

## FACT SHEET ON YOUR PENSION

There has been much media coverage over the last few years about pension reform, with some questioning the affordability and sustainability of the public service pension plans which at times are referred to as “Gold Plated”.

Pension reform resurfaced prominently on the national agenda earlier this year when the federal government invited Crown Corporations (such as Canada Post) and federally regulated industries (such as banks, airlines and telephone companies) to voluntarily convert their defined benefit (DB) pension plans into less secure target benefit (TB) plans. Such changes would allow these federally regulated employers to renege on their legal pension obligations with respect to funding any existing and future defined benefit pension plan deficits and to transfer this obligation to active and retired plan members. Although the federal government indicated that at this stage public service pension plans are not part of this proposal, it does raise the question of whether the government may be opening the door to change our pension plan. As you may recall, the Treasury Board President, Tony Clement, indicated that it is the intent of the federal government to bring public service pay and benefits in line with the private sector. In the private sector, only 12 percent of employees are covered by a DB pension plans compared to 81 percent of public sector employees.

### DEFINED BENEFIT (DB) PENSION PLAN:

The public service pension plan provides pension benefits for federal public service employees and is governed by the Public Service Superannuation Act. This plan is a contributory DB plan that provides a predictable lifetime indexed pension upon retirement based on the employee's salary, and years of service. The Government of Canada is legally obligated to pay pension benefits to its retired pensioners. Considering that public service retirees accepted employment with the public service relying in good faith upon a compensation package, which includes their mandatory enrollment into a DB pension plan as an important part of their remuneration, you may be wondering why their pension coverage has suddenly become a major concern. The reality is that the defined benefit pension plans are receiving much attention because the vast majority of Canadians who work in the private sector are faced with the grim reality that they have insufficient pension coverage or no employer-based pension to rely on when they retire.

### TARGET BENEFIT (TB) PENSION PLAN:

Under a TB plan, the sponsoring employer does not actually assume any of the plan's financial risk. Essentially, there are no guarantees. If the investment fund of the TB plan does not perform as well as expected, the level of earned pension benefits including indexation thereof can be decreased, even for those already receiving their pensions. The conversion of a DB plan into a TB plan shifts the bulk of the

plan's financial risks from the sponsoring employer to the plan members, including pensioners, and allows the employer to walk away from promises made to them.

The Ottawa Branch of the National Association of Federal Retirees wishes to inform its members of the real facts surrounding the state of their pensions while at the same time alerting members to the risk of government action that would be detrimental to pensioners

SOME FACTS THAT THOSE WHO ENVY AND OPPOSE OUR PENSION PLAN MAY NOT KNOW:

OUR PENSION BENEFITS ARE PART OF OUR COMPENSATION PACKAGE

- Our pension plan is a statutory benefit provided by the employer, the federal government, and forms part of the employee's terms and conditions of employment. Pensioners, as former employees of the federal government, have paid a significant portion of the cost of their pensions during their working careers.

- Any changes to the promised pension framework will have an adverse financial impact on pensioners who expected to receive a predictable level of pension income during their retirement years based on the terms of their contributions while they were employed with the federal public service. Considering that, we pensioners, honoured our commitment and contributed substantially in accordance with the terms of our pension agreement in order to finance the pension that we are legally entitled to receive, we can only expect that our former employer, the Government of Canada, will not renege on its pension obligations to us.

ARE OUR PENSIONS "GOLD PLATED"?

- The facts indicate that our pensions are not in any way "Gold Plated". As at March 31, 2013, the average annual pension for a retired public servant amounts to \$27,380 (before income taxes); for men, the average is \$31,000 and for women it is \$22,000.

- Essentially, the problem is not that public service pensions are too rich but rather that too many Canadian workers, especially those in the private sector have insufficient pension coverage or no coverage at all.

- One way to help ensure greater fairness in the pension landscape would be that all Canadian workers retire with dignity and with a secure lifetime retirement income.

#### ARE OUR PENSIONS AFFORDABLE?

- Public Sector Pension Investment( PSP Investments),which manages the employer and employee contributions and investments of the Public Service pension plans since April 1,2000, is one of the largest pension investment funds in the world and among the few that expect to show net positive inflows from contributions and investments until at least 2030
- PSP investments reported an investment return of 16.3 percent for the fiscal year ending March 31, 2014.
- Net assets reached a record \$93.7 billion in 2014, reflecting an increase of \$17.6 billion or 23 percent over the previous year. This increase consists of net investment income of \$12.6 billion and \$5.0 billion in net employer and employee contributions over the fiscal year 2014
- Over the last 10 years , PSP Investments earned an average annualized return of 7.0 percent or 5.2 percent after inflation, thus exceeding the target 4.1 percent (after inflation) set by the Chief Actuary of Canada
- Our pension fund is projected to continue to perform well and reach \$425 billion value by 2035
- Legislative amendments were introduced in 2012 to allow for gradual increases to employee contribution rates, starting in 2013 to achieve an employer—employee cost sharing ratio of 50:50 by 2017 and to increase the age of eligibility for unreduced pension from 60 to 65 for new employees entering the public service after 2012. These changes will reduce the Government’s pension expenditures by \$2.6 billion over 5 years and subsequently by \$900 million per year.

#### VALUE OF PUBLIC SERVICE PENSION TO THE CANADIAN ECONOMY

- Good pension protection results in significant economic benefits and savings for all levels of government through lower expenditures on tax-funded income support programs for seniors such as the Guaranteed Income Supplement (GIS). That is, less pension protection in retirement leads to greater need for income supports that must be funded through higher taxes. In Canada, DB pensions reduce the annual GIS payout by approximately \$2-3 billion annually.
- Pensioners with adequate pension income contribute significantly to a more vibrant economy through their expenditures on consumer goods and the taxes they pay on both their income and purchases. In Canada, annual spending by DB plan recipients on durable and consumable goods is estimated at \$56-63 billion annually over the years 2011 and 2012. DB plan recipients also contribute between \$14 billion and \$16 billion annually through income, sales and property taxes, which add substantially to revenues for all levels of government to help support social, health, education and other essential programs.

- The public service pension fund is also a major source of long term capital that funds infrastructure projects such as roads, bridges, dams, hospitals and airports in Canada. This shows that the accumulated pension contributions made by the retirees during employment years has made significant and multigenerational contributions to the Canadian economy through investments in the private and government sectors, to help foster economic prosperity and employment for Canadians

#### YOU NEED TO SPEAK UP.

You earned your pension. Good pensions are not a rip-off but a reflection of fairness in compensating retirees for the contributions they made during their working careers

The majority of Canadians would agree that the more urgent priority is not the rolling back of public service pensions but rather the raising up of the pension coverage for the majority of Canadians who are facing an increasingly anxious future with very little retirement income security. Canadians need financial security in retirement, not risk!

Rolling back pension coverage and benefits for those with DB plans will only serve to inflict financial hardship on pensioners but do nothing to address the concerns of the majority of Canadian workers with insufficient or no employer-based pension protection.

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