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Will Canada's MPs vote to cut their pensions?

Members of Canada's House of Commons may get a taste of the pension cutbacks that may be in store for the public service in the near future.

According to media reports, the Harper government is considering introducing legislation to make members of parliament pay a greater share of their pension benefits. As well, other reforms may also take place to bring the pension benefits of parliamentarians more in line with public service pension plans.

Under current arrangements, MPs' pension entitlements accrue at more than three per cent per year. Plus, they can collect a pension at age 55 after just six years of service. Today, an individual with six years of experience (approximately one and half normal government terms,) could collect a pension worth 18 per cent of his/her income beginning as early as age 55. Since members of parliament earn $158,000 per year, that means a 55-year-old individual could receive a lifetime income of more than $28,000 per year.

In contrast, even the most generous defined benefit pension plans usually provide a 50 to 60 per cent payout only after 25 to 35 years of service and at a normal retirement age of 60 to 65.

Unlike many pension plan members, federal MPs only contribute a modest amount toward their pension plan. Most contributions are made directly on their behalf by the government. According to media reports, each MP contributes approximately $11,000 annually to his/her pension while the government pays $64,000 each, a ratio of approximately $1:$6. (Some organizations, such as the C.D. Howe Institute, disagree with this estimate and suggest the member:employer contribution ratio is closer to $1:$10. Other advocacy groups, such as the Canadian Taxpayers' Association, have suggested that ratio is closer to $1:$24.)

In addition, the MPs' pension plan is completely unfunded: benefits are paid through government tax revenue rather than channelled through a separately administered trust fund. In effect, they never have to worry about pension solvency, opening the potential for benefit enhancements without a corresponding impact on the pension's trust fund or assets.

Among the reforms that MPs may be asked to consider are extending the qualification age for full retirement benefits to 60 and changing the contribution formula to a 1:1 ratio where members would contribute $38,000 per year with government contributions matching that amount. That arrangement would align parliamentary pensions closer to the public service pension plan.

If the pension reform legislation is tabled, there is little doubt that many public interest groups, the media and labour organizations will take note of which members of parliament vote to reduce their pension entitlements. ❧

Singapore abolishes parliamentary pensions

The parliament of Singapore has voted to abolish pensions for political office holders, including that country's members of parliament.

The move follows earlier attempts by the country to establish a transparent public service wage system free of hidden perks. Members of the Singapore Parliament that support the pension reform bill said that being a politician should not be seen as a job or a career promotion.

"Most, if not all of us, agree that political office is both a calling and a passion. Those who want to serve must have a sense of duty and, beyond that, passion to the nation and a desire to contribute to the public good," says Singapore MP Christopher de Souza.

Under the terms of the legislation, office holders elected or appointed on or after May 21, 2011 will not receive any pensions. Those holding office prior to that date will have their pension accumulations frozen to May 20, 2011. ❧

PRPPs *"just a new coat of paint"*: C.D. Howe Institute

The federal government's new pooled registered pension plans (PRPPs) are registered retirement savings plans (RRSPs) with "just a new coat of paint" and are unlikely to help low and middle income Canadians save for retirement, the C.D. Howe Institute says.

In an unusually critical report, the Institute says the new registered retirement savings vehicle *"presents only an appearance of reform, because they are, for the most part, a re-release of an existing retirement savings vehicle,"* according to Institute pension specialist James Pierlot.

If adopted nationally, the PRPPs will allow all workers, including self-employed individuals and those working for companies that do not offer pension plans, to contribute to a national defined contribution plan that would be administered by federally regulated financial institutions, such as banks and insurance companies.

Under the new pension scheme, all employers would be compelled to offer the PRPP. However, the plan itself would be administered by a third party organization such as a bank. In this sense, a PRPP would function similar to a multi-employer pension plan. Employees could contribute to the plan but would have the right to opt out of it. Meanwhile, employers would be freed from the administrative complexity and costs associated with running a pension plan. (See the January 2011 and August 2011 editions of the *Coughlin Courier* for background.)

To date, reaction to the plan by the provinces has been mixed. While Quebec quickly adopted its own version of the PRPP, other provinces have been slow to legislate their introduction within their jurisdictions. Ontario has opposed the plan, favouring an increase in Canada Pension Plan benefits and contributions. The majority of pension plans in Canada are regulated by provincial legislation.

The C.D. Howe Institute argues that the similarity of PRPPs to existing RRSPs and defined contribution pension plans will discourage low and middle income earners from accepting the new programs.

"Worst of all, PRPPs should be avoided entirely by low to middle income workers, who will face taxes and government benefit clawbacks on PRPP retirement benefits that are significantly higher than the refundable rates that apply to contributions," the Institute says.

The research organization recommends that PRPPs allow tax-free accumulation in tax-free pension accounts so that members will not face higher taxes when they convert their savings into retirement incomes. The plans should also be allowed to pay out retirement savings as lifetime pensions to make PRPPs more comparable to defined benefit pension plans, the Institute says. ❧

Retirement not going according to boomers' plans, polls suggest

A key part of any retirement is knowing when you'll leave the workforce. However, for almost 40 per cent of baby boomers who are now retired, the end of working life came with little or no notice.

According to the third annual RBC Retirement Myths and Realities Poll, only 62 per cent of retired boomers actually had a choice of their retirement date. Of those who retired involuntarily, 20 per cent only knew of their retirement date one month or less prior to the actual date, 42 per cent had less than six months notice, 27 per cent had a year to prepare and 11 per cent had five or more years of notice.

Requests from employers, health concerns and needing to be a caregiver for somebody were the primary reasons cited for the earlier-than-planned retirements.

As employers downsize, older employees, who tend to be at the peak of their earnings range, become prime targets for job cuts, according to the RBC Retirement Research Centre of the University of Waterloo. That makes the need for a solid retirement plan critically important, the Centre says.

But how realistic are boomers' retirement plans?

According to a separate retirement study of boomers conducted by Leger Marketing for CIBC, most 50 to 59 year olds don't intend to give up their current lifestyle when they reach retirement. Further, many boomers are in debt and plan to carry those debts into retirement without any plans to pay them off.

The CIBC study suggests that, on average, 25 per cent of Canadians age 50 to 59 are willing to reduce their lifestyle and live more modestly in retirement. Almost the same percentage said they plan to retire in debt. The balance say they would rather "work longer and live better." Regionally, residents of Manitoba and Saskatchewan were the least likely to reduce their lifestyle at retirement, with 17 per cent accepting that idea. At 32 per cent, Quebec had the highest percentage willing to reduce their lifestyles after they retire.

Regionally, the CIBC/Leger results were as follows:

Percentage in their 50s willing to cut their current lifestyle and live modestly in retirement:

British Columbia	25%
Alberta	23%
Manitoba/Saskatchewan	17%
Ontario	24%
Quebec	32%
Atlantic provinces	29%

Almost the same percentages indicated that they will be carrying their debts into retirement. The results by region were:

British Columbia	26%
Alberta	17%
Manitoba/Saskatchewan	16%
Ontario	24%
Quebec	30%
Atlantic provinces	26%

According to CIBC Executive Vice-President of Retail Distribution and Channel Strategy Christine Kramer, Canadians may have become too comfortable with today's record low interest rates on debt, leaving their retirement cash flow vulnerable to rate adjustments.

"Retiring with debt creates a drag on your retirement income, as monthly repayments will reduce cash flow," she says. *"While some may feel they can incorporate debt payments into their retirement, the reality is that repaying debt before retirement remains an integral component of maximizing cash flow."* ❧

Court flexes its muscles, forces lump sum transfer from LIRA

The Ontario Superior Court demonstrated that it is prepared to force the transfer of funds from a locked-in savings account (LIRA) when plan members renege on spousal support payments.

The case involved a common-law couple whose relationship had dissolved after 24 years. The court had initially required the man to pay $2,000 per month in spousal support. However, within days of receiving the order, the man terminated his employment and received a severance amount totalling more than $120,000. A year later, he also cashed out his pension, which had a commuted value of more than $569,700. He then transferred more than $363,000 to a LIRA and placed the remaining $144,000 into a personal savings account.

A few months after that, he also applied to the Financial Service Commission of Ontario to unlock $24,150 from the LIRA, citing financial hardship. His application was approved.

When his former partner learned of his attempts to liquidate his assets, she began litigation. By this point, the man owed more than $57,000 in unpaid spousal support.

In reviewing the circumstances surrounding the woman's application, the court ordered that the man's LIRA be frozen and that all amounts owing to his former partner be paid from the fund. In addition, it ordered that his spousal support arrears continue to grow at rate of $1,900 per month.

However, the man's actions were then elevated to another, far more serious consideration: contempt of court. The woman's counsel argued that the man's attempt to liquidate his assets after the initial settlement could be considered contempt of court. However, rather than seek a contempt order, the woman would accept a lump sum settlement amounting to $200,000 from the LIRA as well as the $24,150 from his lump sum withdrawal.

In reviewing the situation, the court agreed that there were ample grounds to find the man in contempt of court and agreed to the $200,000 lump sum transfer from the LIRA in addition to the $57,000 in unpaid spousal support payments, as well as the earlier $24,150 withdrawal.

In summarizing its award, the court noted that the man *"has had at several times significant funds at his disposal and has failed to pay support to the respondent. In such a situation, a lump sum award is appropriate."*

While forcing the transfer of a lump sum from a LIRA is unusual, the Ontario court's action demonstrates that the legal system is prepared to take strong measures to ensure settlements are enforced following relationship breakdowns. Attempts to circumvent court judgements by asset liquidation or similar means could result in contempt charges and/or substantial financial ramifications for the offending party. ❧

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Life expectancy declines among poor, less educated Americans

After almost a century of increases, the life expectancy of less educated Americans is declining, according to a major study conducted by the University of Illinois at Chicago.

According to a review of trends between the years 1990 and 2008, the life expectancy of white Americans who did not graduate from high school has declined by an average four years, one of the largest decreases on record in the modern era.

The sharpest decline was seen among white women without high school diplomas, where a decline of five years was recorded during the 18-year study period. On average, less educated men lost three years during that period.

The University of Illinois investigation indicates that life expectancy for less educated white males is now 67.5 years; for their female counterparts, it is now 73.5 years. On the other hand, the comparable rate for Americans with a college degree or more is now 80.4 years and 83.9 years, respectively.

The life expectancies of Hispanic and African Americans either increased slightly or remained relatively stable during that period.

The study, which was published in the August 2012 edition of *Health Affairs* magazine, warns of the emergence of "two Americas" in terms of public health: one less educated with life expectancies comparable to those experienced in the 1950s and early 1960s, and one accented by higher education, better living standards and longer lifespans, comparable to those experienced in Canada and Europe.

"These gaps have widened over time and have led to at least two "Americas," if not multiple others, in terms of life expectancy, demarcated by level of education and racial group membership. The message for policy makers is clear: implement educational enhancements at young, middle, and older ages for people of all races, to reduce the large gap in health and longevity that persists today," writes lead investigator and University of Illinois Professor S. Jay Olshansky in *Health Affairs* magazine.

While three previous studies by the American Cancer Society, Harvard University and the University of Colorado also warned of declining life expectancies among the less educated, the latest findings are highlighted by the sharpest declines recorded to date.

The loss of five years of life among white women rivals the seven-year fall recorded for Russian men following the collapse of the Soviet Union, according to the Institute of Health Equity of London, England.

"There's an enormous issue of why," says Harvard Professor David Cutler, author of that university's 2008 review of life expectancy trends. *"It's puzzling, and we don't have a great explanation."*

"Something is going on in the lives of disadvantaged white women that is leading to some really alarming trends in life expectancy," adds Harvard Professor and author of an earlier study Jennifer Kara Montez.

Theories for the drop in life expectancy vary. Among them are: increases in rates of overdoses of prescription drugs among the poor; an increase in smoking rates among less educated women; and a sharp decline of less educated working adults with health insurance. ❧

Meanwhile in Canada: Health gap grows with income

While major declines in life expectancy have not been recorded among the less educated in Canada, low income Canadians do not enjoy the same health as higher income earners, according to the Canadian Medical Association (CMA).

Based on a 2012 Ipsos Reid study of 1,200 Canadians conducted for the CMA, 68 per cent of those earning $60,000 or more per year reported their health as either excellent or very good. That compares to only 39 per cent of those earning $30,000 or less.

The CMA warns that the wellness to income gap has jumped to 29 percentage points compared to 17 points in 2009.

"Things are getting worse, not better," says CMA President Dr. John Haggie. *"…They aren't necessarily pure health care delivery issues."*

According to the CMA, higher income earners tend to smoke less, eat more vegetables, exercise more and have reduced rates of obesity.

The answer to bridging the disparity between the health levels between upper and lower income earners may lay in a more thorough examination of the impact social policies may have on health outcomes of society, Dr. Haggie suggests.

"Perhaps we could adopt a point of view of using a health impact assessment for any social policy proposal," he says. *"Social policy in general nearly always has some kind of impact on health and, at the moment, those impacts have been left to chance."* ❧

New Brunswick introduces new hybrid pension model

New Brunswick has amended its Pension Benefits Act (PBA) to allow a new hybrid pension arrangement that combines elements of both defined benefit and defined contribution pensions.

The province's new shared-risk pension plan (SRPP) involves a contributory, career average pension arrangement that features defined benefits that provide a basic level of benefits based on the returns generated by a pension fund. Under the new arrangement, an SRPP could increase or reduce accrued benefits, if necessary, based on fund performance. As well, cost of living adjustments are only permitted when it is financially viable.

This new arrangement may be considered a model for public service pension plans as it provides many favourable elements of defined benefit plans, such as a fixed income and contribution arrangement, but still requires "hard" financial resources to fund features such as indexing. In addition, plan surpluses cannot be used to fund contributions, removing the temptation for plan sponsors to use the surpluses to fund pensions or take premium holidays.

Other features of the SRPP include:

- employee-employer contributions that are known in advance and based on the pension plan's funding policy;
- clear funding policies that are reviewed annually by the pension regulator;
- annual review and adjustments of pension investment policies;
- the publishing of identified risks and how they will be shared;
- the publishing of a dispute resolution process; and
- management by independent trustees, boards or non-profit corporations. ❧

Canada's top 20 group insurers

Following is a list of Canada's top 20 group insurers by premiums and non-insured deposits as published in the April 2012 edition of *Benefits Canada 2012 Group Insurance Survey.*

	Insurer	2011 premiums/non-insured deposits ($millions)
1.	Great-West Life	$7,188.3
2.	Sun Life Financial	$7,155.2
3.	Manulife Financial	$6,467.2
4.	Desjardins Financial Security	$2,014.6
5.	SSQ Financial	$1,295.1
6.	Green Shield Canada	$1,264.4
7.	Pacific Blue Cross	$1,032.6
8.	Medavie Blue Cross	$955.1
9.	Industrial Alliance	$974.6
10.	Standard Life	$711.5

	Insurer	2011 premiums/non-insured deposits ($millions)
11.	La Capitale	$419.6
12.	Empire Life	$328.1
13.	Equitable Life	$273.9
14.	The Co-operators	$271.9
15.	Manitoba Blue Cross	$261.8
16.	RBC Insurance	$246.6
17.	Blue Cross Life	$241.2
18.	Saskatchewan Blue Cross	$62.7
19.	Assumption Life	$54.9
20.	Wawanesa	$43.0

Employee qualifies for LTD coverage 16 months after termination

Downsizing is seldom easy, either for employers or employees. However, a recent Ontario Court of Appeal decision has proved that a poorly planned termination strategy by an employer can result in serious long-term liabilities for an organization.

The case involved a 55-year-old worker employed by a kitchen cabinet manufacturer who was terminated due to downsizing by the firm. Despite having 24 years of experience with the manufacturer, the employee received the statutory minimum severance, in this case, eight weeks of notice with the continuation of his employee benefits for the statutory period.

Within two weeks, the employee found another position at a lower salary and without benefits. However, approximately 16 months later, he was diagnosed with cancer and underwent a series of major surgeries and was unable to return to work. He then sued his former employer for wrongful dismissal.

The key to the employee's case revolved around the debate of what constitutes *"reasonable notice"* in cases involving wrongful dismissal. While Ontario's Employment Standards Act provides approximately one week of severance per year of service to a maximum of eight weeks, beginning three months after employment, common-law notice periods often enhance terminated employees' entitlements based on factors such as an employee's age, position, length of service and previous court decisions.

In this case, using common-law notice, the court determined that the reasonable notice period for the terminated employee should have been 22 months, not the eight weeks provided by the employer. Since the employee was diagnosed with cancer 16 months following his termination, he qualified to receive additional severance pay and benefits coverage. As a result, the court awarded the employee an amount equalling his salary for the 22-month period. More importantly, it also awarded him the full value of his short and long-term disability benefits covering the period to the date the employee would turn 65 years of age. He also received an additional $15,000 in damages.

While the employer argued that the employee had refused to participate in a vocational rehabilitation program, thereby disqualifying him from receiving LTD benefits, the court dismissed that contention based on the medical evidence provided by the employee's doctors.

For plan sponsors, this case should serve as a reminder that the statutory requirements of legislation like Ontario's Employment Standards Act should only serve as a base for severance arrangements. Courts can – and often will – extend reasonable notice periods to cover common-law definitions of that term, which extend well beyond the minimums established by legislation. Since employee benefits usually extend to notice periods following termination, it is safe to assume that an employee may be covered for benefits such as long-term disability well after the employee has left the workplace. ❧

PPN update

Watson's Pharmacy and Compounding Centre, of 1308 Wellington Street West, Ottawa, has joined the Coughlin & Associates Ltd. preferred provider network (PPN). Its address is: 1308 Wellington Street West in Ottawa. Phone: 613-238-1882.

Fairfield IDA pharmacy is now located at 474 Hazeldean Road in Kanata. Its phone number is: 613-435-7887. ❧

Fast facts

- The Employment Insurance Commission has announced that the maximum insurable earnings for 2013 will be $47,400, up from $45,900.
- Statistics Canada reports that the value of all employer-sponsored pension funds in Canada totalled $1.1 trillion at the end of the first quarter of 2012. That amount represented an increase of 4.1 per cent from the previous quarter and was the largest gain reported since 2010.
- Beginning as early as June 2013, parents of critically ill or injured children will be able to apply for up to 35 weeks of Employment Insurance benefits while they care for the child. Currently, parents can only apply for six weeks of benefits.
- Canadians will face higher taxes and reduced government services unless action is taken to reduce or control enrolment in public sector pensions, the Canadian Federation of Independent Business says. The business group notes that public sector pension enrolments are climbing at double the rate of private sector plans. Meanwhile, pensions among all levels of government are underfunded by more than $300 billion. Unless action is taken to control rising pension costs, funding for fundamental government services will be eroded, it says.
- An Ipsos Reid poll conducted for the Canadian Medical Association indicates that 36 per cent of Canadians surveyed by that group do not have sufficient health insurance to cover important supplementary medical expenses such as dental care, vision care, certain prescription drugs, physiotherapy and other services. The costs of these services are not covered under government medical plans. Those most affected by the lack of coverage included low income earners, women, the self-employed and the unemployed or underemployed.
- The province of Prince Edward Island faces a pension deficit of $436 million, according to Terry Hogan, the province's pension funds manager. The province's pensions lost more than 17 per cent of their value during the 2008-09 market crash and have not recovered to their former levels. The provincial teachers' pension plan faces a deficit of approximately $160 million while the civil service plan has a deficit of approximately $275 million.
- More than one-third of working Canadians with osteoarthritis have taken sick days due to the pain associated with that disease, according to a Morneau Shepell and AstraZeneca survey. A total of 19 per cent of those with osteoarthritis had reduced their work hours because of the disease while 14 per cent had taken short-term disability leave.
- The four pension plans of the former Stelco face a deficit of $1.6 billion, or 40 per cent of their value, according to articles published by the *Hamilton Spectator*. Stelco is now owned by U.S. Steel. According to Local 1005 of the United Steelworkers, when U.S. Steel purchased the former Canadian steel giant, it committed to eliminating the pension deficits by 2015. The company has been making special payments of approximately $70 million a year to reduce the shortfall.
- While just under half of eligible Canadians, 47 per cent, have opened a tax-free savings account (TFSA) since their introduction in 2008, only 36 per cent plan to use their accumulated savings for retirement, according to a CIBC poll conducted by Harris/Decima. The bulk of TSFA holders, 41 per cent, cite no special reason for contributing to the plans, outside of tax deferral. One in five expect to withdraw money from their fund this year.
- The Dominion Bond Rating Service reports that 451 defined benefit pension plans in the United States and Canada have funding deficits. In total, the plans' obligations exceed their assets by more than $389 billion, the rating agency says. *"Many plans have entered the danger zone of funded status,"* says Senior-Vice President James Jung.
- Japan has passed legislation abolishing mandatory retirement. The new law, which will go into effect in April 2013, allows employees to work until age 65.
- One in six British workers has lost track of their pension funds after changing jobs, Prudential Assurance of the UK says. Research by that insurer indicates that 15 per cent of workers who changed jobs relied on their new employer to make arrangements to transfer their pension assets from their former employer. The result is that millions of pounds of pension accumulation may not be utilized when it is needed due to a lack of interest or attention to pension savings by some workers.

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