FINANCE & TAXATION:
Legacy Costs of Public Sector Employees

Issue:
Are government pensions fair and sustainable?

Background:
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. It is expected that Ford be just around corner from 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.

1. 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.

2. Public Employee Pensions: The average pension at GM is $18,000 (US) per year. In one Ontario public employee pension plan, the average is $40,000 this year increasing by about $3,000 per year. Statistics Canada estimates that a pensioner living on $23,000 of pension income has the equivalent income of a “working” Canadian earning $36,000. Reduced taxation and lower living expenses account for the reason for this difference. What is the $40,000 government employee pension really worth?

3. 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. One pension plan in Ontario is estimated to have a shortfall of over $30 Billion even though the pension plan has over $96 Billion in assets.

4. 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 level 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.

5. 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.

"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. It's members feel that the Ontario taxpayer should cover this shortfall.

6. The $30 Billion is greater than the total of the TOP 5 Canadian corporate pension plans combined.

7. This pension is one of only many government employee pensions. Canada needs to address the fairness of public sector pensions. A $40,000 per year pension is higher than the average "working wage" in Canada estimated to be $37,000.

8. We as taxpayers fund these retirees, some starting at age 50. They receive a pension for the rest of their lives, in many cases earning more in retirement than they earned over the whole of their working career. On the website of a provincial employee there is an illustration of an employee retiring at age 60 earning over $1 million in retirement after having made a contribution of only $38,000 over their working career.

9. Over the past several years there has been a huge wealth transfer from Canadian taxpayers into pension plans for government employees. Government pension plans are the largest commercial real estate holders in Canada. The total value of government employee pension plans is close to 60% of the total value of the TSE index.

RECOMMENDATIONS:
The Ontario Chamber of Commerce urges the Government of Ontario to:
Establish a non-partisan consultative committee comprised of experts in the field to make recommendations on public employee pensions to the appropriate ministers with the goals of creating a:
• Sustainable funding model;
• 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
• To examine the solvency tests and governance tests against which registered public sector pension plans are evaluated.

References:
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3 The Ontario Teachers Pension estimates that a teacher will retire with an income of over $52,000 at age 65. This is based on a current funding level of 7.3% of income. www.otpp.com , "What will you get at 65" 4 Toronto Star, Teachers' Pensions in Red Despite Strong Profit, Mar 17, 2006
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