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September 10, 2015

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Catherine Adam  
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Re: Consultations on a Voluntary Supplement to the Canada Pension Plan

The United Steelworkers (USW) is one of the largest industrial unions in Canada with approximately 225,000 members. The USW's Canadian membership is one part of an international union of over 800,000 members from across North America. We are proud to represent an extremely diverse membership in almost every private sector industry, along with thousands of public sector workers in hospitals, nursing homes and universities. We also advocate for over 100,000 retired USW members and their spouses across Canada.

We understand that the focus of this public consultation is to invite submissions and recommendations from interested parties on how to go forward with the government's proposal to implement a voluntary supplement to the CPP. While we appreciate government's effort to seek stakeholder input on the issue of public pension reform, the USW cannot endorse the government's proposal for a voluntary supplement to the CPP.

Of the nine questions asked in the consultation document, the USW will only address the first: *"Do you believe a voluntary supplement to the CPP should be an option for Canadians to save for retirement?"*

Without reservation, our answer is "no". We urge the government to reject this approach and embrace the labour movement's plan for mandatory, universal CPP expansion, which has been supported by researchers, policy-makers, stakeholders and nearly every province across the country.

Minister Oliver's plan for a voluntary CPP supplement appears on the surface to address what the labour movement has known for many years: the retirement income crisis in Canada is real and requires urgent action. Currently, 11 million workers do not have a workplace pension plan. Recent studies show that half of middle

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**United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union**  
**Syndicat international des travailleurs unis de la métallurgie, du papier et de la foresterie, du caoutchouc,**  
**de la fabrication, de l'énergie, des services et industries connexes**

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class baby boomers will experience a drop in living standards of at least 25% when they retire.<sup>1</sup> Moreover, Canadian households are not saving at levels required to meet necessary living expenses and significant portions of future generations will face steep drops in consumption in retirement.<sup>2</sup> Fewer Canadians are able to find stable, full-time employment and real wages remain stagnant for many workers. As a consequence, young Canadians are not saving enough for retirement and are taking on more debt to make ends meet.<sup>3</sup> In short, Canadians are at significant risk of experiencing deteriorating standards of living in retirement and they are not saving enough to fill this gap.

As this government knows, the labour movement has stood with other researchers, stakeholders and, recently, the provinces, to advocate for an expansion of the CPP, including an increase to mandatory contributions. CPP expansion remains the most efficient and viable route to enhancing retirement income security. The CPP provides a defined benefit in retirement for life that is fully-indexed to inflation and aims to replace 25% of pre-retirement income up to the average industrial yearly earnings. The maximum CPP benefit is \$1,065 a month and retirees clearly benefit from knowing precisely what their CPP benefit will be in retirement. Surveys indicate that a majority of Canadians believe that Canada Pension Plan contributions should rise so that CPP benefits can be increased.<sup>4</sup>

Yet, despite public support for CPP expansion and despite evidence that continues to point to the severity of the retirement income crisis, this government continues to stymie efforts to improve CPP benefits and increase the CPP contribution rate. In the USW's view, the government's proposal for a voluntary CPP supplement is consistent with this government's preference for policies that privileges the ideology of choice over evidence-based reforms. This is not the right approach.

It is worth noting that very few details have been provided regarding the government's proposal for a voluntary supplement to the CPP, which is a problem in itself. But the government's consultation paper does make it clear that the proposed "voluntary supplement" will deviate in serious ways from the current CPP plan model. On the one hand, the proposal does not mandate that employers match voluntary employee contributions. The Minister made clear his views on matching contributions in a recent release, in which he stated that this government will continue to oppose a mandatory increase in CPP contributions because it would discourage job

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<sup>1</sup> Michael Wolfson, "Projecting the Adequacy of Canadians' Retirement Incomes: Current Prospects and Possible Reform Options", April 2011, <http://irpp.org/wp-content/uploads/2014/05/Wolfson-No17.pdf>

<sup>2</sup> University of Waterloo & Canadian Institute of Actuaries – "Planning for Retirement: Are Canadians Saving Enough?", June 2007, [http://actuaries.ca/members/publications/2007/FINAL%20CIA\\_Retirement\\_E.pdf](http://actuaries.ca/members/publications/2007/FINAL%20CIA_Retirement_E.pdf) Kevin D. Moore, William Robson, Alexandre Laurin, CD Howe Institute Commentary - "Canada's Looming Retirement Challenge: Will Future Retirees Be Able to Maintain Their Living Standards upon Retirement?", Dec 2010, [https://www.cdhowe.org/sites/default/files/attachments/research\\_papers/mixed//Commentary\\_317.pdf](https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed//Commentary_317.pdf)

<sup>3</sup> Global News, "Retirement lost: More Canadians are cashing out RRSPs early", February 23, 2015

<sup>4</sup> Vincent, Donovan, "Poll supports increased pension contributions," *Toronto Star*. June 9, 2015.

creation and equate to a “job killing payroll tax.”<sup>5</sup> In effect, the government’s proposal absolves employers of the obligation to contribute to employees’ retirement security.

It is true that under the current CPP model and under the labour movement’s plan for CPP reform employers are required to match employee contributions. Yet it is a mistake to misconstrue mandatory CPP premiums as payroll taxes. CPP premiums are, rather, a means of saving for retirement. CPP premiums are not taxes that flow into general revenues. Nor is there any evidence to support the view that increased mandatory CPP contributions would have any meaningful negative effect on employment. As is by now well-known, CPP premium rates were raised in the late 1990s with no hindrance to rapid employment growth.

Moreover, the government’s plan places investment risk solely on the individual member. According to the consultation document, the plan for a voluntary supplement will not provide a “pre-determined level of payment” in retirement but will instead provide a benefit “based on the accumulated contributions and investment returns” attributed to the contributor. Retirement benefits will therefore rise and fall with the markets and there is no guarantee that the retiree will not outlive the benefit generated by the voluntary supplement. The current CPP model, by contrast, pools risk among all workers and across generations to provide a pre-defined retirement benefit. The Canada Pension Plan Investment Board has a proven track record of generating impressive returns while limiting risk for individual retirees. In this way, the CPP is able to provide the security of a *defined benefit* in retirement rather than act as a mere repository of Canadian’s voluntary contributions, which is what Minister Oliver’s plan appears to propose.

More generally, the USW contends that another voluntary savings mechanism will not resolve the retirement savings crisis in this country. Canadians already have access to a wide-variety of voluntary savings vehicles, including Registered Retirement Savings Plans (RRSPs) Tax-Free Savings Accounts (TFSA), and, more recently, Pooled Retirement Pension Plans (PRPPs). Providing another voluntary plan that happens to be managed by the CPP Investment Board does not add much to the equation; investors have about as many plans as they need to save on a voluntary basis.

In fact, evidence shows that tax-assisted, voluntary savings plans have not attracted wide-spread use among Canadians. In 2013 only 23 per cent of tax filers made an RRSP contribution and nearly one trillion dollars of unused contribution room currently exists in the RRSP system.<sup>6</sup> What RRSP contributions do exist, are tilted heavily towards those with higher incomes, who are able to defer higher levels of tax expenditure. Likewise, a similarly low number of Canadians are utilizing the TFSA program and that number has declined in each year since the TFSA was established.<sup>7</sup> Many experts, including the Parliamentary Budget Officer, have noted that the

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<sup>5</sup> Department of Finance, Press Release: “Finance Minister rejects job-killing, mandatory payroll tax hike”, July 13, 2015.

<sup>6</sup> Statistics Canada, “Registered retirement savings plan contributions, 2013”, February 13, 2015, <http://www.statcan.gc.ca/daily-quotidien/150213/dq150213b-eng.htm>; Statistics Canada, Table 111-0040

<sup>7</sup> Statistics Canada, Table 111-0040

TFSA disproportionately benefits wealthy Canadians who seek to shelter investment income from taxation.<sup>8</sup> It is therefore unclear, from an evidence-based perspective, why the government feels that another voluntary mechanism will resolve the retirement income gap.

Indeed, it is revealing that this very same government only five years ago *rejected* a voluntary expansion of the Canada Pension Plan as overly expensive and unworkable. Minister Oliver's call for these consultations comes in spite of the fact that former Finance Minister Flaherty, after holding detailed discussions in 2009 and 2010, stated that "some sort of voluntary new CPP method" would not work. As Ted Menzies, the Conservative minister responsible for the pension file stated in the House of Commons in November 2010, "The verdict was unanimous. This was not a good idea ... this would be costly, ineffective and, ultimately, a misguided solution."<sup>9</sup>

As such, Minister Oliver's proposal to implement a voluntary CPP supplement appears to be no more than an attempt to distract voters from this government's failure to act on the retirement security file. On this point, we agree with Keith Ambachtsheer, director of the Rotman International Centre for Pension Management, who noted, "When you have this record of saying, 'No, no, no [and] all of a sudden before an election, you change your mind ... this is politically motivated, and it's calculated to actually not have any practical effect at all before the election."<sup>10</sup>

In closing, USW contends that a voluntary supplement to the CPP would not help to resolve the retirement income crisis; and it threatens to undermine the principles of universality and risk-pooling that underpins the CPP. Moreover, it removes from employers the obligation to provide retirement security and shifts risks to individual workers. There is no discernable reason for the government to depart from the current CPP model. We urge the government to privilege good policy over ideology: Canadians both want and need mandatory CPP expansion. The time has come for government to step up to provide retirement security for all.

Sincerely,



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<sup>8</sup> Parliamentary Budget Officer, "The Tax-Free Savings Account", February 24, 2011; "Update of PBO's Tax-Free Savings Account Analysis", April 27, 2015,

<sup>9</sup> Curry, Bill, "Tories previously rejected voluntary CPP expansion party now proposes," *The Globe and Mail*. May 27, 2015.

<sup>10</sup> Keith Ambachtsheer quoted in Kranc, Joel, "Canada gets a pension proposal no one asked for," *Institutional Investor Magazine*. June 23, 2015.