National Association of Federal Retirees
Association nationale des retraités fédéraux

December 21, 2018

Innovation, Science and Economic Development Canada (ISEDC)
The Honourable Navdeep Bains
Minister, Innovation, Science and Economic Development
C.D. Howe Building
235 Queen Street
Ottawa, Ontario K1A 0H5

Dear Minister,

The National Association of Federal Retirees is the largest national advocacy organization representing active and retired members of the federal public service, Canadian Armed Forces (CAF), Royal Canadian Mounted Police (RCMP) and retired federally appointed judges, as well as their partners and survivors. Federal Retirees has a proud 50-year history of advocacy on behalf of our members and all retirees. In collaboration with our volunteers and 176,000 members from coast-to-coast, we continue this tradition of strong, smart advocacy campaigns that seek to protect against changes to our members' hard-earned pensions and benefits, and to support good policy that improves the lives all Canadians in their retirement.

We commend this government for the initiative it is demonstrating with the "Enhancing Retirement Security for Canadians" consultation, although we are concerned that this consultation's scope is too limited to result in a significant impact on Canadians' Retirement Income Security (RIS).

As we communicated to Innovation, Science and Economic Development and to the Honourable Bill Morneau, Minister of Finance this summer, we have made numerous requests for a comprehensive conversation on retirement income security for all Canadians. We were disappointed to see that this consultation is focused almost solely on reacting to pensioners' interests in situations of employer insolvencies – although that is an extremely important and relevant topic that requires examination.

That said, we were pleased to learn from the Honourable Filomena Tassi, Minister of Seniors, when we met her on November 26, 2018, that this consultation is only the start of a much larger conversation about RIS. The National Association of Federal Retirees is looking forward to participating fully in those robust consultations.

The Case for Retirement Security

Workplace defined benefit pension coverage continues to decline — dropping from 87% in 1993 to just 37% in 2011 for private sector workers. During this time, there has been a significant shift to defined contribution plans, and many employers have eliminated their pension plans altogether. While other personal savings products like Tax-Free Savings Accounts (TFSAs) and Registered Retirement Savings Plans (RRSPs) exist, Canadians just can't save enough for retirement due to rising housing costs and stagnating wages. Plus, these products are less efficient than defined benefit pension plans as they do not allow for pooling resources, and revenue can be eaten up by high fees. In addition, Statistics Canada estimates that 12% of senior families are considered low income, and that 28.5% of single seniors qualify as low income — that's 600,000 Canadian seniors living in poverty.

This government is to be congratulated for recent amendments to the Canadian Pension Plan (CPP), Old Age Security program (OAS) and Guaranteed Income Supplement (GIS). These are steps in the right direction, although some of this government's actions, discussed below, have diminished the positive effects of these accomplishments.

Federal retirees and veterans of the CAF and RCMP value our defined benefit pension plans. These pensions are paid for by our own contributions and the negotiated, deferred wages paid by our employers. As a result, our pension funds are growing thanks to mandatory contributions, and annual indexing factors are applied to ensure the value of a dollar is preserved over time.

This means our members can continue to be active and engaged in their communities, right through retirement. Their pensions enable them to continue to contribute to the national economy, help provide jobs locally and pay significant taxes. Our pension funds invest in Canada, with billions of dollars touching major infrastructure projects, real estate, natural resources and even local companies. Fewer of our members must rely on taxpayer-funded income replacement programs.

Simply put, well-managed, disciplined pension plans are a win for everyone.

This is what we wish for all Canadians; a secure retirement income, paid for by individuals during their working years, invested prudently in effective, efficient vehicles and guaranteed, so that during their senior years older Canadians can enjoy the fruits of their labour rather than worrying that their income will be reduced due to the bankruptcy of their former employer, mismanagement of their pension plans or a surrender of their pension promises.

Pensions and Employer Insolvency

While we respect the concerns that have been expressed by some individuals and organizations about the need to protect the creditors of insolvent employers, employee and retiree pensions must also be protected. Pensions are not a gift – they are deferred wages that have been bought and paid for by employees and retirees, and that promise must be honoured. These accrued defined benefits must be protected, and employees and retirees should not be harmed in cases of employer insolvency; their interests, particularly financial interests, should be actively represented.

Employer insolvencies and impacts on defined benefit pensions can significantly hurt affected employees and retirees. These situations represent a fraction of the overall retirement income security landscape; and from time to time, these extremely unfortunate circumstances can occur.

Measures taken by the federal government on pensions in cases of employer insolvency must reflect that employees and pensioners deserve protection, representation, and ultimately, the pensions they paid and worked for.

Bill C-27, An Outstanding Concern

We have been concerned with some RIS-related topics that are not covered in the scope of this consultation. In specific, we have been alarmed and dismayed by this government's approach to *Bill C-27, An Act to amend the Pension Benefits Standards Act, 1985*, and note its conspicuous absence in this consultation paper.

Bill C-27 would open the door to modification of accrued defined benefit pensions of employees and retirees of Crown corporations and federally-regulated employers and would allow transformation of those accrued defined benefits into target benefit pension plans (TBPs), also called shared-risk pension plans. By allowing this type of conversion, Bill C-27 would create a dangerous precedent and would likely negatively impact Canadians' retirement income security. For example, New Brunswick, which enabled this type of legislative and regulatory framework, has experienced an ongoing legal challenge, and employees and retirees have been impacted. The New Brunswick teachers' pension plan had to increase contributions and make amendments to pension calculations while also reducing indexation.

In the 2015 federal election, in an interview with Sage magazine, Prime Minister Trudeau committed to Federal Retirees that defined benefit pensions "which have already been paid for by employees and pensioners, should not be retroactively changed into [target benefit plans]." Despite this promise, Bill C-27 was introduced in October 2016 and would permit exactly that. Our members and partners have met dozens of Members of Parliament, Senators and departmental staff, and sent more than 50,000 messages to the Minister of Finance and others asking that Bill C-27 be withdrawn. The bill has remained on the table, at first reading.

Correcting the Record on Defined Benefits

The federal government must look at ways to support an environment where defined benefit plans can thrive. Language in the consultation paper implies that defined benefit plans are a source of increased costs for employers – but over time, defined benefit plans are proven to be one of the most cost-effective ways of ensuring financial security in retirement. According to the National Institute on Retirement Security in the United States, defined benefit plans deliver the same retirement income at 48% lower cost than a defined contribution type plan. That's because defined benefit plans enable resource pooling, longevity risk protection, a balanced portfolio and lower fees.

They provide Canadians with one of the strongest retirement income systems in the world, and according to the World Bank, Canada is also home to some of the most successful defined benefit plans in the world. A Boston Consulting Group (BCG) study found that benefits paid out to defined benefit plan members cycle back into the Canadian economy in the form of consumer spending and taxes, generating business growth and employment. Smaller communities profit substantially from the impact of defined benefits. In Moose Jaw, Nanaimo and Orillia, defined benefit plans represented approximately 10% of total earnings in those communities.

For all the reasons above and more, this government must work to foster an environment that will encourage healthy, well-managed and disciplined defined benefit plans. In addition, leveraging the strengths that characterize Canada's current pension landscape will be key. Large, efficient plans that help keep costs low and risks pooled, measures to expand access to these types of plans, and focusing on delivering the best value to Canadians in saving for retirement, must be the basis for our collective vision on Canada's Retirement Income Security.

With the strength our 79 local branches, several hundred volunteers and 176,000 members across the country, Federal Retirees is a trusted leader on retirement security advocacy. I am looking forward to hearing from you on further meaningful consultations on a broader range of topics that influence Retirement Income Security in Canada.

Sincerely,

Jean-Guy Soulière

Jean-Guy Soulière
President
National Association of Federal Retirees