CUPE•SCFP Canadian Union of Public Employees
Syndicat canadien de la fonction publique

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July 19, 2010

Honourable Shawn Graham
Premier of New Brunswick
Centennial Building, P.O. Box 6000
Fredericton, NB
E3B 5H1

Re: Canadian Pension Plan Enhancements

Dear Premier Graham,

The Canadian Union of Public Employees is Canada's largest union, representing more than 600,000 public sector members working in virtually every community across the country. Our members work on the front lines delivering public services in health care, education, municipalities, public utilities, community and social services, housing, libraries, post-secondary education, child care, airlines and many more sectors of the economy.

Following the June 2010 meeting of federal, provincial and territorial finance ministers, Federal Finance Minister Flaherty announced the Ministers had reached "consensus" to consider a "*modest phased-in and fully funded enhancement to defined benefits under the Canada Pension Plan*".

We understand that Prime Minister Stephen Harper is supportive of such changes. We hope that you will join him in supporting immediate legislative amendments to the *Canada Pension Plan*. As you are aware, such amendments require the support of at least two thirds (2/3) of the provincial Legislative Assemblies representing not less than two thirds (2/3) of the population of all of the included provinces.

Enhancing the Canada Pension Plan ("CPP") will provide secure defined pension benefits for all Canadians (including the self-employed) who pay earnings-related contributions during their working years. Approximately 60% of Canadian workers rely almost exclusively on CPP benefits for their retirement income because they have no workplace pension plan and no Registered Retirement Savings Plans. The CPP levels the playing field for all employers to contribute to the retirement security of their employees without administratively complex and costly private arrangements.

The CPP works because of the following features:

- Universal coverage of all workers in all industries to provide defined retirement benefits as well as survivor, and disability benefits;
- Fully portable across the country regardless of the number of employers and number of jobs;
- Jointly funded by employees and employers (4.95% each – 9.9% combined) on earnings up to annual maximum of $47,200 (2010);
- Inflation-indexed to CPI;
- Actuarially sound for the next 75 years;
- CPPIB invests assets of $123.9 billion. The Paris-based Organization for Economic Cooperation and Development confirmed the CPPIB reserve fund had one of the best-performing investment returns during the 2005-09 boom-and-bust period;
- Administration fees of less than 0.05% of assets, far lower than management expense ratios for privately administered assets.

The Canadian Union of Public Employees supports the following modest and specific enhancement to the Canada Pension Plan:

✓ Phased in implementation of a replacement rate of 50% of the average wage;

✓ A seven year phased-in gradual increase in mandatory employer/employee contribution rates to the CPP to pay for this increased replacement rate.

Since 1966, the CPP has only provided a replacement rate of 25% of the average wage. As of 2010, the maximum monthly payment for CPP benefits is only $934.17 (or $11, 210.04 annually) to a 65 year old who had maximum work force participation and maximum earnings. As of May 2010, the average retired Canadian received only $502.05 per month (or $ 6,024.60) in CPP/QPP benefits. This is clearly insufficient for the vast majority of Canadians without access to a workplace pension plan or with insufficient personal savings.

If the federal and provincial governments agreed to phase in the implementation of a replacement rate of 50% of earnings up to the average wage instead of the current 25%, Canadians would be able to start earning twice the benefit level currently available under the CPP for all future contributions. This reform will primarily benefit younger workers.

Precedent for reform exists. The federal and provincial governments previously reached agreement to increase CPP contribution rates. Effective January 1, 1998, the contribution rate was gradually increased from 1.8% of yearly contributory earnings to 4.95% each by employees and employers by 2003 (self employed persons pay the total amount of 9.9%).

These increased contributions did not cause businesses to fail. They are not a 'payroll tax' because they do not go into general government revenues. They go to provide a direct future benefit to Canadians for retirement with dignity. The CPP Investment Board invests our contributions in the economy. CPP benefits themselves are re-spent in the community by retirees.

As a result of the last CPP contribution increases, the federal and provincial governments agreed that future CPP benefit improvements had to be funded. Accordingly, our plan to increase the replacement rate to 50% requires increases in contributions by employer and employees.

Over seven years, CPP premiums would slowly rise by 0.4% each year of pensionable earnings (which are capped at $47,200 today). The contribution rate would increase from the current 4.95% of salary to 7.8% of salary, for both employer and employees for a total of 15.6%.

We do not know what the average wage will be over the next seven years. However, even if the full contribution increase was effective today, the most a Canadian worker would pay annually would be $3,408.6, up from the current maximum of $2,163.15. For a maximum additional contribution of $1, 245.45 per year, working Canadians will be eligible for increased CPP benefits that will last a life time.

Employers would also, at most, pay an additional $1,245.45 per year in order to ensure an adequate retirement security for employees. Since all employers would be required to pay these contributions, small employers would not be at a competitive disadvantage vis a vis large employers who are more likely to offer workplace pension plans to supplement the CPP.

Workers who are currently under thirty (30) years of age will have the opportunity to reap the full benefit of these increases over a forty year period. Further, because the CPP is fully portable, it will not matter how often a young worker changes jobs or provinces - the contributions and the benefits of CPP continue.

Guaranteed Income Supplement

Improvements in the CPP will still require improvements in Old Age Security ("OAS") and Guaranteed Income Supplement ("GIS"). CPP contributions and benefits are based on earned income. Accordingly, people with low earnings will still receive low CPP retirement benefits, even if the CPP replacement rate is doubled to 50%.

Women in particular live in poverty as they age. Women earn less money than men, and are also disproportionately represented in the low-wage, precarious, part-time, and insecure categories of employment so their CPP and workplace pension benefits are lower. Women's greater longevity operates against them with respect to private savings, RRSPs, and defined contribution type pension plans in the system, as they need to stretch their fewer funds over a longer period of retirement.

The OAS and GIS are run entirely by the federal government and funded out of general tax revenues. We hope you will work with us to ensure the federal government provides for an immediate 15% increase in the GIS portion of the OAS to help lift the remaining approximately 200,000 Canadian Seniors living below the low-income cut off point. These poorest of Canadian Seniors will spend every penny of additional money in their local communities. It is the least we can do as Canadians.

The members of the Federation of Canadian Municipalities passed an emergency resolution at their recent convention in May, 2010 which explicitly called on the federal government to increase the Guaranteed Income Supplement (GIS) for seniors by 15%, as well as to enhance the CPP.

Conclusion

Our plan to increase the replacement rates to 50% of the average wage, funded by gradual increases to employer and employee contribution rates meets the test of a "*modest phased-in and fully funded enhancement to defined benefits under the Canada Pension Plan*". It is the most effective way to provide relief for the bulk of Canadians who already obtain some level of retirement security through the CPP.

We are very encouraged by the positive feedback we have received from our members and the public on our proposals which have clearly struck a chord. We encourage you to build on this support and establish a truly secure and comprehensive public pension system.

Yours truly,

Paul Moist.

PAUL MOIST
National President
Canadian Union of Public Employees

Cc: Prime Minister, Stephen Harper

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