OSSTF/FEESO

Submission to the Ministry of Finance on Securing Our Retirement Future

The Ontario Secondary School Teachers' Federation (OSSTF/FEESO) represents 60 000 educational workers across Ontario including public high school teachers, occasional teachers, educational assistants, continuing education teachers and instructors, psychologists, secretaries, speech-language pathologists, social workers, plant support personnel, attendance counsellors and many others in education. Most of our members participate in the Ontario Teachers' Pension Plan (OTPP) or the Ontario Municipal Employees Retirement System (OMERS) pension plans, but some of our members belong to smaller, private university pension plans.

OSSTF/FEESO is pleased to have the opportunity to respond to the Ministry of Finance document entitled, *Securing Our Retirement Future: Consulting with Ontarians on Canada's Retirement Income System*, which seeks feedback on possible "modest" CPP expansion and pension innovation. All Canadians should have an interest in protecting their retirement future to enhance Canada's economy, preserve its collective social goals and ensure individual security. OSSTF/FEESO supports an approach which would enable all Canadians to achieve long term retirement income stability augmented, we hope, by the health of well-established, defined benefit employment retirement plans.

Minister Duncan refers to three means by which financial security in retirement might be achieved: an expansion of personal savings, improvements in pension regulation and an enhancement to CPP. Included with these, OSSTF/FEESO suggests a fourth method: the defense and promotion of defined benefit pension plans to mitigate against the probability of a growing number of Ontarians relying exclusively upon publicly funded income security programs in their retirement.

In fact, in itemizing the strengths of CPP as an "Attractive Vehicle for Change" and one means by which retirement security might be achieved, the government references the virtues of CPP as "a secure, fully indexed, defined benefit pension" which unlike private plans, "does not carry the risk of default... due to bankruptcy or insolvency" nor impose administration "fees of two per cent or more of assets per year, which can erode investment gains over time" a disincentive to the purchase of RRSPs. Add to this the volatility of RRSP values, dependent as they are upon fluctuations in the market, and the advantages for most Canadians of RRSPs as a vehicle for retirement security are outweighed by the risks and costs, especially of management fees.

The Advantages of Defined Benefit Pension Plans

OSSTF/FEESO agrees with the Minister that Ontarians will have more economic security in retirement if they participate in a defined benefit pension plan, fully portable within Canada, indexed to inflation, and not subject, as private investments are, to the whim of the market place. With the stability of a defined benefit plan, retirees will be better able to contribute to the economy and be less reliant upon other social programs. Employers will also find that a defined benefit pension plan is a useful tool for recruiting and retaining employees. For those smaller employers who do not have the numbers of employees, or the funds to create their own defined benefit pension plans, legislative changes would permit easier access to multi-employer pension plans (MEPPS). Pooling of resources and risks would create economies of scale and efficiencies not otherwise available to small employers. Establishing these plans would encourage the shared pooling of contributions and facilitate individual accrual and entitlement to a single plan.

Defined contribution pension plans, on the other hand, feature levels of payout that are not guaranteed and which depend on market performance and the interest rates on the date of retirement. In the context of a defined contribution plan, planning for retirement is, at best, a proposition fraught with uncertainty. The financial risk is borne by the individual worker, rather than a shared risk with the employer/sponsor. Demographics show that increases in the ratio of retired persons to working persons will increase significantly in the next number of years. It is imperative that we consider how best to permit retirees to sustain themselves financially, and continue to assist in the goal of fostering a dynamic and competitive economy.

Adjusting CPP – Increasing the Replacement Rate

Adjustments to CPP which capture the advantageous features of a defined benefit plan and enhance these provisions for the greatest number of Canadians, but particularly those with low-to-middle-career average earnings, without eroding the viability of established registered pension plans, will effect the most positive socio-economic results. To this end OSSTF/FEESO would support the approach to increase the replacement rate. Increasing the maximum replacement rate from the current 25 per cent to a higher rate, such as 35 per cent, would benefit all CPP contributors, elevating the replacement rate income of a YMPE or $47200 per year earner from 21 per cent to 29 per cent; a $70,800 per year earner from 14 per cent to 20 per cent; and a $94,400 per year earner from 21 per cent to 30 per cent.

Adjusting the YMPE earnings ceiling upward would require middle income earners and their employers to pay CPP contributions on a greater proportion of earnings, disadvantaging some employers. This reduces net income, the opportunity for disposable income expenditures and self-directed retirement savings through vehicles such as Tax Free Savings Accounts or even RRSPs administered by established registered pension plans. If other legislative changes are successful in encouraging an adequate level of individual savings, then that proportion of income above current YMPE must remain discretionary, not subject to mandatory CPP deductions.

The Drawbacks of Raising the Earnings Ceiling

The members of OSSTF/FEESO who belong to defined benefit pension plans which are currently integrated with CPP would be distinctly disadvantaged by any proposal to increase the CPP earnings ceiling. Such a strategy would necessarily delay the salary trigger at which our members fully contribute to their workplace pension plans. It would exacerbate the funding challenges already facing both OTPP and OMERS, diminish the ability of these primary plans to provide secure pension futures for our members, and most probably necessitate contribution rate increases for both members and employers/government to compensate for the redirection of contribution dollars to CPP (up to an enhanced earnings ceiling).

CPP Asset Management

In fact, given that CPP asset management may prove a challenge into the future and that OMERS and OTPP can already lay claim to well-established investment infrastructures, OSSTF/FEESO believes that the contributions collected from our members as the CPP portion of our integrated pension plans would be better managed by our plans on behalf of the Canadian government. Even invested alongside primary pension assets, these funds could be designated as a type of mandatory retirement savings that, with amendments to the Income Tax Act, could function as a Group RRSP, a second stream of retirement income, administered by the primary plan, benefitting from its investment practices, but subject to rules established federally.

To summarize, OSSTF/FEESO recommends a retirement income system which:

- Promotes the expansion of defined benefit pension plans
- Promotes inflation protection, and income security, through indexation of pension benefits
- Promotes access to multi-employer pension plans
- Promotes an adjustment to CPP which increases the replacement rate
- Promotes the management of CPP assets through existing jointly sponsored pension plans

OSSTF/FEESO wishes to thank you for this opportunity to contribute to the government's consultations on securing our retirement future and Canada's retirement income system.

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