Percentage of Paid Workers Covered by a Registered Pension Plan (RPP)

- In 1976 — 46.1%
- In 1999 — 40.9%
- In 2009 — 39.4%
- In 2019 — 37.1%

88.3% of public sector workers covered by a pension plan (80% w/ DB)
22.4% of private sector workers covered by a pension plan (8.8% w/ DB)

Growing percentage of RPPs that classified as "other", ie neither DB nor DC

Governance of workplace pension plans

- The “governance”, or decision-making structure, of workplace pension plans can vary widely:
  1. Collectively bargained
  2. Jointly trusteed or joint governance
  3. Legislated plans (including municipal)

- Crucially important to understand which of these applies to your own plan, and how they can interact
- “Pension Advisory Committees” have a wide range of possible authorities, from virtually none to a substantial decision-making role

Summary: Canada's Pension System

- Canada has always had a very modest public pension system
- We therefore need our voluntary (workplace based) pension arrangements to work very well
- How is that going?
  - Majority of workers have always had no pension at work
  - Those with good workplace pension plans under attack
  - Individual / private sector approaches not working for vast majority

2. CPP Expansion: 2016 Success

CPP deal: the basics

- Changes implemented on a go-forward basis
- No changes to CPP benefits you've earned in the past – only on benefits you earn in the future
- Larger impact on younger workers – it takes 40 years for new benefits to be fully phased-in
- Replacement rate benefit & contribution rate change phased in 2019-2023
- YMPE benefit & contribution rate change phased in 2024-2025

Historic deal

- Basic CPP benefit formula has not been changed since CPP created 50 years ago
- Changing CPP harder than changing Canadian Constitution
- Powerful right-wing groups, employer groups, insurance industry, and banks all pushing hard against CPP expansion
- Deal could have fallen apart many times

Public Pension System Still Too Small

- Partial win on CPP does not change labour's longstanding position: the only real solution to our retirement income crisis is expansion of the public pension system
- Time to shift our focus onto Old Age Security?
- Workers will need to double down on defense / expansion of workplace pension plans

3. Bargaining Issues: The Attack on DB Plans

Conflicting Interests on Pensions

- **Employer Goal:** Pay a fixed contribution rate at the lowest possible level, or avoid pension altogether!
- **Worker Goal:** Earn a pension that will provide secure, adequate and predictable benefits upon retirement that last a lifetime and keep pace with inflation.
- Employers accomplish their goals at the expense of workers being able to accomplish theirs.

Typical Employer Strategy (General)

- Convince members their DB plan is broken or “unsustainable”
- Use pension plan actuaries (as “neutral” consultants) to advance the employer bargaining agenda (employer is typically the actuary’s client)
- Argue that the only way to make the plan “sustainable” is to accept plan or employer contribution rate cap, and/or conditional (i.e. non-guaranteed) benefits for some or all plan benefits
- Overall attempt to make pension discussions **technical** (instead of political – which is what they really are)

Specific Employer Strategies

- Cap and/or fix Employer contribution rates
- Eliminate guaranteed benefits (e.g. indexing), make them conditional or ad hoc
- Reduce accrual rates (ie citing CPP improvement)
- Closing DB, move to DC or TB/Shared Risk
- Lobby government for “flexibility” (ie Bill C-27, which would have permitted conversion of DB to TB, including retro)

Workplace plans and CPP expansion?

- CPP expansion increases employer and employee contributions to CPP by about 1% for most CUPE members (phased-in) – higher earners will see a slightly larger increase.
- Employers will likely try to pass on all of the additional employer cost (or even more) to workers through bargaining.
- Employers may seek to increase the amount by which the benefit is reduced for integrated plans (integration factor).
- Employers may seek to introduce an integration factor for stacked plans.

Step 1: 2019 to 2023

From 2019 to 2023, the contribution rate for employees will gradually increase by one percentage point (from 4.95% to 5.95%) on earnings between $3,500 and the original earnings limit.

Year	Employee/employer increase	Self-employed increase	Employer/Employee rate	Self-employed rate
2019	0.15%	0.3%	5.10%	10.2%
2020	0.15%	0.3%	5.25%	10.5%
2021	0.2%	0.4%	5.45%	10.9%
2022	0.25%	0.5%	5.70%	11.4%
2023	0.25%	0.5%	5.95%	11.9%

Step 2: 2024 to 2025

Starting in 2024, a second, higher limit will be introduced, allowing you to invest an additional portion of your earnings to the CPP. This new limit, known as the **year's additional maximum pensionable earnings**, will not replace the **first earnings ceiling**. Instead, it will subject your earnings to 2 earnings limits. This limit is referred to as the **second earnings ceiling**.

This new range of earnings covered by the Plan will start at the **first earnings ceiling** (estimated to be $69,700 in 2025) and go to the **second earnings ceiling** which will be 14% higher by 2025 (estimated to be $79,400). Like the first earnings ceiling, the second will increase each year to reflect wage growth.

Red Flags!

- *“Pension review”*
- *“Pension reform”*
- *“Sustainability review”*
- *“Funding policy”*
- Technical sounding processes that most often mean an employer agenda to shift risks / reduce costs
- *“Membership survey”* to be carried out by plan or Admin

Trends: Pension consolidation

- CAAT DB Plus
- Nova Scotia PSSP
- University Pension Plan in Ontario (3 plans so far)

Trends to watch: pension investments fueling privatization?

GLOBAL INVESTOR 50

Rank	Institution	HQ	Infra allocation (%)	Infra allocation ($m)
1	Canada Pension Plan Investment Board	Toronto	10.4	33,793
2	Abu Dhabi Investment Authority*	Abu Dhabi	3	24,840
3	Caisse de dépôt et placement du Québec	Québec	8.1	21,253
4	Allianz Global Investors	Munich	3.3	20,543
5	National Pension Service of Korea	Jeollabuk-do	3.1	19,726
6	APG	Amsterdam	2.8	17,115
7	Ontario Municipal Employees Retirement System	Toronto	19	15,977
8	China Investment Corporation (CIC)	Beijing	1.8	15,000
9	BCI (formerly British Columbia Investment Management Corporation)	Victoria	10.1	13,887
10	Ontario Teachers' Pension Plan	Toronto	8.3	13,115
11	Public Sector Pension Investment Board (PSP Investments)	Ottawa	10	12,961
12	Legal & General Investment Management	London	0.8	12,073
13	Pensioenfonds Zorg en Welzijn	Zeist	4	10,705
14	Australia Future Fund **	Melbourne	7	8,326
15	AustralianSuper	Melbourne	6.9	7,984
16	Alberta Investment Management Corporation	Edmonton	8.1	7,201

Other trends to watch: The return of inflation

- After decades of relatively low and stable price inflation (around the “target” rate of CPI of 2%), Statistics Canada has begun reporting significant and sudden increases in the rate
- Average CPI for 2021 = 3.4%
- CPI for March 2022 (12 month change) = 6.7%
- Impact of inflation on retirees:
  - 20 years of 2% / year inflation = purchasing power reduced to 66% of original
  - 20 years of 6.7%/year inflation = purchasing power reduced to 25% of original
- Indexation is now more important than at any time since the 1980s!

For more on CPI from Statistics Canada: https://www.statcan.gc.ca/en/subjects-start/prices_and_price_indexes/consumer_price_indexes