Federal Budget 2009 and Pensions

What's in the budget?

The 2009 Budget contains several measures that apply to federally regulated pension plans, including:

- Repetition of an earlier proposal found in the "*Economic and Fiscal Statement", November, 2008,* to temporarily *reduce* the legal funding obligations on pension plans facing funding shortfalls;
- Proposal for a rule change that will permit pension plans and employers to *defer* certain pension funding obligations through an expansion of the use of method that applies a rolling average to asset values, or "smoothing" in pension valuations
- Re-announcement of the consultation on federal jurisdiction pension legislation that was already announced January 9.

The Budget also announced:

- Provision of an increase of $1,000 to the Age Credit for income tax exemption;
- Reduction by 25% of the requirement for minimum annual withdrawal from Registered Retirement Income Funds (RRIFs);
- Extension of the Canada Deposit Insurance Corporation (CDIC) deposit protection to Tax-Free Savings Accounts (TFSAs);

What does it mean?

The measures outlined above indicate that the Government is determined to ignore the enormous financial losses of recent months and the rise of severe economic insecurity for Canada's current and future seniors. In the wake of the 2008 collapse of valuations on Canadian stock markets, and with over $100 billion in value having evaporated specifically from workers' pension funds and retirement savings, the Government is offering minor tinkering with tax measures.

For instance, the increase in the Age Credit by $1,000, from the current $5,408 to $6,408, will cost some $200 million as a tax expenditure. But this amount pales in comparison with the economic losses already suffered by many retirees, to say nothing of those workers (and future retirees) whose savings and pension entitlements will be further weakened due to increasing unemployment and employer attacks on pension benefits.

In addition, the confirmation of the Government's intention to actually *reduce* and *defer* the funding obligations of employers with federally-regulated pension plans will be cold comfort to pension plan members worried about the continuing absence of any form of pension insurance to backstop their funds.

In fact, the true political colours of this Budget are shown in the Government's decision to extend CDIC deposit insurance protection to the recently-established Tax-Free Savings Accounts (TFSAs). These accounts, designed to work much like RRSPs, are yet another scheme destined to be tapped primarily by Canada's wealthiest and highest income individuals since they will benefit the most from being able to deduct TFSA earnings from their income. Meanwhile, most Canadian workers will continue to rely primarily on their limited pension entitlements from Old Age Security (OAS) and the Canada and Québec Pension

Plans (C/QPP) that the Budget did nothing to improve.

What would be better choices?

Under the circumstances, it is abundantly clear that real and universal retirement income security can only be provided through adequate public pensions. CUPE has argued for immediate improvements to Old Age Security, something the federal government has the jurisdiction and power to implement on its own. Further, we have urged the federal government and all provincial governments to convene a national pension summit in order to develop a serious program for phasing-in a doubling of the benefit levels of the Canada and Québec Pension Plans. These proposals would offer meaningful and greatly needed income security to an increasingly vulnerable population.

In addition, while the Government has been eager to extend deposit insurance to TFSAs, and increase deposit protection levels for the banking industry, they stubbornly refuse to recognize the proven wisdom of similar insurance arrangements for workers' pension funds. In November 2008 the Government of Ontario received a report from an "Expert Commission" on pensions that recommended a dramatic expansion of the successful pension insurance arrangement in that province. If the Government of Canada was serious about protecting the incomes of Canadian seniors, this Budget would contain an announcement of a new pension guarantee fund based on the successful models of other jurisdictions.

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