



Background

Expanding CPP Benefit Coverage to Workers who do not have a Workplace Pension

February 2008

Introduction

The purpose of this **Background**er is to provide an explanation of and rationale for a campaign that the National Union and its Components have launched to change the Canada Pension Plan (CPP) so that it can provide greater retirement income security for those workers who do not belong to a workplace pension plan.

The campaign centres on a proposal to change the legislation governing CPP to require employers without workplace pension plans to pay higher CPP premiums. These increased premiums would be used to finance higher CPP benefits at retirement for those workers who do not have a workplace pension plan.

The Success of Canada's Public Pension System

Canada has made positive strides in lowering poverty rates amongst seniors over the past thirty years. In 1980, 21.3 percent of all seniors in Canada – more than one in five – had low incomes as measured by the low-income cut-offs after tax. In 2004, this had decreased to only 5.6 percent – about one in 18.

One of the primary factors which contributed to the reduction of low income among Canada's seniors was a series of increases in the early 1980s to the Guaranteed Income Supplement (GIS) which raised the minimum income ensured to all of Canada's seniors. Of greater importance, however, was the maturation of the Canada/Quebec Pension Plan (C/QPP).

Canada's public retirement income system has done well to the present time in meeting its two fundamental objectives of ensuring a minimum income to seniors and assisting retired Canadians to maintain pre-retirement living standards after retirement.

This outcome, however, should not be taken for granted as our public pension system will soon experience increased pressure creating a real danger that we may soon reverse those positive strides in lowering the rate of poverty amongst Canadian seniors.

What's behind the Pending Pensions Crisis¹

Increasing Senior Population

An increasing percentage of working Canadians is coming closer to retirement as the bulging baby boom generation ages. The number of Canadian seniors nearly doubled between 1981 and 2005, jumping to 4.2 million from 2.4 million. Seniors now make up 13.7 percent of Canada's population and will form 18 percent by 2012. By 2031, it is estimated that the proportion of senior Canadians aged 65 and over will be 23.4 percent – almost double that of today.

¹ See ***No Pension Panic: The real pensions crisis - it's all about coverage, not funding*** published by the National Union of Public and General Employees (November 2006)
http://www.nupge.ca/publications/Pensions%20Documents/nupge_2006_real_pension_crisis.pdf

The Increasing Decline in Workplace Pensions

The strong possibility that we will face decreased retirement security amongst Canadian seniors in years to come is related to the dramatic decline in the percentage of the Canadian workforce covered by a workplace pension plan in the last 14 years. There has been a 7.5 percent decline over 14 years in the percentage of working people in Canada covered by a workplace pension plan – from 46 percent in 1991 to 38.5 percent in 2005. See *Table 1 – Percentage of Paid Workers Covered by a Registered Pension Plan by Jurisdiction*

Currently, only 25.9 percent of private sector workplaces provide pension plans.

During this period of declining pension coverage, Canada's total workforce grew by 2.7 million workers, or 25 percent – with the majority of new jobs being part-time, temporary or other forms of contingent work.

Over one third of the Canadian workforce is now employed in contingent work and it is estimated that approximately only 15 percent of those contingent workers participate in a workplace pension.

Inadequate Private Savings for Retirement

Most of those without a workplace pension do not have sufficient income to accumulate an RRSP or private savings. Statistics Canada calculates that about 30 percent of all Canadian households have no retirement savings. Approximately 20 percent have no pension but an RRSP that, along with the income they will earn from Canada's public pension system, will not provide sufficient income in retirement to raise them above poverty levels.

And while Canadians worry that they won't have enough money to retire, an increasing number – 20 percent – are tapping into their RRSP savings prior to retirement, using funds primarily for day-to-day living purposes.

Inadequate Retirement Income from OAS / CPP

The fourth factor, equally well-known, is that Old Age Security and the Canada Pension Plan, while important programs, do not provide sufficient income for seniors in their retirement. The combined maximum benefit from CPP and OAS is now \$16,642 per year. This is \$928.00 below the 2006 low income line for a single person in a large urban centre as established by Statistics Canada.

Taken together, these four factors – the growing number of seniors, the decline in workplace pensions, the inability of most low-income Canadians to accumulate adequate private savings for retirement, and the inadequacy of the CPP if it is the only available resource – mean a looming poverty crisis for Canada.

The Failure of the Private Sector to Provide Workplace Pensions

An obvious source of this pending crisis has been the private sector's failure to provide decent workplace pensions for Canadians.

The fact that three of every four workers in the private sector do not belong to a private pension plan is unacceptable in a nation as wealthy as Canada. We need to do more to encourage private sector employers to take greater responsibility to provide adequate pensions to their workers, many of whom have contributed decades through their labour to the financial health of their employer.

Given the failure of the private sector, there is a critical need to consider how our public pension system can step in and provide Canadians with greater financial security in retirement.

It's ironic to note that during the development of the Canada Pension Plan in the mid-1960s, the labour movement argued that benefits should be as high as 50 percent of the average Canadian industrial wage. Corporate Canada argued that setting benefit levels at that rate would provide a major disincentive for employers to establish pension plans.

The position of corporate Canada has proven to be dead wrong. By the time CPP had matured in 1977, 35.4 percent of all workers in the private sector – more than one in three – were members of workplace pension plans. By 2005, this had declined to 25.9 percent, or only one in four.

Expanding CPP

It's time to consider expansion of our public universal workplace pension plan, the Canada Pension Plan (CPP).

As one of the largest and most healthy pension plans in the world, CPP certainly has the capacity to provide a greater proportion of Canadians' retirement income beyond the 25 percent of their average annual earnings and increase benefits beyond the current maximum of 25 percent of the average Canadian industrial wage (\$44,900 in 2008), as it does now.

Our Proposal

We propose that the legislation governing CPP be amended to require employers without workplace pension plans to pay additional CPP premiums. The extra money would be used to pay improved CPP benefit coverage to employees to cover any years they work for employers without a workplace plan.

For example, during this time employees would earn CPP benefit coverage equal to 50 percent (as opposed to the current 25 percent) of the average Canadian industrial wage – which is commonly known as the Yearly Maximum Pensionable Earnings (YMPE) – \$44,900 for 2008.

'Evening the Playing Field'

There are few incentives in Canada for employers to create pension plans, despite the obvious economic benefits for employers dependant on the retention of a qualified and skilled workforce in an increasingly competitive labour market.

In fact, disincentives exist to discourage employers from setting up their own plans. Employers with pension plans now pay exactly the same CPP premiums as those without plans. At the same time, they assume legitimate administrative costs as well as necessary but often complex requirements set out in federal and provincial pension legislation, including funding and solvency obligations.

It's unfair that employers who do not provide a pension plan pay the same CPP premiums as employers who do provide a pension plan to their workers.

Our proposal would address this unfairness by creating an incentive for employers to provide pension plans. Employers would have a choice – they could contribute to a workplace pension plan, or pay higher CPP premiums – either way, it would ensure that employers rightfully contribute to ensuring their workers are able to retire with financial security and dignity.

A Realistic Solution to Canada's Pensions Crisis

The objective of our proposal is to provide a positive and realistic solution to Canada's pending pension crisis while maintaining the sustainability of CPP. The increased benefit coverage for those workers not covered by a workplace pension plan would be paid for through increased CPP contributions from those employers who have neglected their obligations to contribute their fair share to the retirement security of their workers.

Table 1
Percentage of Paid Workers Covered by a
Registered Pension Plan (RPP) by
Jurisdiction

Jurisdiction	1991	Year of highest %	2005	% decline from highest year to 2005
Canada	45.3%	46.3% - 1975	38.5%	7.8%
Newfoundland & Labrador	50.8%	56.7% - 1995	50.9%	5.8%
Prince Edward Island	36.3%	38.1% - 1993	32.8%	5.3%
Nova Scotia	48.0%	49.0% - 1992	41.1%	7.9%
New Brunswick	42.4%	47.3% - 1983	39.6%	7.7%
Quebec	49.5%	49.5% - 1991,2 &3	41.5%	8.0%
Ontario	45.1%	47.9% - 1973	37.5%	10.1%
Manitoba	50.8%	52.7% - 1992	46.3%	6.4%
Saskatchewan	49.5%	51.0% - 1993	48.7%	2.3%
Alberta	40.4%	44.2% - 1983	33.1%	11.1%
British Columbia	38.7%	50.3% - 1979	34.4%	15.9%

Source: Statistics Canada, **Pension Plans in Canada** and **Labour Force Survey**