Submission

by the Canadian Union of Public Employees (CUPE)

to the

Department of Finance Canada's

Consultation Paper entitled

"Voluntary Supplement to the Canada Pension Plan"

Submitted: September 10, 2015 by email

MJ/wl:cope 491

Overview

Of the nine questions the government set out in its consultation document, CUPE will only answer the first one: *"Do you believe a voluntary supplement to the CPP should be an option for Canadians to save for retirement?"* CUPE's answer is a clear NO. The other eight queries posed by the government are all loaded questions that depend on a positive response to this first question. The bulk of the questions are therefore designed to stimulate replies favourable to the government's proposal as a whole. CUPE does not view this as a legitimate form of consultation: the government should be listening to Canadians in an open way, not leading them to endorse the government's pre-determined, narrow and ideological policy choice.

If indeed the government had listened to Canadians since 2009 (when CUPE and the labour movement launched our most recent campaign to expand the Canada Pension Plan), this consultation would be unnecessary. We would already be six years into a real expansion of the Canada Pension Plan. All Canadian workers (private sector, public sector, non-union, union and the self-employed) could be well on the road to better, more secure retirements. However, the Harper government's dogged ideological opposition to real CPP expansion—despite the overwhelming support of provinces, stakeholders, experts, and the Canadian people—has meant years of uncertainty and stalemate, years in which Canada's broad-based retirement income crisis has intensified under this lack of federal leadership. Canadians clearly understand the bleak prospects they currently face, which is why they so strongly support real, mandatory CPP expansion, in increasing numbers.

Yet the federal government has ignored the clear will of the public, the provinces, and stakeholder groups by proceeding with this deeply-flawed and politically-motivated consultation on a "Voluntary Supplement to the Canada Pension Plan." CUPE views this consultation as an electoral tool: an eleventh-hour sideshow designed to distract from the government's larger failure on a very popular public policy initiative: real, mandatory CPP expansion. The government's proposal here seeks to politically capitalize on the CPP's good brand and trusted name, despite completely up-ending all of the major principles of the CPP. The CPP is a mandatory program that delivers fully-indexed, secure defined benefits funded by efficient risk pooling and shared contributions by employees and employers. However, now the government proposes something they call a kind of supplementary "CPP," which, in fact, looks nothing like CPP: the government version is a voluntary and individualized supplement that would only deliver insecure, risky benefits and would absolve employers of their obligation to contribute or participate.

CUPE strongly rejects the government's proposal because:

1. **Canada faces a significant broad-based retirement income problem**
2. **Conservatives know a voluntary CPP supplement won't work**
3. **Another voluntary savings scheme won't solve the crisis**
4. **Employers would not be required to contribute**
5. **The proposed supplement would only provide insecure benefits**
6. **The government should stop blocking real CPP expansion**

This voluntary supplement would simply not be effective. Canadians need and deserve the real solution that has been in front of the government for years: real, mandatory CPP expansion.

1. Canada faces a significant broad-based retirement income problem

Most provinces and pension experts agree that Canada faces a serious and widespread retirement income problem that is getting worse with each year of federal inaction.

We are already seeing some of the cracks growing in our pension system. While the government boasts that "Canada has one of the lowest low-income rates for seniors," this is largely because one in every three seniors currently receives income from the Guaranteed Income Supplement. Without this federal assistance program, these seniors would be living in poverty.

Yet today's retirees generally worked in a labour market more conducive to a decent retirement: there was a bigger public pension system, better, more common workplace pensions, more stable, full-time employment and rising real wages. Even within this structure, 1 in 3 current seniors ended up on the edge of poverty. More than half of Canadian retirees continue to carry debt, to the point where seniors are reportedly the "fastest growing risk group" for insolvency.[1]

When we consider the negative labour market changes in recent decades, it's clear that the challenges faced by current seniors are the first troubling indications of a growing pension crisis that will be most acutely felt by future generations of retirees. We should not look exclusively at today's *seniors* to conclude that the retirement income system for today's *workers* is sufficient, for much has changed in recent years. The realities of today's labour market will take decades to manifest themselves in future retirees' outcomes. Public pension programs and workplace pension plans are under attack and have been scaled back (11 million workers currently don't have a workplace pension plan), good, full-time employment is harder to find and real wages for most workers have been stagnant. No wonder more and more Canadians are dipping into their retirement savings just to make ends meet before leaving the workforce, which of course makes their retirement goals even harder to reach.[2]

These well-documented trends clearly suggest a decent retirement will be harder to achieve for future generations. This is indeed the hard conclusion reached by numerous studies that have considered these labour market realities and looked to the future to project likely outcomes:

- In the most rigorous projection performed in Canada, former assistant chief statistician at Statistics Canada and Canada Research Chair, **Michael Wolfson,** concludes that half of middle class baby boomers will experience a drop in living standards of at least 25% when they retire,

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[1] Hoyes Michalos & Associates, "Joe Debtor: Marginalized By Debt," May 2015, http://www.hoyes.com/wp-content/uploads/2015/05/Joe-Debtor-2015-Marginalized-By-Debt.pdf
[2] Global News, "Retirement lost: More Canadians are cashing out RRSPs early", February 23, 2015, http://globalnews.ca/news/1798984/retirement-lost-cash-strapped-canadians-cashing-out-rrsps-early/

and that the problem gets worse with each successive sub-set of the boomer generation, suggesting that things are not getting better.[3]

- A **University of Waterloo** and the **Canadian Institute of Actuaries** study that says that 2/3 of Canadian households are not saving at levels required to meet necessary living expenses.[4]

- A report by the **Canadian Imperial Bank of Commerce** that projects that around 1/3 of baby boomers will experience a drop in consumption of 20% or more when they retire and that subsequent generations will face even larger challenges (more than 1/2 of children of the 1980s are projected to experience the same steep drop).[5]

- A study for the **CD Howe Institute** concludes that significant portions of future generations will face steep drops in consumption in retirement. Whereas less than 50% of today's retirees see a drop in living standards in retirement, by 2050, 75% of new retirees will see their consumption drop (the drop will be significant for more than half of these retirees). The authors write, "After four decades of improvement, the proportion of newly retired individuals unable to replace at least three-quarters of their average pre-retirement consumption from the sources we model is projected to nearly triple over the next 40 years." The study shows effects across the income spectrum.[6]

This body of research reaches three main conclusions: 1) our retirement income system is not performing as well as it used to or as well as it could, 2) significant portions of the "baby boom" generation will face serious drops in living standards in retirement, 3) the problem is projected to get worse with subsequent generations of retirees.

Working Canadians of course understand their own financial realities quite well. Their clear pessimism towards their ability to retire is largely consistent with the research cited above:

- Two in three Canadians report having not put enough aside for retirement.[7]

- Two in three Canadians report that retirement savings is a source of stress and anxiety for them.[8]

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[3] Michael Wolfson, "Projecting the Adequacy of Canadians' Retirement Incomes: Current Prospects and Possible Reform Options", April 2011, http://irpp.org/wp-content/uploads/2014/05/Wolfson-No17.pdf
[4] University of Waterloo & Canadian Institute of Actuaries – "Planning for Retirement: Are Canadians Saving Enough?", June 2007, http://actuaries.ca/members/publications/2007/FINAL%20CIA_Retirement_E.pdf
[5] CIBC, Benjamin Tal and Avery Shenfeld, "Canadians' Retirement Future: Mind the Gap", Feb 20, 2013, http://research.cibcwm.com/economic_public/download/if_2013-0220.pdf
[6] Kevin D. Moore, William Robson, Alexandre Laurin, CD Howe Institute Commentary - "Canada's Looming Retirement Challenge: Will Future Retirees Be Able to Maintain Their Living Standards upon Retirement?, Dec 2010, https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed//Commentary_317.pdf
[7] Globe and Mail, "Retirement anxiety: Even the secure have questions", Feb 25, 2015, http://www.theglobeandmail.com/globe-investor/personal-finance/retirement-rrsps/retirement-anxiety-even-the-secure-have-questions/article23178715/
[8] Franklin Templeton Investments, "Canadians Look Forward to Retirement but Wrestle with Savings Concerns", February 24, 2015, https://www.franklintempleton.ca/downloadsServlet?docid=i677z150

- The concern for having enough retirement income was the highest economic concern cited in a survey of Ontarians.[9]

- Almost half of Canadians nearing retirement say their retirement income will be "barely adequate."[10]

The federal government, however, systematically denies the evidence that there is a growing, broad-based problem, instead arguing simply that "most working-age Canadians are on track to maintain their standards of living in retirement."

To bolster this claim, the government repeatedly points to two recent widely-discussed, but little-analyzed studies: one published by McKinsey & Company and the other released by the CD Howe Institute.[11] However, serious methodological problems underlie both of these studies that, when exposed, directly contradict the government's claim that most Canadians are "on track." These problems are best discussed by Michael Wolfson in a recent paper.[12] After a thorough discussion of the shortcomings of these two studies, Wolfson concludes: "Nothing in either of these high-profile studies seriously challenges the principal conclusion from the various in-depth studies that have used the LifePaths model: over coming decades, a large proportion of middle-income Canadians will likely face a significant reduction in their living standards after retirement."

The most troubling shortcoming of these reports is the incredibly loaded assumption made by McKinsey in their analysis. The headline version of the report (which the government repeats) is that most workers are ready for retirement: McKinsey found only 17% of workers are not "on track." But behind this figure lies a critical assumption: McKinsey felt that workers don't need to have the same ability to consume in retirement; in fact they can be "on track" even with *much less* consumption ability. McKinsey's numbers are all based on their assumption that **most workers will be considered "on track" if they can replace just 65% of their pre-retirement consumption**. After unilaterally deciding that most Canadians are fine with consuming 35% less in retirement, it is hardly surprising that McKinsey concludes that most of us will meet their dramatically lowered bar. Yet a middle class Canadian is unlikely to say they'd be satisfied with a retirement where they could only replace 65% of their working-life consumption. McKinsey analysts ran the simulation again with a 75% goal instead of a 65% goal, and, not surprisingly, the numbers of Canadians who were not "on track" doubled: the goal clearly matters a great deal.[13] Living a significantly worse life in retirement has never been and should never be a goal of our retirement income system. This directly contradicts the government's claim that "most working-age Canadians are on track to maintain their standards of living in retirement." McKinsey's conclusion was actually that most working-age

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[9] Gandalf Group, "HOOPP Survey on Pensions", May 31, 2012, http://hoopp.com/uploadedFiles/Content/Learning_Resources/hoopp_pension_survey_2012.pdf

[10] Toronto Star, "Survey reveals anxiety over retirement income", September 9, 2008, http://www.thestar.com/news/canada/2008/09/09/survey_reveals_anxiety_over_retirement_income.html

[11] McKinsey & Company, 2015. "Building on Canada's Strong Retirement Readiness."; Hamilton, Malcom. 2015. "Do Canadians Save Too Little?" C. D. Howe Commentary No. 428

[12] Michael Wolfson, Canadian Centre for Policy Alternatives, "What, Me Worry? Income Risks for Retiring Canadians", July 14, 2015, https://www.policyalternatives.ca/publications/reports/what-me-worry

[13] Wolfson, "What, Me Worry?"

Canadians won't have to reduce their consumption by more than one-third in retirement – a much different message.

The federal government did not explain its apparent acceptance of McKinsey's ratcheting down of Canada's retirement income goals, nor did the government address *any* of the highly-credible studies that suggest that Canada will confront a large retirement income problem in the coming decades. Despite the government's obfuscation, the evidence is clear that Canada is walking into a broad-based pension crisis without any leadership at the federal level.

2. Conservatives know a voluntary CPP supplement won't work

In the 2011 election, the federal Liberal Party made virtually the same CPP proposal that the Conservative government is now interested in. At that time, and afterwards, a number of Conservative MPs, including the Minister of Finance at the time, strongly and repeatedly rejected the notion of a voluntary CPP mechanism.

> Jim Flaherty, September 20, 2010 – *"Mr. Speaker, what the official opposition actually had suggested in the House was some sort of voluntary new CPP method. This was rejected unanimously by our partners in the federation when we met and discussed the issue because it would not work and because the CPP would be unable to administer it."*
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> Ted Menzies, November 23, 2010 – *"For instance, along with our provincial and territorial partners, we examined the notion of creating another supplemental, government-run pension plan. The verdict was unanimous. This was not a good idea. Ontario's Liberal finance minister, Dwight Duncan, has firmly and publicly rejected the supplemental plan as 'very costly to set up and administer.'…Indeed, during the finance committee study and elsewhere, we have repeatedly heard the same concerns from academics, labour and business."*
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> Ted Menzies, February 16, 2012 – *"But it would change the structure of the Canada Pension Plan if [the CPPIB] had to include individual accounts and voluntary contributions. They told us they could do it, but it would increase the costs… We don't need another expensive option because RRSPs are out there. You can invest in whatever."*
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> Mike Wallace, May 27, 2010 – *"The second option is a voluntary addition to the CPP whereby individuals can decide whether they want to partake in that, which I don't see as being any different from the individual deciding to invest in an RRSP, to be perfectly honest with you."*

> Mike Wallace, May 17, 2012 – *"The voluntary piece is what is at issue. Canadians are not great savers unless we take it off their paycheques, which has been the case, including for myself. If they are part of a pooled plan, it is an automatic deduction that is locked in, which is much better than the voluntary system the Liberals are advocating."*
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> Globe and Mail, March 30, 2011 - *"The idea that he is proposing has been pretty much rejected by all the provinces," a Tory war-room strategist told The Globe. "It's very cumbersome to administer, it's expensive and no one seems to be interested in it."*
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> Kelowna.com, June 14, 2010 – *"Flaherty dismissed a suggestion from the Liberals that a voluntary contribution fund be added to the CPP. He said that was tried in the United Kingdom and it was a disaster. He wants to move forward with a modest, phased-in mandatory increase to the Canada Pension Plan."*

The only thing that has changed in the Canadian pension landscape since that time is that the labour movement's campaign for real CPP expansion has only gained in stakeholder and public support.[14] This fact further reinforces CUPE's belief that this consultation is more about deflecting attacks on the federal government's failed record on pensions during the election, than it is about enacting real solutions that will actually work. The Conservative caucus clearly agrees with CUPE that a voluntary CPP scheme will fail.

3. Another voluntary savings scheme won't solve the crisis

Canada, like most OECD countries, has decades of experience with voluntary retirement savings plans. Indeed we already have a wide variety of vehicles in our voluntary third pillar (PRPP, RRSP, TFSA, etc). The Canadian experience has clearly shown that tax-assisted, individualized, voluntary savings plans do not attract widespread use and are generally used by those at the top of the income distribution. As detailed above, as we have a widespread retirement income problem, particularly among today's working middle class and young Canadians, a voluntary system simply can't be the basis for solving our growing problem.

Consider the following Canadian examples of voluntary retirement income systems:

- The RRSP system has been in place since 1957. Like the proposed supplementary CPP system, RRSPs are completely voluntary for individuals (and for employers, who, from time to time, offer some kind of RRSP match). After spending untold millions of dollars in advertising during the annual "RRSP season," the banks were only able to convince **23%** of Canadian tax filers to make

[14] Globe and Mail, "Canadians support increasing CPP benefits, poll finds", May 4, 2015, http://www.theglobeandmail.com/news/politics/canadians-support-increasing-cpp-benefits-poll-finds/article24234182/
Gandalf Group, "HOOPP Survey on Pensions",

an RRSP contribution in 2013.[15] After over 60 years of operation and advertisement, the RRSP system is approaching one trillion dollars in unused contribution room.[16] The use of, and tax expenditure on, RRSPs is tilted towards the upper end of the income spectrum.

- Approximately the **same low number** of Canadians contribute to a Tax Free Savings Account annually.[17] The number of TFSA holders who contribute to their TFSA has been declining each year since the program began. In 2013, there was one TFSA holder who withdrew from their account for every TFSA holder who contributed (raising doubts about its merits as a retirement income program), and the dollar ratio of withdrawals to contributions has been increasing each year since the program began. The Parliamentary Budget Officer has repeatedly confirmed that the TFSA is a regressive program that disproportionately benefits high income and high wealth Canadians.[18]

- The Saskatchewan Pension Plan operates broadly on the same principles as the federal government's proposed CPP expansion plan: a publicly-administered, not-for-profit, defined-contribution style plan administering individual accounts, with no requirement for contributions, either from employees or employers. In nearly 30 years of operation, the plan has just over 33,000 members – **not even 4%** of Saskatchewan's population (or potentially less, as the plan admits members from all provinces).[19] The average pension from the plan for new retirees is just $154 per month. This is clearly not the basis for a real solution.

Savings Vehicle	Voluntary / Mandatory	Participation Rate
RRSP	Voluntary	23%
TFSA	Voluntary	24%
Saskatchewan Pension Plan	Voluntary	at most 4%
Canada Pension Plan	Mandatory	Virtually 100%

The government also uses international examples to justify its position, including the voluntary tier of the Chilean pension system. The OECD has examined this tier and concluded that due to its voluntary nature

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15 Statistics Canada, "Registered retirement savings plan contributions, 2013", February 13, 2015, http://www.statcan.gc.ca/daily-quotidien/150213/dq150213b-eng.htm
16 Statistics Canada, Table 111-0040
17 Response to Inquiry of Ministry Q-1133, March 25, 2015
18 Parliamentary Budget Officer, "The Tax-Free Savings Account", February 24, 2011, http://www.pbo-dpb.gc.ca/files/files/TFSA_2015_EN.pdf, "Update of PBO's Tax-Free Savings Account Analysis", April 27, 2015, http://www.pbo-dpb.gc.ca/files/files/Budget_2015_Analysis_TFSA_changes_EN.pdf
19 Saskatchewan Pension Plan, Annual Report 2014, http://www.saskpension.com/pdfs/annual_reports/2014ARforweb/FLASH/index.html

it is “not a widely used savings vehicle. In fact its use is highly concentrated on high income earners and top executives in some companies.”[20] The US Social Security Administration also examined the Chilean voluntary tier and reached the same conclusions.[21] Statistics from the Chilean pension regulators demonstrate that after more than a decade of promotion and government incentives to participate, only about 10% of Chilean workers even have voluntary accounts with funds in them.[22]

In discussing voluntary pension plans, the OECD unequivocally concluded that “the assessment of policy options to broaden coverage and increase contribution levels suggests that compulsory enrolment is the most effective one in achieving high and uniformly distributed levels of coverage.”[23] Academic Jonathan Rhys Kesselman examined the full spectrum of pension plans and concluded that voluntary DC-style public plans (as the government proposes) have a low rating for coverage adequacy while mandatory DB-style public plans (the current or expanded CPP) had a high rating. This advantage ultimately proved to be a critical factor in his overall preference for an expansion of mandatory CPP over a voluntary supplement or other possible changes.[24]

The government sells the voluntary nature of the system as providing “more choice” for Canadians. However, (as Ted Menzies acknowledges above) Canadians already have a wide variety of choices in the “third pillar” of our retirement income system: they contribute individually to RRSPs, TFSAs, or other savings vehicles and/or they can bargain a workplace pension plan or Pooled Retirement Pension Plan (PRPP) with their employer. The key point, however, is that “choice” should not be a policy end on its own. We could have a retirement income system with a great number of choices, but if those choices are generally ineffective and typically only benefit the wealthy, then most Canadians will be left with a system that fails them, ultimately retiring without security or dignity. The evidence is clear: yet another voluntary savings plan will not solve our broad-based retirement income crisis.

4. Employers would not be required to contribute

The government’s consultation document is clear that any additional employer contributions to a supplementary savings plan would be “purely voluntary.” However, mandatory pension contributions from employers have always been a cornerstone of the Canadian retirement security system. The earliest workplace pensions in Canada were funded entirely by employers. The Canada Pension Plan was

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[20] OECD, “Chile: Review of the Private Pensions System,” October 2011, http://www.oecd.org/finance/private-pensions/49497472.pdf
[21] Social Security Administration, “Chile's Next Generation Pension Reform”, Social Security Bulletin 68:2, 2008, http://www.ssa.gov/policy/docs/ssb/v68n2/v68n2p69.html
[22] http://www.spensiones.cl/apps/boletinEstadistico/genEstudios/getExcel.php?html=b013&periodo=MjAxNDEyLDIxOA==&formato=excel
[23] Antolin, P., S. Payet and J. Yermo (2012), "Coverage of Private Pension Systems: Evidence and Policy Options", OECD Working Papers on Finance, Insurance and Private Pensions, No. 20, OECD Publishing, Paris.
[24] Jonathan R. Kesselman, "Expanding Canada Pension Plan Retirement Benefits: Assessing Big CPP Proposals", University of Calgary School of Public Policy SPP Research Papers, 3:6, 2010, http://www.policyschool.ucalgary.ca/sites/default/files/research/kesselman-cpp-online.pdf

introduced as, and remains to this day, a plan funded equally by workers and employers. Workplace pension legislation and plan texts across Canada generally ensure that employers fund at least 50% of a pension plan. The obligation of employers to participate is a key distinction as Canadians differentiate between what is a real "pension plan" and what is a "savings account."

The lack of mandatory employer contributions is supported by the CFIB, an ideological lobby group that represents just 10% of small businesses in Canada. However, employers in other surveys have demonstrated a willingness to increase their mandatory CPP contributions.[25] Without an obligation to contribute, CUPE's view is that most employers would not pay their fair share.

Absolving employers of their obligation to share retirement contributions will shift the burden of pension funding solely to workers. We are disappointed that the federal government has repeatedly endorsed this principle: in the current consultation, in the total voluntarism of the PRPP and in its reforms of RRSP/TFSAs. Seen alongside the federal government's push for target benefit pension plans in Canada, in which employers would be able to renege on defined benefit pension promises they've already made to active members and even to retirees, it's clear that the government is entirely on the side of employers in our pension system, at a time when Canadian workers desperately need better pensions, aided, in part, by employers.

If Canada fails to solve its growing retirement income crisis, governments at all levels will face additional fiscal pressure through social and income support programs for seniors.[26] If increasing numbers of future seniors retire in poverty, for example, the federal anti-poverty GIS would automatically face significant new costs. The relationship between income and health outcomes has also been well documented, clearly suggesting that more seniors living in or near poverty in the future would put additional pressure on healthcare budgets. Since these programs are paid for by the public purse, they are therefore funded, in part, by Canadian employers. This is a simple case of employers can pay some now, or pay more tomorrow.

CUPE rejects the view that Canadian employers should have no part of funding the retirement of Canadian workers. We know Canadians feel the same way.[27]

5. The proposed supplement would only provide insecure benefits

The CPP currently provides a defined benefit from retirement for life that is fully-indexed to inflation. Benefits are determined from a specific formula referencing years of contributory service and earnings. In general, the plan aims to deliver a 25% replacement rate (up to the YMPE ceiling) throughout

[25] Morneau Shepell, 60 Second Survey, "An Expanded CPP Gains Broad Acceptance from Employers Surveyed by Morneau Shepell", December 5, 2013, http://morneaushepell.mediaroom.com/2013-12-05-An-Expanded-CPP-Gains-Broad-Acceptance-from-Employers-Surveyed-by-Morneau-Shepell
[26] Boston Consulting Group, "Defined Benefit Pension Plans: Strengthening the Canadian Economy," 2010. This study describes how decent pension plans relieve pressure on the federal GIS.
[27] Gandalf Group, "HOOPP Survey on Pensions"

retirement. Canadian retirees benefit from the security of knowing what their CPP payment will be and having confidence that their benefits won't be reduced.

The government's consultation paper makes it clear that the benefits in its proposed "voluntary supplement" would work completely differently. The government states: "Upon retirement, the payment provided is based on the accumulated contributions and investment returns. There is not a pre-determined level of payment."

In other words, the government's "supplement" would replace the trusted, secure, defined benefit nature of the current CPP with the risky, individual approach inherent in defined contribution plans or savings plans.

This would be a huge loss of efficiency and security for Canadian workers when compared to the labour movement's plan for CPP expansion. The CPP provides secure, defined benefits at affordable costs because it can spread the funding obligations and risks across a very large membership. The government's individualized approach would lose many of these efficiencies. Every worker would have to individually bear the entire risk of outliving their own supplementary savings (also called the "longevity risk"), rather than collectively pooling that risk, and insuring themselves against it, as the CPP does now. No worker outlives their CPP benefits.

Workers would face the same insecurity with respect to investment risk as well: bearing the risk of an ill-timed market crash alone as an individual, rather than pooling and managing that risk over time in the plan as a whole, guided by prudent actuarial analysis and provincial co-operation. Even through the recent financial crisis—the worst since the great depression—the CPP continued to deliver its promised defined benefits without an increase in contribution rates, and federal actuaries say the plan is sustainable at those rates for at least the next 75 years. If the CPP was instead invested in individual accounts, the impact of the recent market crash would have been totally borne by the cohort of workers who happened to retire – either voluntarily or involuntarily – at the wrong time. This is a risky, unnecessary approach and we can do better.

6. The government should stop blocking real CPP expansion

The labour movement has long championed a real expansion of the Canada Pension Plan. The most recent CPP campaign from the labour movement began in 2009 and has steadily picked up public support and stakeholder and expert endorsements ever since. Our plan would see a modest, phased-in increase in CPP contributions for workers and employers that would enable a fully-funded doubling of CPP benefits. Had this expansion already been phased in today, the average new CPP recipient would be receiving over $1200 in CPP benefits per month, rather than the mere $600 they receive today.

Unlike the government's current proposal, the labour movement's plan for CPP expansion would: 1) benefit virtually all workers, 2) require employers to contribute their fair share, and 3) provide secure benefits for life, indexed to inflation. The government's proposal, on the other hand, fails on all of these fronts. There is simply no comparing the merits of these two different proposals.

The list of supporters for real CPP expansion is long and diverse: the vast majority of provinces, the Canadian Labour Congress and virtually all labour unions, the Canadian Federation of Students, the Canadian Association of Retired Persons, the Congress of Union Retirees of Canada, the Federation of Canadian Municipalities, pension/financial experts from across the political spectrum (such as David Dodge, Jim Leech, Michael Wolfson, Monica Townson, Bernard Dussault, Bob Baldwin, Keith Horner, and Jonathan Rhys Kesselman), and diverse editorial boards (the Globe and Mail, the Calgary Herald, the Toronto Star, the Winnipeg Free Press, the Saskatoon Star Phoenix, the New Brunswick Telegraph-Journal, and the Vancouver Sun). Most importantly, public opinion polls consistently show that Canadians support a mandatory expansion of the CPP. The level and breadth of support for a national public policy that has been stonewalled federally is unprecedented.

The Harper government dismisses mandatory CPP contributions as a "payroll tax." Yet this very consultation paper spells out in great detail what CPP contributions entitle an individual to: a fully-indexed, defined benefit pension for life from a pension that "will be there for them when they need it." There are clearly two sides to the equation (contributions & benefits), but the government, disingenuously and simplistically, only focuses on one side of this ledger. An individuals' CPP contributions are directly connected to that individual's CPP benefit – particularly in a fully-funded CPP expansion as we've proposed – and therefore should not be considered a tax. The CRA clearly makes this distinction, but the government prefers to change this language for political purposes. On this point, the Globe and Mail was clear: "It sounds like a tax increase. It's not. It's a savings plan. And it's the best one we've got."[28]

CUPE also continues to strongly reject the notion that a modest, phased-in increase in CPP contributions will do economic damage to the Canadian economy. When CPP contributions were increased over a number of years in the reforms of the late 1990s, many voices on the political right argued, much as they do now, that the increased contributions would kill jobs and the economy. However, the economy grew steadily over this period and the unemployment rate fell, even as CPP contributions increased. The federal government makes the same "job killing" claims today, largely citing recent research from the CFIB. However, the CFIB's research was done by the *same analyst* whose predictions that there would be "severe macroeconomic consequences" from CPP contribution increases in the 1990s were subsequently proven very wrong.[29] On top of this, the government's recent projections of impacts on jobs assumed, incorrectly, that contribution rates would increase immediately and without notice, which is not the labour movement's proposal (we propose a seven-year phase-in period for contribution increases).

The government also repeatedly fails to cite the large economic conclusion raised by the study performed for Canada's finance ministers: "in the long term, an increase in CPP benefits would bring economic

[28] Globe and Mail editorial, "Bigger CPP would be better," October 18, 2013
[29] CFIB, "Forced Savings: Economic impacts of raising CPP/QPP retirement benefits and premiums", November 2010, http://www.cfib-fcei.ca/cfib-documents/rr3210.pdf
Peter Dungan, "The CPP Payroll Tax Hike: Macroeconomic Transition Costs and Alternatives," Canadian Public Policy XXIV:3, 1998

benefits by increasing retirement income and consumption possibilities for seniors." Recent research has highlighted the positive macroeconomic impacts on jobs and GDP that decent pension plans have.[30] Good pension systems like CPP therefore have positive revenue effects for governments, but they also lower government spending at all levels by reducing seniors' dependency on social and income support programs, such as the federal Guaranteed Income Supplement. A recent study found that federal spending on the GIS was actually $2-3 billion lower because of the lowered dependence of retirees who were defined benefit pension plan members. Good pensions grow the economy and have positive fiscal effects for governments.

An expanded CPP would be a key part of building a bigger, better, and more secure economy for all Canadians.

Conclusion

Real, mandatory CPP expansion is the best way to solve our growing retirement income crisis, and it could have already been enacted were it not for the opposition of the Harper government. CUPE is disappointed that the federal government's repeated ideological insistence on individualized schemes has led to its stonewalling of this widely-supported, common-sense proposal. We are also disappointed that the government has prioritized this consultation at the 11th hour, which we view as a useless sideshow and electoral deflection from the Harper government's shocking failure to address an area of broad social and economic anxiety among working Canadians. This country deserves better.

MJ/wl:cope 491

September 9, 2015

[30] Conference Board of Canada, "Economic Impact of British Columbia's Public Sector Pension Plans," October 2013; Boston Consulting Group, "Defined Benefit Pension Plans: Strengthening the Canadian Economy," 2010.