Submission by the CUPE Nova Scotia Division

To the

Nova Scotia Law Amendments Committee on
Bill No. 38
Pooled Registered Pension Plans Act

October 27, 2014

Good afternoon.

My name is Carol Ferguson and I am the Research Representative with the Canadian Union of Public Employees, Atlantic Region. I am here today on behalf of Danny Cavanagh, President of the Canadian Union of Public Employees Nova Scotia Division. The Canadian Union of Public Employees is Canada's largest union, with 628,000 public sector members working in almost every community across the country.

In Nova Scotia, we proudly represent more than 18,000 working women and men. Our members work on the front lines of our communities delivering public services to the people of Nova Scotia in home care support services, health care, community and social services, education, public utilities, housing, libraries, municipalities, post-secondary education, early childhood education and care, airlines and in many more sectors of the economy.

I want to thank the members of the Law Amendments Committee for this opportunity to speak to this legislation.

The Context

Every Nova Scotia deserves to retire with dignity. But like more and more Canadians, they are facing increasing uncertainty when it comes to their retirement plans.

More employed Canadians are living pay cheque to pay cheque, saving less and falling further behind in meeting their retirement goals according to the sixth annual National Payroll Week Research Survey, conducted by the Canadian Payroll Association (CPA), and released September 10, 2014.

In Atlantic Canada, 62% say they are living pay cheque to pay cheque (up from 58% over the past three years). This is the second highest percentage (after Manitoba) among all the provinces/regions.

Atlantic Canada had the highest percentage of employees living close to the edge with 41% saying they would be hard pressed to come up with $2,000 over the next month if an emergency arose.

Atlantic Canadians are saving less this year. In the Atlantic region, 67% of employees are saving just 5% or less of their pay, more employees than anywhere else in the country. This is up from an average of 52% over the past three years. Financial planning experts generally recommend a retirement savings rate of 10% of net pay.

Fully 72% of Atlantic region employees expect to delay retirement until age 60 or older – up from 61%over the past three years. The number one reason cited for retiring later in life is that employees are not able to save enough money.

Atlantic Canada has the second highest number of employees who have saved less than a quarter of their retirement goal at 81% (up from an average of 66% over the past three years).

Increasing retirement security for all Nova Scotians should be a government priority, but the approach introduced in Bill 38 will do little to address the problem.

The Problem With PRPPs

Bill 38, if passed, will allow employers in Nova Scotia to offer "Pooled Registered Pension Plans" (PRPPs) in workplaces.

Let's be clear. The PRPP is not a pension plan. They are one more tax-sheltered voluntary savings plan like RRSPs. PRPPs are really a system of RRSPs by another name and managed by a different set of financial institutions.

Unlike a real pension plan, the PRPP is not mandatory. Employers don't have to offer one. Even if they do, they don't have to contribute to the plan. Even if there is a plan on offer, workers don't have to participate.

Nova Scotians already have decades of experience with RRSPs.

And how has that worked out? As the provincial government acknowledges, only 20% of Nova Scotians contribute to an RRSP every year. We're approaching one trillion dollars in unused RRSP room across the country. Voluntary options like this simply don't work.

PRPPs cannot be the answer to Nova Scotia's retirement income dilemma because they replicate every one of the essential characteristics of RRSPs that led to their failure:

- Participation will not be mandatory;
- Contributions from employers will not be required;
- They will offer no relief from exorbitant investment management fees and unacceptably low returns; and
- They will not offer participants the option of converting their accumulated retirement savings into a lifetime pension.

RRSPs and PRPPs are a boon to mutual fund managers — who "earn" among the world's highest mutual fund fees from investors. For example, an individual Canadian who contributes a constant percentage of his or her income over a working lifetime to these retirement income savings plans pays an average of 2.07% annually in investment management fees to mutual fund managers. Over a working lifetime, that soaks up about 36% of his or her retirement savings.

Moreover, there is no real, secure benefit promise in a PRPP, as we think of in a pension plan. Workers are left to bear the risks of market downturns on their own. PRPPs are simply not pension plans.

Nova Scotians Need an Expanded CPP

There are three components of Canada's retirement income system: Old Age Security; the Canada and Quebec Pension Plans; and the private pension and individual retirement saving system.

Policymakers pictured retirement security as a three-legged stool: a publicly funded universal system for all seniors, regardless of their employment history; a mandatory, publicly run, employer-employee financed employment-based pension plan—the CPP/QPP; and private, workplace-based pensions supplemented by individual private savings for retirement.

The first leg has largely been successful. Combined with the Guaranteed Income Supplement and further add-ons in some provinces, Old Age Security can legitimately be credited for a substantial reduction in poverty among seniors — especially among senior women — in Canada over the past 40 years. The poverty rate for elderly couples dropped from 17.7% in 1976 to 2.4% in 2011. While poverty among single seniors is still high, it is dramatically lower than it was in 1976.

The Canada Pension Plan and the Quebec Pension Plan — limited as they were to 25% of an earnings base capped at the average wage — are a world-recognized success. The CPP and QPP funds, managed by the Canada Pension Plan Investment Board and the Caisse de depot et placement du Quebec, respectively, are among the largest and most successful pension funds in the world.

In late 2013 the Chief Actuary of Canada reaffirmed that the CPP remains sustainable at the current contribution rate of 9.9% for the next 75 years.

By contrast, the third, privately initiated leg — private, workplace pensions — has been a conspicuous failure. While governments generally met the expectations of the original design for their own employees, pension coverage in the private sector never approached half the private sector work- force and had dropped to 21.4% by 2011. Private sector coverage in defined benefit pension plans had slipped to 11% by 2011.

CUPE, along with seniors' organizations, bankers, labour organizations and provincial governments, supports an expansion of the Canada Pension Plan. Currently, the Canadian Pension Plan (CPP) does not provide adequate income to cover the gaps in pension coverage. On average, the CPP provides a monthly income of only $530. Imagine the economic and social issues ahead as those baby boomers retire into poverty.

CUPE and the labour movement have been fighting for years for a phased-in doubling of CPP benefits, which would be funded by a modest increase in employee and employer contribution rates. This is a better solution for many reasons: it's mandatory, universal and run on a non-profit basis, it provides secure benefits in retirement, and the risks and costs of a secure retirement are pooled with workers across the country. The CPP is sustainable and this improvement in benefits is affordable. The public, a very wide array of stakeholders and most provincial governments support CPP expansion.

Conclusion

CUPE calls on the government of Nova Scotia to work towards a real solution, not a distraction like the PRPP. We urge Premier McNeil to push for CPP expansion, as most other provincial leaders are.

RRSPs, and their clone the PRPPs, fail because they are a bad investment on their own terms and because, when stacked up against the realistic alternative of an expanded Canada/Quebec Pension Plan, they deliver an inferior product at more than twice the cost.

PRPPS will do much more for the financial industry than they will for Nova Scotia workers.

CUPE is deeply concerned about projections that, without real action, show future generations of seniors having to dramatically reduce their standards of living in retirement.

CUPE has no confidence that PRPPs will solve the growing retirement income problem.

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