

WORKING PAPER 5: HOW TO PROVIDE RETIREMENT BENEFITS*†

1. Key challenge & overview

People in precarious employment are less likely to have access to benefits, including retirement benefits.

Retirement income in Canada is composed of publicly funded entitlements (OAS, GIS, and GAINS), earnings-related pensions (CPP, QPP), and private savings. Those in precarious employment have substantially less access to earnings-related pensions and are less likely to pay into a supplemental pension plan, and are therefore more likely to have inadequate savings to support them in retirement. **Policy options focus on improving access to retirement benefits either within the employment relationship or outside of it.**

2. Evidence from PEPSO

Access to employer-provided benefits is a challenge for all Canadians. **Only 35% of Canadian workers have a workplace pension plan**, with coverage having declined over the past 20 years.¹ Access to these benefits is even more challenging for those in precarious employment. PEPSO's *It's More than Poverty* report[‡] found that **more than 80% of workers in precarious jobs do not have employer-sponsored benefit packages**. This means that they are less likely to be paying into a supplemental pension plan and are more likely to have inadequate savings to support them in retirement.

3. Context/current situation

There are two facets to retirement income: one needs to build this income before retiring and one needs to have access to retirement resources after retiring. Retirement income in Canada is often described as having three pillars.² They are:

- **Publicly funded pensions** that provide a basic income outside of the employment relationship in the form of the Old Age Security (OAS) pension, its low-income supplements (GIS) and a provincial low-income Guaranteed Annual Income System (GAINS).
- An **earnings-related pension** is provided through the employment relationship in the form of the Canada Pension Plan (CPP) or Quebec Pension Plan (QPP).
- **Private savings** in reference to retirement income are investments either through an employer-provided benefit plan or by the individual.

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† This Policy Options Working Paper is one in a series of 16 working papers that explore the range of policy options that have been proposed to reduce or mitigate the impacts of precarious employment. Each of these papers must be read in tandem with the paper titled "PEPSO Policy Options Working Papers: Introduction". The full reference list is contained in a separate bibliography document.

‡ PEPSO's *It's More than Poverty* report refers to the report that was published in February 2013 that was based on the main survey conducted by PEPSO. In these working papers this report will be called the PEPSO report or the PEPSO survey. This is only appropriate for these working papers as there are other PEPSO reports that will be published by the six case studies.

Publicly funded pensions and the CPP provide retirement income for the majority of seniors.³ However, Canadians are saving for retirement at a rate of about 2.5% of income, which is much lower than the recommended 17%-20%.⁴ This low rate in private savings, whether through workplace pensions, or individual investments, raises concerns about income adequacy for seniors. Canadians earning \$30,000-\$100,000 annually in individual income face a substantial drop in income upon retirement if they need to rely solely on the CPP, OAS and the low-income supplements.⁵

Employer-sponsored benefit plans are a form of non-wage compensation used to recruit and retain workers and often include pensions. Employers are prohibited from discriminating on the basis of age, sex and marital status when they offer benefit packages.⁶ There is no employment standard, however, that prohibits employers from discriminating on the basis of employment status (e.g. discriminating on the basis of part-time or contract status).

While the retirement income system serves as an important social safety net, it often does not meet the needs of many in middle and high incomes.⁷ It will likely not meet the needs of those who are in precarious employment today when they retire. In addition, other issues can create challenges for retirement savings such as personal decisions made prior to retirement and immigration, which can limit the time an individual has to develop pension funds.

3.1 Benefits inside the employment relationship

Benefits inside employment include earnings-related pensions and employer-sponsored retirement savings income.

Government transfers of retirement income include two main plans:

- **Canada Pension Plan (CPP):** Employers and workers each contribute 4.95% of pensionable earnings to the Canada Pension Plan (CPP) through mandatory payroll deductions. Self-employed persons can contribute the entire 9.9%.⁸ The CPP replaces 25% of a worker's pensionable earnings (averaged over their working life) and benefits are indexed annually to inflation.⁹
- **Pooled Registered Pension Plan (PRPP):** In 2012, the federal government launched a Pooled Registered Pension Plan (PRPP)¹⁰ aimed at increasing access to pension plans, including access for self-employed persons.¹¹ Participation in the PRPP is voluntary for employers with automatic enrolment for workers whose employers do participate.[§] The PRPP offers portable, low-cost pension plan management¹² with contributions locked-in until the age of 55.^{**}

Employer-sponsored retirement benefit plans can take many forms but there are two basic models:

- **Defined benefit plans** are plans with predetermined pension levels for retirement—that are most often based on a worker's earnings and/ or length of service.¹³
- **Defined contribution plans** are plans in which contributions are predetermined, but the level of pension at retirement is unknown until retirement— and they deliver a retirement benefit based on the size of the contribution and the return on investment.¹⁴

Workplace pensions are more prevalent in the public sector, with 80% of Canadian public sector workers paying into one, compared to less than 25% in the private sector.¹⁵ Unless stipulated through a collective agreement, employers determine the model and terms of contribution to workplace retirement benefits, as well as who participates.

[§] Workers have 60 days to opt out of the plan.

^{**} 55 is the age of retirement under the PRPP framework.

3.2 Benefits outside the employment relationship

The federal and provincial governments deliver benefits outside of employment, and they can also be purchased privately.

Public pension: Old Age Security (OAS) is Canada's largest public pension plan and it benefits everyone who meets legal and residential status requirements.¹⁶ The amount of the OAS pension depends on the number of years a person has resided in Canada as an adult. In 2012, the federal government announced that the age of eligibility for OAS and its supplements would be increased from 65 to 67, starting in April 2023.¹⁷

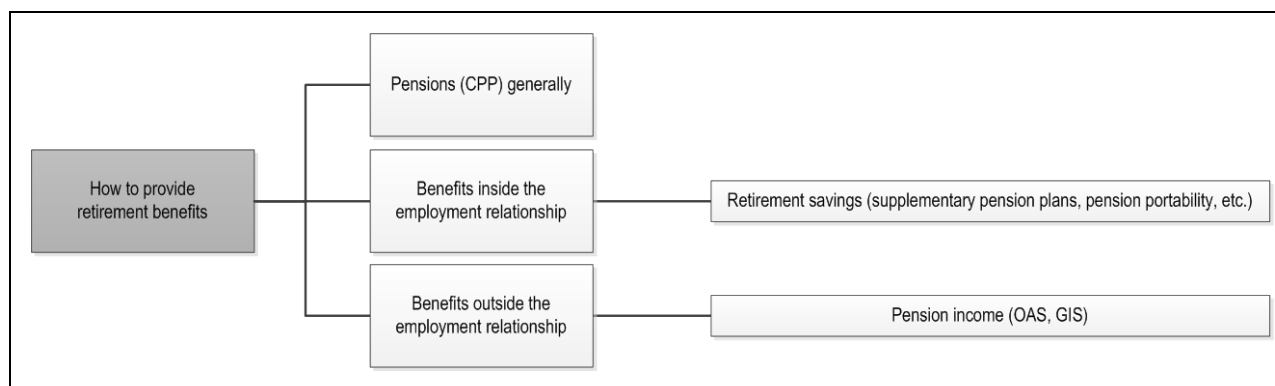
Low-income supplements: There are three benefits within OAS that provide supplemental benefits to low-income seniors: the Guaranteed Income Supplement (GIS), the Allowance (for partners of GIS recipients), and the Allowance for the Survivor (for low-income seniors whose partners are deceased).¹⁸ **GAINS:** Residents of Ontario who receive OAS and GIS are eligible for Guaranteed Annual Income System (GAINS) benefits. The GAINS benefit is paid to seniors whose total retirement income is below the threshold guaranteed by the province.¹⁹ GAINS payments decrease as private income increases.²⁰

Private retirement savings: Individuals can invest in voluntary tax-assisted pension products, such as RRSPs²¹ or use products such as Tax Free Savings Accounts (TFSA) which are not necessarily designed as a pension product.

4. Policy options

Many policy options focus specifically on improving workers' **access to pensions**. In addition, the policy options tend to focus on government regulations and do not touch on the role of other key actors.

As employer-sponsored retirement benefits decline and precarious employment increases, there have been numerous calls for reform to the entire retirement income savings system.²² Some suggest that retirement incomes of marginalized groups deserve particular attention,²³ while others propose increasing the wage replacement rates of the CPP to ensure retirement income adequacy,²⁴ or raising the CPP's maximum contribution amount.²⁵



4.1 Benefits inside the employment relationship

Policy options that address pension income received through the employment relationship suggest **increasing access to retirement savings** in order to include workers in precarious employment. These include:

- **Legislating parity** to ensure that all workers— regardless of their employment status— have the same access to benefits.²⁶ In the European Union, legislation stipulates temp agency workers must be provided with the same workplace and employment conditions as other employees performing comparable work.²⁷

The U.K. recently legislated automatic enrolment for workers in employer sponsored pension schemes.²⁸ Employers choose the pension scheme and workers can opt out, but all employees from age 22 until the State Pension Age^{††} will be phased into a private pension plan by 2017.²⁹ It has been suggested that the implementation of a minimum floor of benefits reduces the cost incentive of hiring part-time over full-time workers.³⁰

- **Developing supplementary pension plans** to expand pension coverage to more workers. This may take the form of sectoral, employer funded pension plans,³¹ low-cost pension plans for self-employed workers,³² a supplement to the CPP,³³ or another provincial public pension with mandatory enrolment for workers who do not have workplace plans.³⁴
- **Expanding the role of unions** or workplace associations to include providing benefits.³⁵
- Legislating reform to facilitate the **pension portability** of employer-sponsored pensions.³⁶

4.2 Benefits outside the employment relationship

Policy proposals that address pensions outside the employment relationship focus on benefits provided by the federal government. The primary objectives are to **improve access** to pension income or to **ensure adequate pension income**. These include improvements to OAS and GIS such as:

- Protecting universal access to the OAS,³⁷ establishing automatic enrolment,³⁸ and **re-evaluating** the recent decision to extend the **age of eligibility**³⁹ to ensure timely access to retirement income.
- **Increasing and indexing OAS** benefit rates to the average wage⁴⁰ or to inflation⁴¹ to ensure adequate income. Other options include ensuring that the monthly payments do not fall below a certain threshold,⁴² or repealing clawbacks.⁴³
- **Automating enrolment** for GIS to ensure that all eligible seniors receive it.⁴⁴
- **Increasing the GIS amount** paid to single individuals in order to address the income security of older women,^{†† 45} or to increase the supplement for all recipients.⁴⁶
- **Increasing funding** for the GIS supplement.⁴⁷
- **Developing enhanced supports** for older workers who cannot find work, but need a bridge into retirement.⁴⁸

5. Questions for discussion

1. Which policy options in this paper could have the most impact on the lives of those in precarious employment?
2. Which policy options in this paper can we realistically move forward on, given the current political, economic, and social climates?
3. Which policy options are missing from this paper, but require attention?

6. Endnotes

¹ Ontario Ministry of Finance, 2010

² Canadian Labour Congress, 2012; Ontario Ministry of Finance, 2010

³ Service Canada, 2013e

^{††} The earnings threshold above which employees should be auto-enrolled into a private pension scheme is £9,4440 (as of April, 2013). (Pension Policy Institute, 2013a). The State Pension Age (SPA) is the age at which employees are no longer required to pay contributions. It is 65 for men, but for women born on or before 1950, it is 60. It will be 65 for women from 2018, but until then the SPA will vary for women born between 1950 and 1953. (HM Revenue & Customs, 2013).

^{††} In 2011, the average new benefit for men was \$643.36, for women it was \$476.87. (Canadian Labour Congress, 2012)

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- ⁴ Leech, 2013 in Global News, 2013c
 - ⁵ Global News, 2013b
 - ⁶ Ontario Ministry of Labour, 2014a
 - ⁷ Ontario Ministry of Finance, 2010
 - ⁸ Service Canada, 2013a
 - ⁹ Ontario Ministry of Finance, 2010
 - ¹⁰ Office of the Superintendent of Financial Institutions, 2013
 - ¹¹ Canada Revenue Agency, 2014d
 - ¹² Department of Finance Canada, 2011b
 - ¹³ Ontario Ministry of Finance, 2010
 - ¹⁴ Ontario Ministry of Finance, 2010
 - ¹⁵ Ontario Ministry of Finance, 2010
 - ¹⁶ Service Canada, 2013b
 - ¹⁷ Service Canada, 2013d
 - ¹⁸ Service Canada, 2013d
 - ¹⁹ Ontario Ministry of Finance, 2014a
 - ²⁰ Ontario Ministry of Finance, 2014a
 - ²¹ Ontario Ministry of Finance, 2010
 - ²² Access Alliance, 2011 supported by Canadian Centre for Policy Alternatives and the Income Security Advocacy Centre; Broadbent Institute, 2012; Lewchuk, Clarke, & De Wolff, 2011
 - ²³ Canadian Centre for Policy Alternatives, 2009
 - ²⁴ Kodar, 2004
 - ²⁵ Globe and Mail, 2013a
 - ²⁶ PEPSO, 2013; Workers' Action Centre & Employment Standards Work Group, 2005; Worker's Action Centre, 2007; NDP, 2013; Kodar, 2004
 - ²⁷ Workers' Action Centre & Parkdale Community Legal Services, 2008
 - ²⁸ Pension Policy Institute, 2013b
 - ²⁹ Pension Policy Institute, 2013b
 - ³⁰ Upjohn Institute, 2012
 - ³¹ Lewchuk, Clarke, & De Wolff, 2011
 - ³² CivicAction, 2011b, 2011c
 - ³³ Liberal Party of Canada, 2012; Lankin & Sheikh, 2012
 - ³⁴ Institute for Competitiveness & Prosperity, 2013
 - ³⁵ Lewchuk, Clarke, & De Wolff, 2011; Canadian Policy Research Network, 2006a
 - ³⁶ Kalleberg, 2009; PEPSO, 2013; Lewchuk, Clarke, & De Wolff, 2011
 - ³⁷ NDP, 2013
 - ³⁸ NDP, 2013
 - ³⁹ PEPSO, 2013
 - ⁴⁰ Kodar, 2004
 - ⁴¹ Liberal Party of Canada, 2012
 - ⁴² Liberal Party of Canada, 2012
 - ⁴³ Liberal Party of Canada, 2012
 - ⁴⁴ NDP, 2013
 - ⁴⁵ Canadian Centre for Policy Alternatives, 2009
 - ⁴⁶ NDP, 2013; Broadbent Institute, 2012
 - ⁴⁷ NDP, 2013
 - ⁴⁸ PEPSO, 2013