College and University Retiree Associations of Canada

Associations de retraités des universités et collèges du Canada

BULLETIN

No. 1 1 May 2012

The following report was presented on April 19, 2012, at the CURAC/ARUCC Conference and Special General Meeting in Victoria. We circulate it now for the information of your members. Comments should be sent directly to the Committee Chair, Paul Huber (paul.huber@dal.ca).

Annual Report of the CURAC Pension Committee

Paul Huber, Chair, and Howard Fink, Member

April 2012

Recent years have witnessed a major surge of interest in pension issues. Starting in 2007, reviews of pension legislation were scheduled in Ontario, British Columbia and Alberta and Nova Scotia. Subsequently, new rounds of consultations took place (or are taking place) by the Federal government, and in Quebec and New Brunswick. Many published submissions to these reviews were thoughtful and professional. Some were candidly or less candidly self-serving. Behind the scenes, intense lobbying by the financial services industry doubtless occurred, aimed at averting loss of control over (and fees from) very large amounts of retirement savings. Concurrent with this fermentation, interest rates on government and corporate bonds sank to unprecedentedly low levels as the extended bull market in equities imploded, causing misery for pension fund investment management. As noted below, both active and retired pension plan members will be affected.

As this increasingly potent brew cooled, the Federal and provincial governments came to realize that many Canadians had no pension schemes and were saving less toward their retirements than the minima thought necessary. But disagreements prevailed among them regarding the appropriate solutions; consequently no genuine actions occurred in this respect. (PRPP accounts will do nothing in my opinion to remedy the situation.) Concurrently, some self-styled pension “experts” asserted ever forcefully that the pensions received by retirees from the public sector were undeserved and far more generous than those paid in the private sector to ordinary employees. The right-wing press was delighted to amplify these claims. (Outsized earnings and ‘golden handshakes’ received by senior people in the private sector have been conveniently overlooked.) Politicians, who have established their own lavish pension arrangements, were the primary target; then the pensions of firefighters, policemen, schoolteachers and the military; and now the pensions of former college and university employees. Public perceptions have unfortunately become polarized against the interests of CURAC pensioners.

As reported last year, the Pension Committee made submissions to four of the consultations mentioned above. Over the course of the past year, members of CURAC’s pension committee tried to counter the negative propaganda in the *Globe and Mail* and elsewhere and have also been active at the local level seeking to influence legislation and regulation. We have been trying hard and possibly enjoying some slight success.

Last year, the annual report of this standing committee noted that the life expectancy of Canadians at age 65 had been increasing about one year every decade over the past half-century and that this demographic trend would likely continue. The result will be an expanding share of those over 65 in the population and a disproportional increase in the burden of supporting them, concurrent with a relative reduction in the size of the working population that ultimately provides that support. An OECD study claimed that, "[public] pension systems [in developed economies may] not be sustainable" and that people would either have "to work longer or . . . [have] their pension benefits [cut]." These developments – welcome or unwelcome – provide context for assessing recent budgets and their associated statements of legislative intentions, as well as actions at various institutions of higher learning to reduce pension costs. Consider government initiatives.

The recent Federal budget proposes to raise the "retirement age" for OAS from 65 to 67 effective eleven years hence. Despite the (often false) outrage expressed in some quarters, no one should have been surprised by this proposal, since many other countries will have completed the phasing-in of higher retirement ages while Canada is just beginning. This is the second step in starting to adjust to current demographic realities; the first was to end mandatory retirement. The next steps will be to alter provincial and Federal pension legislation to increase the specified age of retirement – something already taking place in the Federal public service – and do the same for CPP. Probably further similar adjustments will again become appropriate in another twenty years as life-expectancy continues to increase. Since OAS is a strictly Federal programme – unlike CPP which requires provincial agreement – it is politically the easiest programme to change. Hence that is likely the reason it was the first. Eckler Partners (a leading actuarial firm) claims in a recent *Special Notice* that this change to the OAS programme will likely put pressure on older workers to work longer. However, a CIBC survey suggests that over two-thirds of middle-aged Canadian were planning to work after retirement anyway. (What ever happened to "Freedom 55"?)

The Federal budget also signaled a move toward equal employer-employee contributions in the Public Service Pension Plan and the Ontario budget a similar change in pension plans of publicly funded universities. This has already been the thrust of jointly-sponsored pension plan [JSPP] legislation in respect of defined benefit pension plans in several provinces, based on the pension report of Harry Arthurs in Ontario. Since the higher pension contributions of employees in JSPPs will frequently if not generally be offset by higher salaries, the only real effect of this initiative is to transfer risk from employer to employee. Why governments should find this a socially desirable change and how they can believe that plan sustainability is thereby improved are mysteries. Perhaps these changes are intended as eyewash for the broader public, who sense – incorrectly – that oxen are deservedly being gored.

In Ontario, temporary solvency relief measures to private sector pension plans were recently extended. Manitoba has brought in regulations to allow relief in respect of solvency payments. In Nova Scotia, the new Pension Benefits Act – closely modeled on the recent Ontario act – received royal assent in December but remains to be proclaimed. It, too, will alter the solvency rules. However, an order-in-council in March 2012 introduced permanent solvency relief for defined benefit plans at four universities in the province. Similar relief has already been provided in most other provinces to defined benefit plans of universities and colleges. Ontario also intends to amalgamate small university pension plans or at least force them to pool their investment functions. If such a change were implemented, pension arrangements for some universities in Ontario might come to approximate those that exist in Alberta and British Columbia, which might prove beneficial to retirees through generating higher investment returns on the pension funds, thus enabling better or more certain indexation of pensions.

Respectfully submitted

Paul B. Huber