Legacy Costs of Public Sector Employees

Simply, are government pensions fair and sustainable?

Legacy costs have been in the news lately as a major issue for the Canadian economy. Legacy costs *are* an expense that businesses incur as an obligation to fund retirement plans and health benefits of retired workers. These costs have been a major barrier in the recent efforts to keep Stelco together. They were also major factor in the restructuring of Air Canada through bankruptcy. The automobile industry has become overwhelmed by legacy costs. GM issued corporate bonds that were recently reduced to the level of junk bonds and their share price is close to an all time low. Recently, Ford announced they were going into corporate restructuring because of the same problem. At GM, the legacy cost “shortfalls” are estimated to be in excess of $30 Billion. The average pensioner worldwide receives a pension of $18,000 (source: The Washington Post, *GM Getting Eaten Alive by a Free Lunch*, April 19, 2005).

If legacy costs at businesses are a problem for the Canadian economy, what about public employee pensions? The private sector has much lower levels of pension obligations than pension plans for public sector workers. Only *27%* of Canadian employees, *in the private sector* have, defined benefit pensions that have been causing these legacy costs problems; however, *86%* of public employee pensions are of this type (source: *Benefits and Pension Monitor:* http://powershift.ca/bpm/news/index.html).

<u>Public Employee Pensions</u>

The average pension at GM is US$18,000 per year. In one Ontario public employee pension plan, the average is $40,000 this year increasing by about $3,000 per year. One criticism of the CFIB is that there is no disclosure of Federal Government pensions but information they have access to show the highest pensions go to federal workers.

Statistics Canada estimates that a pensioner living on $40,000 of pension income has the equivalent income of a “working” Canadian earning $52,000. Reduced taxation and lower living expenses account for this difference. What is the $52,000 government employee pension really worth? Indeed, public sector pensions are a serious problem for Canada. Many of the largest pensions are facing enormous “shortfalls”. The members in these plans expect these shortfalls to be covered by tax dollars.

The most recent Statistics Canada figures show the average Canadian earning scarcely $38,000 per year. Most government employees retire with incomes in excess of $60,000 per year (including CPP, OAS and pensions). When lifestyle estimates are taken into place, these pensions are worth twice the average Canadian working wage.

Is this fair?

<u>Contribution Rates</u>

There exists a huge gap between what public sector employees receive for their retirement benefits and what other Canadians receive. The taxpayer pays all government pensions and in Canada, we have one of the highest levels of taxation in the world. A businessperson who pays CPP premiums at 9.9% of his income with the hope of receiving a $ 9,900 a year CPP pension (source: Canada Pension Plan (CPP), http://www.sdc.gc.ca/en/isp/pub/factsheets/retire.html). The contribution rates are the equivalent for government pensions but the eventual “payout” is substantially higher.

For example, in one pension we examined, the contribution rate of 7.3% generated a pension in excess of $40,000 per year. Contrast this with the businessperson's CCPP contribution and payout.

Tax levels are so high that most Canadians cannot afford additional contributions into personal pension and retirement savings plans. Yet, many government employees will be eligible to retire at age 50 earning more than the average Canadian wage rate.

Many Canadian Chamber of Commerce small business owners are at extreme risk of under funding their personal retirement plans. Yet, these same business owners are paying taxes to fund government pensions, allowing workers to retire at a luxurious level of income.

"Pension Shortfalls"

Many of Canada's public employee pension plans are in "pension shortfall". One pension in Ontario has a "shortfall" of over *$30* Billion dollars. Its members feel that the Ontario taxpayer should cover this shortfall (see: Ontario Teachers Pension Plan Website - http://www.otpp.com/web/website.nsf/web/pensionwise).   The *$30* Billion is great*er* than the total of the TOP 5 Canadian corporate pension plans combined (source: Canada Benefits, Pensions without Borders, *The Top 100 Pension Plans In Canada*, www.benefitscanada.com , May 5, 2005). This pension is one of only many government employee pensions.

Competitive or Fair Compensation

One of the key arguments for the level of compensation in the public sector is "it is needed for the attraction of quality workers in a competitive marketplace". A recent CFIB report entitled *Wage Watch*: *A comparison of public-sector and private-sector wages*, shows that wages rates for Government of Canada employees is 15% higher for wages and 25% higher including pensions and benefits, than the equivalent private sector occupations. Not only are these employees receiving higher wages but huge pensions as well. The Federal Government's Superannuation Fund has accumulated more than $117 billion of taxpayer's money, for the pensions of its workers.

Over the past, several years there has been a huge wealth transfer from Canadian taxpayers into pension plans for government employees.

Statistics Canada recently estimated that Canada has an "engineered infrastructure" valued at around $150 billion. This infrastructure includes "the four main components of engineering infrastructure owned by governments: roads and highways, sewer systems, wastewater treatment facilities and bridges". At the same time the Ontario Teachers pension has accumulated $ 98 billion. All government employee pensions in Canada hold around $450 billion in assets. Over the past 20 years, for every dollar Canadians have funded into our "engineered infrastructure", we have funded three into these pension plans (source: Statistics Canada Daily, January 30, 2006, *Study: The age of Canada's public infrastructure*, www.statcan.ca/Daily/English/060130/d060130b.htm).

Recommendations

That the federal government establish a non-partisan consultative committee comprised of experts in the field to make recommendations on federal public employee pensions to the appropriate ministers with the goals of:

1. Ensuring a sustainable funding model;
2. Creating a pension system that will attract and retain high caliber public sector employees at the same time ensuring reasonable and sustainable liabilities for the taxpayer; and
3. Examining the solvency tests and governance tests against which registered public sector pension plans are evaluated.

SUBMITTED BY THE HAMILTON CHAMBER OF COMMERCE

THE ECONOMIC POLICY COMMITTEE SUPPORTS THIS RESOLUTION.