

# **Move Forward Together, or Fend for Yourself?**

## **The Future of Canadian Pensions**

### **3<sup>rd</sup> CLC Pension Conference Discussion Paper**

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**Canadian Labour Congress**

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**Congrès du travail du Canada**

## I. Executive Summary

The 3<sup>rd</sup> CLC Pension Conference will energize and focus labour's campaign for pension protection and retirement security. This discussion paper aims to generate debate before, during, and after our conference proceedings.

The 3<sup>rd</sup> CLC Pension Conference takes place at a key moment for working people and retirees.

Many Canadians are worried about their pensions, and concerned for their retirement security.

Without question, today's research on pension trends offers an unsettling picture.

Only 38.5% of Canadian workers have workplace pensions,<sup>1</sup> and almost one-third have no retirement savings at all.<sup>2</sup> Despite some improvement in recent decades, an alarming number of retirees—particularly single women, aboriginal peoples, recent immigrants, and those with disabilities—still live in poverty.<sup>3</sup>

The “haves” with decent pensions are told their benefits are no longer affordable, and fear losing them in corporate bankruptcy. The “have nots” are either gouged by excessive RRSP fees, or forgotten altogether.

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<sup>1</sup> Statistics Canada, “Pension Plans in Canada”, *The Daily* (June 21, 2007). A additional note for readers: in this paper, the term “workplace pension” is used instead of traditional references to “registered pension plans”.

<sup>2</sup> Statistics Canada, “Survey of Financial Security”, *The Daily* (December 7, 2006).

<sup>3</sup> National Advisory Council on Aging, *Seniors on the Margins: Aging and Poverty in Canada* (2005).

Meanwhile, corporate CEOs, the “have mores” of our society, tell workers to expect less while demanding gold-plated pensions for themselves.

Despite these discouraging trends, there is good news: it doesn't have to be this way.

Canadians shouldn't have to “fend for themselves” in retirement while a select few hoard the pension wealth. Working people and retirees deserve better.

Canada's financial kingpins, the Bay Street crowd who promote RRSPs for working people, are the real beneficiaries from a “fend for yourself” approach to pensions. They reap the hefty fees that come from individual retirement accounts.

With that in mind, our pension conference poses a key question for working people, and Canada's political leaders:

***“Move Forward Together, or Fend for Yourself?  
The Future of Canadian Pensions”***

To answer this question, our conference will demonstrate the value of Canadians moving “forward together” in their golden years.

We will kick-start a campaign to expand cooperative pension options: secure workplace pensions, and an expanded CPP. These plans get value for our retirement money, for our deferred wages.

Working people also need tough laws to ensure we get the pension we earned. We need rules that put workers' interests first in corporate bankruptcy, a system of national pension insurance, and firm limits on pension administration fees.

Lastly, working people need cooperative options for affordable long-term care and prescription drugs.

To meet these needs, our conference proposes five key pension demands for the CLC's Better Choice campaign:

- 1. Workers should get the pension they earned**
  - put workers' interests first in corporate bankruptcy
  - firm limits on pension administration fees
  
- 2. All workers deserve decent pension coverage**
  - expand CPP benefits
  - encourage unionization and large defined benefit (DB) plans<sup>4</sup>
  
- 3. Respect for today's (and tomorrow's) retirees**
  - increase public pensions so no retiree lives in poverty
  - address retiree concerns in pension plan governance
  - public elder care, affordable prescription drugs
  
- 4. Our pension money should work for us, not against us**
  - encourage responsible investment for pension plans
  - ramp-up union pension education programs for labour activists
  
- 5. A national "good jobs" strategy, so a dignified retirement is possible**
  - implement a national strategy for family-supporting jobs

We invite pension activists to attend the CLC's 3<sup>rd</sup> Pension Conference, and share your ideas about how to translate these demands into government policy.

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<sup>4</sup> For readers unfamiliar with DB pensions, a definition is provided on p. 6.

The rest of this discussion paper tackles three things.

First, we'll examine the typical arguments against the demands posed by this paper, and demonstrate that none of them hold water.

Secondly, we'll offer a brief history of Canada's 80 year pension debate. This history will highlight a consistent trend of corporate fearmongering against progressive pension reform.

Lastly, with these things in mind, we'll revisit the five pension demands proposed in this paper.

We welcome comments on this discussion paper. Written submissions can be sent to: [pensions@clc-ctc.ca](mailto:pensions@clc-ctc.ca).

## II. Challenging the "pension experts": why the typical arguments don't wash

### Pension Security: It's Our Money, Period

**Typical argument:** According to some "pension experts", pro-worker reforms to bankruptcy law or pension rules are flawed and unrealistic.<sup>5</sup>

Workers won't get pension security by reforming bankruptcy law, creating a federal pension insurance system, or capping pension administration fees.

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<sup>5</sup> See: Association for Canadian Pension Management, *Back From the Brink: Securing the Future of Defined Benefit Pension Plans* (August 2005); CD Howe Institute, *Ill-Defined Benefits: The Uncertain Present and Brighter Future of Employee Pensions in Canada* (June 2007).

These things, some “pension experts” say, would discourage banks from lending money, encourage bad employers to underfund their pensions, and undermine competition as a means to reduce pension administration fees.

**CLC response:** As a rule, employers don’t like demands that pose additional costs.

This rule applies in the above “typical argument” against pro-worker bankruptcy law reform, pension insurance, or caps on pension administration costs.

But working people heard these arguments before. Fair rules are “unrealistic”. If working families get more pension security, “economic chaos” or “bad employer incentives” will result.

At the end of the day, however, bankruptcy law and pension rules must reflect what pension plans are: deferred wages for the retirement income of workers. Pensions aren’t cookie jars for others to casually dip into.

Given this essential fact, it isn’t right that bankruptcy law puts workers’ pensions at the back of the line when employers go under. All too often, after banks and others pick the carcass of a bankrupt employer, working families are left with massive cuts or nothing at all.<sup>6</sup>

The rights of workers, whose labour makes employer success possible, must come first in bankruptcy law. Recent debates in

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<sup>6</sup> See: Joel Davison Harden, *Bill C-55: A Good Step, Provided it Heads in the Right Direction* (Canadian Labour Congress: 2005).

parliament have suggested positive reforms (Bill C-55), but even these have yet to be implemented. Far more remains to be done.

On a related note, it's wrong for employers to insist federal pension insurance would help "bad employers" offload pension costs (at the expense of good employers).

That's like saying seat belts help bad drivers at the expense of the law-abiding public.

In the real world, accidents happen, and often for reasons outside our control. Highway accidents can be caused by bad drivers, but they also come from unpredictable and unfortunate incidents. For that reason, Canadian law requires drivers to carry insurance coverage for their vehicles.

The same should be true for workplace pensions. The changing winds of global capitalism means some employers will fall on hard times, and often for factors outside their control.

For that reason, Canada should create an employer-funded national system of pension insurance provinces can opt into, modeled on the framework that exists in Ontario. Measures to protect against employer abuse can be integrated into this system.

Similar reasoning has created a national system of deposit insurance for Canada's banking industry, and no employer has complained about this encouraging "bad banks".

Lastly, it also isn't right for pension providers to charge "whatever the market will bear" for administration fees.

A recent study confirmed Canada has the highest average RRSP fees in the world, which drain almost 50% of investment returns over a normal working life.<sup>7</sup> Administration fees for some workplace pensions are also too high.

Governments should set reasonable limits on administration costs for pensions, be they RRSPs or larger workplace plans.

At the end of the day, when it comes to pension security for working people, legislators have important choices to make. They can offer workers pension security through an national insurance scheme or bankruptcy law reform (or both). They can put hard caps on fees for administering pensions.

### **The Value of Defined Benefit (or DB) Pensions**

**Typical argument:** According to some “pension experts”, DB pensions are unaffordable for employers.

In most cases, DB plans calculate a worker’s pension based on years of service, multiplied by a percentage of a workers’ salary.<sup>8</sup>

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<sup>7</sup> See: Ajay Korma, Henri Servaes and Peter Tufano, *Mutual Fund Fees Around the World* (May 2006); Robin Blackburn, *Age Shock: How Finance is Failing Us* (Verso: 2006).

<sup>8</sup> Some DB plans take the best five or seven years of a worker’s salary to make this calculation, others are structured differently. In any case, a worker can make a reasonable prediction about their expected retirement income.

This is quite different from a defined contribution (or DC) plan, where your retirement income depends entirely on your pension’s investment performance (particularly in the year one retires).

Some “pension experts” think employers need “financial incentives” to maintain their pension plans. If these “incentives” aren’t introduced, they say, DB plans won’t survive.<sup>9</sup>

**CLC response:** Corporate CEOs and high-ranking public officials demand gold-plated DB pensions for themselves, and reap the benefits of DB coverage.

For some reason, they don’t think workers should have the same pension security, and that’s just not fair.

If DB plans are good enough for Canada’s employer elite, they’re good enough for workers who make employer success possible. Also, given today’s shrinking labour force, employers should use DB pension benefits to attract and retain workers. Governments could help employers by creating rules to allow the expansion of cost-effective DB coverage.

Lastly, current talk about the “excessive cost” of DB pensions misses the point. Instead, the issues should be: how can we ensure DB plans are properly funded, efficiently managed, and available to more workers?

**Further detail:** Large DB plans, pensions with predictable and secure retirement benefits, are the best retirement income to compliment public pensions for workers.

DB plans are much better than defined contribution (DC) plans or RRSPs, where workers risk having a mediocre pension if they retire in a stock market slump.

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<sup>9</sup> See: ACPM, *Back from the Brink*; CD Howe, *Ill-Defined Benefits*; David Dodge, “Getting it Right”, *Benefits Canada* (June 2007).

It's also wrong to think that employers will maintain or open DB plans if offered "financial incentives". Workers don't get "incentives" to pay their bills, and employers shouldn't need "incentives" to honour pension promises.

For what it's worth, corporate executives appear to agree. As an extended article in the *Globe and Mail* recently explained, executives typically insist on handsome, gold-plated individual DB pensions for themselves.<sup>10</sup> The same is true for high-ranking politicians.

For example, Michael Sabia, CEO of BCE, has twenty-six years of pension credits despite only leading the company for nine years.

Mr. Sabia, currently 53, can retire at age 60 with a pension of \$836,500 per year.<sup>11</sup>

Don Boudria, a long-serving federal politician, offers another case in point. Mr. Boudria served as a federal MP for twenty two years, and retired in 2006 with an annual pension of \$135,906.<sup>12</sup> Mr. Boudria, like all MPs, enjoyed decades of tax free allowances in addition to generous salaries.

These people, we are told, are "high-value" employees. Employers must offer attractive benefits to keep them.

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<sup>10</sup> See: Janet McFarland, "The Richest Pensions Turn the Clock Forward" *Globe and Mail* (May 14, 2007).

<sup>11</sup> Ibid.

<sup>12</sup> Terry Pedwell. "Turfed MPs Reap Healthy Taxpayer Funded Pensions", *Canadian Press* (January 24, 2006).

After twenty years of wage and benefit restraint, working people want the same treatment. As a tighter labour market approaches, we demand decent pensions today to ensure worker retention tomorrow.

Employers will moan about high costs, but evidence suggests there is more than enough wealth for decent pensions.

In fact, as recent studies demonstrate, the so-called “funding crisis” for DB plans has dramatically improved in recent years. According to Watson Wyatt, a corporate consultant firm, assets in Canadian pension funds exceeded liabilities by March 2007.<sup>13</sup>

With these latest reports, the apocalyptic predictions of “pension experts” have proven false.

For years, workers were told an economic “perfect storm” had put DB plans in question. Low interest rates, the collapse of dot com stocks (1999-2003), and related pension plan investment shortfalls had bedeviled DB plans.

That argument wasn’t right five years ago, and it isn't right now. Of course, it’s true that DB plans became more expensive when the tech bubble burst in global stock markets by the late 1990s.

Indeed, as Statistics Canada points out, employer contributions to DB plans after the crash jumped 52% between 2001-2003.<sup>14</sup>

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<sup>13</sup> Quoted in Grant SurrIDGE, “Pensions: Funding Levels out of Crisis”, *Financial Post* (July 10, 2007).

<sup>14</sup> Statistics Canada, “Trusteed Pension Funds: Income, Expenditures, and Assets”, *Canada’s Retirement Income Programs* (2006).

In these conditions, some employers sought to get out of their DB plans. A recent case is Nortel, who announced on June 27, 2006 it intends to switch its DB plan to a DC scheme. With a \$2 billion dollar shortfall in its pension fund, Nortel estimates it will save \$100 million USD a year starting in 2008.<sup>15</sup>

One could recite a list of employers who have made similar announcements, all in the expressed interest of reducing costs.

Here's the problem though: current talk about "excessive costs" for DB pensions avoids discussing how funding shortfalls from 2002-2007 happened in the first place.

From listening to the "pension experts", you'd think it was all an unforeseen crisis. Like George Clooney and his shipmates in the film *The Perfect Storm*, Canadian pensions were sideswiped by a disaster.

Careful research, however, reveals a different picture, one that's difficult for most "pension experts" to handle. In fact, the real story of Clooney's movie is closer to reality for DB pensions, but we'll get to that point in a moment.

Frankly, during the 1980s and 1990s, many employers thought pension plans would just pay for themselves. As returns from investments rolled in, contribution holidays, benefit improvements, and early retirement buy-outs were commonplace, and often preferred to wage increases for workers.

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<sup>15</sup> Mark Evans, "Nortel Rejigs Pension Plan", *Financial Post* (June 28, 2006).

The party was in full stride by the 1990s tech boom, where ballooning pension assets put some into fits of delirium. During these decades, despite global market trouble in 1987 and 1997-1998, few felt a cautious approach was necessary.

Contribution holidays, benefit improvements, and early retirement packages continued in earnest. Favourable economic trends made pension liabilities seem manageable. The Régie des Rentes, Quebec's pension regulator, estimates that \$2.9 billion in contribution holidays were taken in Quebec from 1991 to 2000.<sup>16</sup> Statistics Canada has identified comparable trends during this period in the rest of the country.

The collapse of dot.com capitalism, and the bear markets that followed, woke everyone from their slumber. The Enron debacle wiped \$300 billion US from assets of global pension funds.<sup>17</sup> The Nortel implosion saw the collapse of a firm that once comprised 36% of the Toronto Stock Exchange. "Pension experts" were reminded that stock market investments also involve downside risk.

For many, this was like discovering gravity in the twenty-first century. The long history of stock market slumps was ignored until the party crashed, an outcome that should have been foreseen.

This is where George Clooney's movie is more accurate than the accounts of "perfect storms" constantly offered by "pension experts".

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<sup>16</sup> See: Murray Gold, "Current Pension Issues and Trends", *Koskie Minsky LLP* (2006), pp. 11-12.

<sup>17</sup> For Enron's story and more, see: Blackburn, *Age Shock: How Finance is Failing Us*, pp. 109-147.

In the movie, Clooney's crew was compelled to far waters given competition in fish markets, and few job options at home. They worried that intense storms could swallow them up, but they had little choice. To feed their families, they went on despite the risk.

Canada's pension industry also set off on the high-rolling seas of stock markets, and not with the urgency of Clooney's crew. Still, in search of good investment returns, few assumed pension plans could suffer from stock market slumps.

Unlike other jurisdictions, Canada had no national system of pension insurance to cushion the fall of bear markets (Ontario's Pension Benefit Guarantee Fund was the exception to this rule).

By the early years of the twenty-first century, DB pensions weren't paying for themselves anymore. Employers were asked to pay increased costs for pension promises. Unions were told that these promises were unaffordable. Workers watched with horror as some blue-chip companies slashed pension benefits in bankruptcy protection.

The key issue here is this: lamenting the high costs of DB pensions today misses the point.

Without a doubt, DB pensions cost money, but the more significant theme in recent history is the lack of planning to pay for them.

Over the last two decades, few safeguards were in place to put aside pension investment windfalls in good times. If they were, today's discussion around the "excessive cost" of DB pensions would be entirely different.

As luck would have it, and it's important to use the word "luck" consciously here, Canada is experiencing another upswing in pension investment returns.

Statistics Canada reported the value of pension funds approached \$800 billion in the final months of 2005, and that pension assets have more than doubled since 1995.<sup>18</sup> Watson Wyatt's March 2007 report (cited above) confirms this trend continues.

Further still, the average rate of return on pension investments in Canada has increased, hitting 9% in 2005 and 2004, double the rates during the "bear market" years of 2001 and 2002.<sup>19</sup>

In its April 2006 issue, *Benefits Canada* reported the value of all Canadian pensions eclipsed the \$1 trillion mark.<sup>20</sup>

Corporate profits—both in international and Canadian terms—have also reached record levels as a percentage of GDP. A recent study in the April 2006 edition of the *Canadian Economic Observer* documents the growth of a massive corporate surplus in Canada, reaching a "record net lending position of \$80.6 billion by 2005."<sup>21</sup>

What do all these massive numbers mean? They mean that, unbeknownst to most working people, Canada is currently experiencing record levels of wealth.

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<sup>18</sup> Statistics Canada, "Trusteed Pension Funds: Income, Expenditures, and Assets", *Canada's Retirement Income Programs* (2006).

<sup>19</sup> Ibid.

<sup>20</sup> Caroline Cakebread, "Top 40 Money Managers Report: Trillion Dollar Baby", *Benefits Canada* (April 2006).

<sup>21</sup> See: Statistics Canada, "Recent Trends in Corporate Finance" *Canadian Economic Observer* (April 2006); Roberto Cardarelli et al., "Awash With Cash: Why are Corporate Savings so High?", *IMF World Economic Outlook* (April 2006).

As alarming trends unfold for workers, Statistics Canada reports our country's net worth reached \$140,800 per person during the first quarter of 2006.<sup>22</sup>

Clearly, when this kind of wealth exists, workers expect pension promises to be honoured. For many employers, claims that the pension cupboard is bare aren't convincing.

Today a new glut of cash is building in the coffers of many employers. Arguments around the "excessive cost" of DB pensions ignores this fact entirely.

Unlike in previous years, we must ensure that today's pension investment windfalls are managed wisely, and caution isn't encouraged by existing DB pension policy.

### **Demography isn't Destiny: Planning for Canada's Aging Society**

**Typical argument:** According to some "pension experts", increasing government spending on retiree programs isn't affordable (public pensions, public elder care, affordable prescription drugs).

For them, the costs already presented by Canada's aging society are enormous, and threaten to bankrupt existing public pensions.

Also, they say, workers aren't interested in paying more tax for higher retirement benefits.

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<sup>22</sup> "Canadians Worth \$140,800 Each: Statistics Canada", *CBC Business News* (June 23, 2006).

**CLC Response:** Research indicates Canada's public pension system is solid for the long run, but must be expanded beyond existing modest benefits.

Canada is a rich country. It can afford increased funding for public pensions, and a decent life for today's and tomorrow's retirees.

The CLC's polling research also indicates Canadians would pay for more generous CPP or public pension benefits. In a poll conducted in 2006, working Canadians told us (by a margin of 71%) they would pay more tax for higher pension benefits.

Without question, over the next two decades, our aging society will pose significant costs. By 2041, almost one in four Canadians will be over age 65, up from one in six today.<sup>23</sup> Current spending on public pensions represents about 6.5% of Canada's federal budget, and this must increase in the years to come.

But the growth of Canada's over age 65 population isn't the only policy challenge. Younger workers are also opting for smaller families, a trend that will shrink the tax base available to finance public pensions. By 1999, fertility rates in Canada hit an all-time low of 1.52 children per family.<sup>24</sup>

Still, the costs of Canada's aging society are manageable if planned for properly. Given the smaller size of today's new families,

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<sup>23</sup> Public Health Agency of Canada (Division of Aging and Seniors), "Demographic Profile of Canada's Aging Population", *Who are Canada's Seniors* (2005).

<sup>24</sup> Statistics Canada, "Trends in Canadian and American Fertility", *The Daily* (July 3, 2002).

research indicates the “baby boom” retirement bubble will deflate by 2050.<sup>25</sup>

What Canadians need is a forty-year strategy to address the challenges of a larger retiree population, and a smaller work force.

An important part of that plan is appropriate investment in public pensions. We also need government action for “good jobs”, jobs that can allow Canadians to retire with dignity.

Some will cry foul over increased government spending, but one shouldn't lose sight of the big picture here.

There's another way of looking at it: when it comes to pension security, we can either “pay now”, or “pay later”.

We can “pay now”, and invest in public pensions – a proven tool to reduce poverty among retirees. Or, we can “pay later”, and suffer the costs imposed by new generations of impoverished retirees.

We can “pay now”, and adjust CPP financing to fully-fund larger CPP benefits. Or, we can pay later, and force workers into high cost RRSPs (if they can afford RRSPs at all).

We can “pay now”, and establish public systems for affordable prescription drugs and long-term elder care. Or, we can “pay later”, and force retirees to pay millions for overpriced products.

The choice is ours. Research suggests it's cheaper and more progressive to “pay now”.

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<sup>25</sup> Blackburn, *Age Shock: How Finance is Failing Us*, pp. 12-61.

**Further detail:** for decades, Canada won international acclaim for its efforts in reducing poverty among elderly Canadians through public pensions.

Today, however, the National Advisory Council on Aging reports that 7% of all seniors still live in poverty, over 258,000 people.<sup>26</sup> Those most vulnerable are recent immigrants, visible minorities, and single women over the age of 80.

Moreover, given recent trends in employment, a majority of Canadians are finding it increasingly difficult to save towards retirement.

Since 2002, over 300,000 family-supporting jobs were lost in Canada's manufacturing sector. In recent years, thousands of public sector jobs have also been lost through government cutbacks. Most jobs created since have not been of high quality. In 2005, two-thirds of new jobs were created in low wage sectors (self-employment and temporary work).<sup>27</sup>

In this economic context, as wages stagnate or decline, Canada is currently experiencing record levels of consumer debt.

As of September 2005, most Canadians owe more than they earn. Canada, like the US, is now in the grip of a negative national savings rate, approaching 114% of earnings.<sup>28</sup> If this trend is

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<sup>26</sup> NACA, *Seniors on the Margins*, p. 9.

<sup>27</sup> See: "Job Quality Continues to Slide: Canada's Economy Sheds Another 12,000 Manufacturing Jobs in May" *Canadian Labour Congress* (June 8, 2007); Erin Weir, "The Manufacturing Crisis" *Canadian Labour Congress* (March 2007).

<sup>28</sup> See: Heather Scoffield, "Canada's Quandry: Have We Lost the Art of Saving?", *Globe and Mail* (September 14, 2005).

allowed to worsen, millions of older Canadians will retire into poverty (if they can afford to retire at all).

To avoid that outcome, we need real political leadership, and a prioritizing of government spending to address our aging society. The last four federal budgets, however, have earmarked most new funding for tax cuts and runaway military spending. Most provinces are moving in a similar “fend for yourself” direction.

A large portion of this money is better spent guaranteeing Canadians can have access to a dignified retirement. Canada desperately needs a progressive, far-reaching, and visionary plan for retirement security. Working people and retirees deserve no less.

### **The Relevance of Responsible Investment**

**Typical argument:** according to “pension experts”, federal law states pension trustees have a “fiduciary duty” to base investment decisions on the highest possible rate of financial return for the fund.

**CLC Response:** a growing body of research questions the idea that the “maximum rate of return” is the only criteria for pension trustees in making investment decisions.

A recent landmark study (conducted for the United Nations Environmental Program by Freshfields, a leading British international law firm) shows the precise opposite is true.

Given its remarkable conclusions, the report is worth quoting at length:

*There is...no reason why investment strategies should not include investments with positive ESG [environmental, social and governance] characteristics. The important limiting requirement is that imposed by the duty of loyalty: all investment decisions must be motivated by the interests of the fund's beneficiaries and/or the purposes of the fund. No investment should be made purely to give effect to the personal views of the decision-maker. Instead, all considerations must be weighed and assessed in the context of their expected impact on the investment portfolio.*

*Moreover, as with all considerations, ESG considerations must be taken into account wherever they are relevant to any aspect of the investment strategy (including general economic or political context, expected tax consequences, the role that each investment plays within the overall portfolio, expected risk and return, and the need for liquidity and/or capital appreciation). In addition, where the beneficiaries have expressed investment preferences in the fund instrument or otherwise, these preferences should also be taken into account. In short, there appears to be no bar to integrating ESG considerations into the day-to-day process of fund management, provided the focus is always on the beneficiaries/purposes of the fund and not on unrelated objectives.<sup>29</sup>*

From this perspective, if pension trustees want to “avoid undue risk”, they should guard against investments that pose serious threats to pension funds. That means taking social, economic and governance issues seriously, and integrating them into investment decisions.

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<sup>29</sup>United Nations Environmental Programme, *A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment* (October 2005), [www.unep.org](http://www.unep.org).

For this issue to be clearer though, governments must amend pension law to empower trustees to consider responsible investment issues.

By doing so, one can legally undercut the typical argument used to reject responsible pension investment: that it conflicts with the 'fiduciary duty' of pension trustees to maximize investment returns.

### **III. Torn between two ideas: a brief history of Canadian pensions**

*Many articles, pamphlets and books have been written on the subject of pensions, and royal commission after royal commission has studied it and made recommendations. In essence they have found that the fearmongers of the past, those who cried that pension benefits would lead to national bankruptcy, have been proved wrong.*

*But the fearmongers are still being heard today. Senior citizens are becoming a larger and larger part of our society; we cannot afford to keep on paying more to pensioners, they say.*

*They think they are right; we think they are wrong. So the argument continues. People like us in the trade union movement firmly believe, as we always have, that our nation can and must pay heed to the needs of our senior citizens.*

---Dennis McDermott, President, Canadian Labour Congress, 1980.<sup>30</sup>

By 1980, when Dennis McDermott wrote these words, Canada had undergone a national debate on pensions for almost eight decades.

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<sup>30</sup> Quoted in Morden Lazarus, *The Pension Story* (Canadian Labour Congress: 1980), p. 1.

Few know that 2008 marks the 100th year of this debate, and that working people today face similar challenges to those who came before them.

By the first years of the twentieth century, trade unionists were feverishly campaigning for decent pensions. As Canada's pension debate began, however, most political leaders championed a "fend for yourself" approach in retirement. As one account explains, there was a widespread sense that "...people, especially old people, were poor because they deserved to be."<sup>31</sup>

The first murmurs of change arrived in 1908, when a Liberal federal government passed the *Government Annuities Act*. The legislation allowed access to government-sponsored personal accounts "to the end that habits of thrift be promoted."<sup>32</sup>

The reference to "thrift" was important. The federal government would wade into pensions, but only by reinforcing the "fend for yourself" philosophy Canada inherited from British social policy. Individual thrift ("fending for yourself") would be supplemented by limited government assistance.

Lurking behind these arguments, however, were fears widely held by corporate lobbyists. Insurance companies, banks and private pension issuers were adamant in limiting the role of government in pension policy to protect their bottom line. As one historian explains, they knew an expanded government role posed a direct threat to their profits:

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<sup>31</sup> Ann Finlayson, *Whose Money is it Anyway? The Showdown on Pensions* (Viking: 1988), p. 7.

<sup>32</sup> Ibid. pp. 8-9.

*With expansionist rather than restrictive policies, the Government Annuities Act could have become a companion piece to public pensions programs, providing both groups and individuals with the opportunity for supplementary protection at more favourable rates than private companies could offer.*<sup>33</sup>

Of course, as is still the case today, personal savings accounts held only limited potential for working families. Most couldn't save significant amounts (if anything at all), so the demand for decent pensions continued.

The costs of the First World War (WW1), tragic as they were, would create further developments in Canada's pension debate. As thousands of sick and disabled soldiers came home, public opinion backed the notion of government assistance for veterans. The Winnipeg General Strike in 1919 also drew public support for government-sponsored unemployment insurance, health care, and old age pensions.

In 1919, pathetically modest pensions were introduced for WW1 veterans, and less than a third of all wounded soldiers got them. Worse still, the value of veterans' pensions were linked to the extent of their disability, and most (given mean-spirited standards) were rated at less than 25% disabled.<sup>34</sup>

Public anger with these measures persuaded Canadians that more action was needed, though it would take decades for serious results to emerge. In 1925 though, as labour MPs held the balance of power in a minority government, the House of Commons took a

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<sup>33</sup> Ibid., pp. 14.

<sup>34</sup> See: Desmond Morton, "Resisting the Pension Evil: Bureaucracy, Democracy, and Canada's Board of Pension Commissioners, 1915-1933", *Canadian Historical Review* (June 2, 1987), pp. 199-224.

meagre first step, and adopted a means-tested pension geared to low-income “deserving elderly”.

The qualifying criteria were strict: the pension amounted to \$20 per month (roughly \$205 today), only applied to British citizens, and was withdrawn for those earning more than \$1 per day! The government was even allowed to recoup the accumulated pension from the estate of deceased pensioners.<sup>35</sup>

Despite the Bill's limitations, the Senate of Canada saw fit to reject it for “moral” reasons. In doing so, prominent Senators backed a “fend for yourself” approach in pension policy, and criticized labour campaigners for suggesting cooperative alternatives:

*Senator McCormick:...[those] who promoted the Bill do not represent a body of people in this country who are prepared to contribute to it; they are representative of a body of so-called labour who do not want to encourage or practice thrift; they are those who want to burn the candle at both ends; spend all you make, and when you are 65 or 70, and unable to work, go to those people who have been living well-ordered lives, who have been practicing the good old habit of thrift... and presumably force them to pay the pension bill.*

*Senator Beaubien: “This, in my opinion, is an iniquitous measure. First of all, it is unhealthy in its basic moral principle... if this Bill passes, the obligation of the children to look after their father and mother goes by the board...Is it judicious for us to impose upon our country such socialistic*

*legislation as this—because it is nothing else —when there is no call for it?*<sup>36</sup>

As at least one historian points out, these complaints were rich indeed. The senators held one of the most generous, government-provided pension plans in the country, and were paid handsome wages for their positions.

Working families, in contrast, were in dire need of social security benefits, including decent pensions. As late as the early 1940s, most industrial workers made less than 40 cents per hour, and worked 12-hour shifts.<sup>37</sup>

Though the Senate defeated the first pensions Bill in 1925, it would adopt the *Old Age Pensions Act* also passed by the House of Commons in 1927. The legislation in 1927, however, retained the same mean-spirited provisions of the 1925 Bill, which meant many seniors still lived in poverty.

By the mid 1940s, however, the Great Depression and Second World War would give legislators an electorate more anxious for cooperative social policy. In 1943, the influential Marsh Report called for (among other things) universal old age pensions, which prompted the federal government to support the idea of a national contributory pension scheme.

From 1945 to 1951, politicians would engage in a spirited debate on pensions. Most agreed the *Old Age Pensions Act* of 1927 was inadequate, but, as always, differences emerged around which model to choose for pension reform.

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<sup>36</sup> Lazarus, *The Pension Story*, pp. 7-8.

<sup>37</sup> *Ibid*, p. 8.



Would Canada, following many industrialized countries at the time, develop a cooperative model of public pensions for all? Or, conversely, would we continue the “fend for yourself” approach urged by corporate lobbyists, and focus means-tested public pensions for seniors in extreme poverty?

As legislators made up their minds, trade unionists waged an ambitious campaign for the rapid expansion of public pensions. The Canadian Congress of Labour, a forerunner to the CLC, distributed over a million postcards nationwide calling for an end to means-tested pensions, and the creation of a universal scheme.<sup>38</sup>

Big business pushed back, and accused labour of plotting to drain government coffers and foster widespread laziness. As the pension debate continued though, the ranks of poor seniors swelled to new heights. By 1950, 40% of Canadians over 70 years of age qualified for the limited pensions established in 1927.

In 1951, the cooperative view in Canada's pension debate won out, though only to a limited extent. The federal Liberal government introduced the *Old Age Security Act* and *Old Age Assistance Act*, which came into force later in 1952. The *Old Age Security Act* established a universal pension at age 70, provided one had lived in Canada for at least twenty years. The benefit level was set at \$40 a month, a low floor demanded by corporate lobbyists.<sup>39</sup>

Almost immediately, pension coverage more than doubled, revealing the strict limitations of earlier schemes. At this point, with pensions now high on the national agenda, competition emerged

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<sup>38</sup> Lazarus, p.5.

<sup>39</sup> Ibid., pp. 13-15.

between politicians in appealing to the interests of Canada's seniors.

As politicians traded punches during the 1950s and early 1960s, elections were won and lost around pension reforms. OAS benefits modestly increased, and Canadians, as the debate carried on, demanded more leadership on this issue.

The 1960s, 1970s, and early 1980s would also feature important moments in Canada's pension debate. In 1966, after considerable wrangling between provincial and federal politicians, the Canadian Pension Plan and Quebec Pension Plans were launched.

The CPP and QPP would be contributory pension schemes (funded by employers and workers), and aim to replace 25% of the average industrial wage. This was a far lower threshold than most Canadians had wanted, and far less than contributory pensions in other countries. A ferocious business lobby had thwarted efforts to expand public pensions beyond this point, citing the same “fend for yourself” arguments used for almost six decades.<sup>40</sup>

Still, as fearmongers had predicted in 1908, public pensions were able to deliver benefits that private savings accounts couldn't match. CPP benefits were portable when changing jobs, and by 1974 were also indexed to inflation. A special sub-program of OAS (the Guaranteed Income Supplement) was created in 1967 to help seniors unable to build much in CPP or QPP savings.

During the 1970s and early 1980s, the women's movement also asserted itself in Canada's pension debate, and for reasons that persist today. Elder poverty was (and remains) overwhelmingly concentrated among women, who earn far less than men for similar

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<sup>40</sup> Ibid., pp. 17-20.

work, and therefore accumulate a smaller pension (if they have decent pension coverage at all).

The design of most pension plans, women insisted, were insensitive to the reality of women's lives, where work interruptions, inadequate public childcare, part-time work, and family demands made pension accruals challenging.

"Women's problems," a frustrated Louise Dulude would insist by 1979, "have not yet been integrated into the mainstream of the 'great pension debate', and many of the male participants...still assume that women will be taken care of as 'dependents'."<sup>41</sup>

But the women's movement won important pension reforms during the 1970s, with unionized women playing a key role. Many of these reforms, however, would come through public pensions. Employers running workplace pensions, for the most part, resisted change.

In particular, employers were unwilling to consider benefit protection against inflation. As a consequence, the average value of workplace pensions fell 40% during the 1970s, coverage never exceeded 50% of workers, and millions were robbed from workers' pensions who failed to meet vesting requirements (given job loss).<sup>42</sup>

By the early 1980s Canadians suffered from faltering workplace pensions, and serious limitations on public pensions. Decisions had to be made, and no less than twelve federal inquiries into workplace pensions happened between 1979 and 1986.

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<sup>41</sup> Louise Dulude, "Women and Pensions", *Pensions: Can We Afford Our Elderly?* (Social Planning Council of Toronto: 1979), p. 42.

<sup>42</sup> Finlayson, *Whose Money is it Anyway?*, pp. 120-124.

Most of them, unfortunately, reinforced the “fend for yourself” idea so popular with Canadian politicians. This outcome set the framework for the next two decades, and the consequences that emerged.

A key moment in this period arrived with the 1983 Frith Report, a federal inquiry that rejected substantial expansion of public pensions, or serious protections for workplace plans.

Instead, the report’s authors chose options that would

*...emphasize both the general social responsibility to ensure that the basic needs of the elderly are met and the appeal to self-reliance— dependence on individual initiative—to provide for the maintenance of living standards beyond agreed minimum levels.*<sup>43</sup>

And yet, the Frith Report also acknowledged this largely “fend for yourself” approach must change if it didn’t generate serious results.

While cautioning against inflation protection, or any serious extension of public pensions, the authors put corporate lobbyists on notice about what should happen in the event of private sector failure:

*We have therefore made difficult judgements and hard choices in order to set targets and suggest deadlines. Indeed, we pose several specific challenges to employers. If they cannot meet them, we see no alternative to substantial expansion in the scale of public plans for providing retirement income.*<sup>44</sup>

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<sup>43</sup> House of Commons, Canada, *Report of the Parliamentary Task Force on Pension Reform (Frith Report)*, (1983), p. 8.

<sup>44</sup> *Ibid.*, p. 9.



Today, almost twenty-five years after the Frith Report, private sector failure has happened. Pension coverage has dropped, benefits remain vulnerable, and more workers are being thrown to the sharks of Canada's financial services industry. This downward spiral (if left unchanged) will devastate millions of Canadians in retirement.

Public pensions, while kept modest, have played an important role in reducing poverty among elderly Canadians. Indeed, governments attempting to cut public pensions in the 1980s and 1990s were met with a wave of opposition.

Seniors groups, labour activists and others challenged cutbacks, and deserve credit with for the anti-poverty success of public pensions in recent decades. And yet, as already explained, most seniors still live a meagre existence, and some seniors remain particularly vulnerable.

So in 2007, as in 1908, Canada remains at a crossroads between two ideas in pension policy: fend for yourself, or move forward together.

On the one hand, some still urge a "fend for yourself" approach, where "individual thrift" (RRSPs, private savings accounts) make up for a lack of workplace or public pension coverage.

On another hand, the CLC's 3<sup>rd</sup> Pension Conference offers a huge opportunity for those who think Canadians should move forward together in retirement.

For that reason, this paper ends by presenting demands in five key areas for wider discussion. These demands, readers will notice, involve "cooperative options" for greater pension security.

#### **IV. Moving Forward Together: Cooperative Options for Pension Security**

Canadians work hard. For this reason, retirement should be a reward for a life of service, and not dependent on one's luck in "playing the markets". That's why trade unionists believe decent pension coverage should be a right of citizenship.

The "fend for yourself" approach to pensions has failed, it's time for Canadians to move forward together. For that to happen, workers need access to DB pensions, and an expanded CPP. Efforts to expand CPP benefits should aim at replacing 50% of the average industrial wage.

At the end of the day, the chosen policy options must put expand decent pension coverage, and put more real dollars into existing DB plans, particularly at a time when pension assets and corporate profits are ballooning.

At the moment, the best access to decent pension coverage is a union membership card. For that reason, governments should encourage the growth of union-sponsored DB coverage.

As J.S. Woodsworth, an early campaigner for decent pensions, once famously said: "what we desire for ourselves, we desire for all." This motto should guide the labour movement's work in pensions in the years and decades to come.

Let's move Canada's pension debate forward together. Let's build a movement for social change in retirement security. Let's leave a pension legacy we can be proud of.

Specifically, this paper makes the following recommendations:

**1) Pension security**

- 1.1 Workers should rank first in corporate bankruptcy:** make unfunded liabilities in pension funds a secured creditor in bankruptcy proceedings.
- 1.2 Create a federal employer-funded system of pension insurance (based on the Ontario model) that provinces can opt into:** the federal government should create a safety net to buffet the uncertainty of global capitalism, and the vulnerability of workers' pensions. Measures could be designed to guard against employer fraud, and reward employers with well-funded pensions.
- 1.3 Impose caps on pension administration fees:** the federal government should amend relevant statutes to impose limits on fees for the administration of pension funds.

**2) Decent pension coverage**

- 2.1 Double the ceiling on the yearly maximum pensionable earnings (YMPE) for CPP contributions to \$90,000:** the YMPE for the CPP is currently \$43,700; it is \$92,000 USD for the US Social Security program. Expanding the YMPE of the CPP would dramatically increase CPP revenues, and help deliver higher CPP benefits.

**2.2 Investigate the option of a modest CPP premium rate increase:** direct the CPP Chief Actuary to calculate a premium rate increase that would result (with demand 2.1) in CPP benefits replacing 50% of the average industrial wage.

**2.3 Allow workers to transfer RRSP savings into their CPP accounts:** if workers are being gouged by high administration costs for RRSPs, it should be possible to transfer these funds into existing CPP benefits.

### **3) Respect for today's (and tomorrow's) retirees**

**3.1 Increase OAS or GIS benefits so no senior lives in poverty:** increase OAS payments so no senior lives below the Low-Income Cut Off threshold established by Statistics Canada. Direct OAS researchers to produce the projected costs for this demand.

**3.2 Create a publicly-funded, national system for affordable prescription drugs:** the high and growing cost of drugs and medicines has working people worried about the quality of life they can expect as they grow old, or in the event that illness strikes. Canada's working families need a plan that would provide equal access to prescription drugs and would cover essential drugs in the way that medicare now covers hospitals and physicians.

**3.3 Create a publicly-funded, national system for long-term care and elder care:** as the proportion of Canadians over age 80 continues to grow, few affordable options exist to house retirees in frail condition. Canada's working families need a national system of long-term care and elder care.

**3.4 Address retiree concerns in federal pension law:** federal pension rules should adopt recent changes made in Quebec that outline retiree rights in the governance of workplace pensions.

#### **4) Encourage responsible investment**

**4.1 Amend federal pension law to encourage responsible investment:** amend section 13 of the federal *Pension Benefit Standards Act* to require trustees to disclose their consideration of responsible investment criteria to pension plan members (workers).

**4.2 Investigate the option of government incentives for green economically-targeted pension investments (ETIs):** there are positive examples in Europe and North America where pension fund ETIs either directly (or indirectly) helped create green jobs through government incentives. These examples should be investigated by federal government researchers for policy options today.

## **5) Develop a national “good jobs” strategy**

**5.1 Develop a national action plan to address the loss of manufacturing and resource sector jobs:** the federal government should appoint a task force—with high-level labour, government, and business representation—to develop a national plan to maintain and build a strong manufacturing and resource sector.