

## **PENSION REFORM FOR THE PRIVATE SECTOR**

### **Statement of the Problem**

Due to the scope and complexity of the current Canadian pension environment, the intent of this policy is to recognize that the current situation has created a private/public imbalance that must be addressed and that the fix will require more than a few initiatives to begin to correct the problem. By the Chambers of Commerce acknowledging the problem in their policy books, it allows all administrations to take the matter seriously and not let up until remedies have been put in place.

The self-employed and those working for the private sector have to work years longer and save five times as much in order to match the pension paid to public sector workers.

This tacit but critical unfairness is the result of pension and tax laws that provide public sectors workers with savings advantages that are not available to the self-employed or private sector employees.

In addition, it is not too late the change the rules and end the discrepancy for the boomer generation without leaving the government with an additional tax burden.

### **Details of the problem**

The trend to early retirement in the public sector, the public versus private wage gap, combined with increasing life expectancies and the 2008 collapse of the stock market has highlighted the urgent need to reduce the disparity between the retirement incomes available to the private sector workers when compared to public sector workers.

According to a Statistics Canada Labour Force Survey (2006), 56% per cent of public employees retire before the age of 60. That compares to 33% in the private sector and 20% of self-employed workers.<sup>1</sup>

Another independent research report “Canada’s Pension Predicament” (January 2007) reported that government compensation advantage (compared to private sector employees) is 35.9 per cent for municipal employees, 24.9 per cent for provincial employees and 41.7 per cent for federal employees.<sup>2</sup>

In addition, when it comes to retirement time, the problem is exacerbated by the unfair tax laws and byzantine pension plan rules that when illustrated by the numbers translate into shocking disparity between the two groups.

Since it is not likely or even desirable to see public sector pensions be reduced to come in line with the private sector, it is necessary to make some critical changes to the

Canadian tax law, or pension policy, so that all Canadians have chance to retire with the same opportunity during their working years to maximize their pension incomes.

**Details of the Problem**

According to the CD Howe study, after a 30-year career the value of a public sector employee’s pension is somewhere between \$600,000 and \$1.3 million. Compare that to the estimated median savings of a couple in the private sector of \$244,000 whose annual contributions to an RRSP are restricted to rate that makes it difficult for them to ever match the public sector couple. <sup>3</sup>

The private sector couple is left to get by on less than \$1000 a month before OAS and CPP.

|                          | Retirement Age | Years Worked | Salary at Retirement | Value of Contributions                                   | Retirement Income/yr |
|--------------------------|----------------|--------------|----------------------|--|----------------------|
| Public Sector Couple #1  | 58             | 28           | \$50,000             | \$1,205,572:<br>and<br><u>\$602,786</u><br>\$1.8 million | \$51,000             |
| Private Sector Couple #2 | 62             | 32           | \$50,000             | \$244,800:<br>and<br><u>\$122,400</u><br>\$366,000       | \$11,000             |

CD Howe peer reviewed study “A Pension in Every Pot” (2008) by James Pierlot from Towers Perrin in Toronto.

They earned the same wage, and the private sector employee has even worked longer, but at retirement, the outcomes are very different. In order to yield \$55,000 a year income, the private sector worker would have to have at least \$1 million in savings.

Furthermore, if the private sector couple loses money in their RRSP or savings as a result of a market downturn, they will have even less at retirement, while their public sector counterparts are immunized against market risk because their pensions are largely guaranteed by the government and the Canadian taxpayer.

Changes to the tax system and pension rules could close the gap. It could also provide the government with deferred tax windfall for the government after the worker retires.

While the immediate solution is not clear, much work must go into re-developing and assessing the public/private employee pension environment.

The Kamloops Chamber of Commerce Recommends

- 1) The Canadian government continues and enhances participation with the private sector to revise the Canadian pension systems to ensure that all Canadian can afford to retire while not putting additional strain on the social structures of the country.
- 2) Create parity on future collective agreements to recognize industry standards on pension reform.

---

<sup>1</sup> Statistics Canada. Labour Force Survey (2006)

<sup>2</sup> James Pierlot (Towers Perrin.) A Pension in Every Pot: Better Pensions for More Canadians, C.D. Howe Institute Commentary No. 275 (November 2008).

<sup>3</sup> (Ibid)