Professional Dialogue™

Vol. 6, no. 2, August 2010 Newsletter of the Canadian Association of Professional Employees ISSN 1710-5080

President's Message

About a year ago, the media, receiving not so subtle messages from our government, began to rattle our cage about the "pension plan deficits", the "high cost for taxpayers of the pension plans", the "retirement with full pension at only 55 years of age".

Given the decidedly average nature of the federal public service pension plan, one has to wonder why government officials haven't prepared and published their own

Continued on page 2 ▶

In This Issue

- President's Message p.1
- Federal PS Pensions – The Cadillac Myth p.1
- A. Superannuation p.3
- B. Full Pension and Unreduced Pension p.3
- C. Pension Contributions p.4
- D. Benefit Integration with CPP/QPP p.4
- E. Comparisons to Other Plans p.5
- E-1. *Premiums* p.5
- E-2. *Benefits* p.5
- E-3. *Average Salary and Indexation* p.5
- F. Surplus and Risk p.6
- Historical Lessons p.7
- G. Impact of Wage Controls . p.8
- H. A Cadillac Plan? p.8
- National Executive p.12
- National Office Staff p.12

Federal Public Service Pensions – The Cadillac Myth

Introduction

For many individuals pensions are a boring issue, best left to experts, accountants and actuaries. However, as a work force ages, a pension takes on increased importance. Next to salary, it becomes the most significant employment benefit, particularly as employees realize that it is their major source of income for the remainder of their lives once they retire.

Experts in human resources in both the private and government sectors acknowledge that the hiring of older employees has made pensions an important determinant in career decision making. The median age for new indeterminate hires in the federal public service in 2008 – 2009 was 34. It has been suggested that the federal public service pension plan, governed by the Public Service Superannuation Act (PSSA), is a competitive advantage in the recruitment of employees. While pension security is more important for older hires, and the share of older hires is increasing in the federal government, even younger hires are now more concerned about financial security in their later years.

If you have an employer sponsored pension plan you should consider yourself fortunate. Approximately 60% of Canadian workers, approximately 11 million individuals, have no pension plan and will be relying on personal savings, RRSP funds and Canada Pension Plan (CPP) or Québec Pension Plan (QPP) payments, and Old Age Security (OAS), and possibly the Guaranteed Income Supplement (GIS), as their sources of income when they retire.

For those 40% of employees with an employer sponsored pension plan there are basically two types of plans – defined benefit and defined contribution. However, there are hybrid plans that blend

Continued on page 2 ▶

ACEP
Association canadienne des employés professionnels

CAPE
Canadian Association of Professional Employees

President's Message, cont'd from page 1

analysis to shed some light on the public debate. One would have to guess that the facts and analysis are at variance with the ideologically driven agenda of the Conservative government, which seems content to remain silent in the public debate and to formulate policy built on the myth of a "Cadillac" pension plan.

The Canadian Association of Professional Employees cannot let this government run the country on myths, disinformation or semi-truths. So, we have decided to publish, for our members, as well as for the benefit of other Canadians – including our decision makers, a complete and unbiased analysis of the federal public service pension plan.

After reading the document, you will know who pays what and the nature of the benefits available.

We are offering you facts, and only facts, to help you form your own opinion. We certainly hope this will be useful to you.

Claude Poirier
CAPE President

Federal PS Pensions, cont'd from page 1

the two, but these are rare. In the federal government the public service pension plan is a defined benefit scheme, and is perceived by others as the "gold standard" or "Cadillac" of plans. This characterization is overly exaggerated by the press, and has been hijacked as a political football by conservative think tanks seeking to create a climate of antipathy towards such plans and their participants.

This bias against the federal government's pension scheme has worked its way into the national media. In a recent analysis of defined benefit and defined contribution plans, the Globe and Mail used an example of a defined benefit plan in which an individual had an annual income of $111,000, and a pension of approximately $86,000 a year. Last year the average pension paid to retired federal public service employees was approximately $24,000 – hardly the "gold standard" or "Cadillac" of payments. Whatever possessed the Globe and Mail to use an Executive level salary in their everyday example is quite puzzling. Equally misleading, an editorial in the Globe and Mail commented on how well federal labour unions had "negotiated" these pension arrangements. *This plan is not negotiated.* It is dictated by the government/employer through legislation. The final straw had to be last December's report by the C.D. Howe Institute claiming a hidden $58 billion liability in the plan. This number was artificially created, and is not shared by actuaries or by Canada's Auditor General, who protects the public purse. But the national reporting of this "study" had the desired effect, and set off the expected backlash against the federal public service. Taken together these assaults on the federal public service pension plan have put employees and their representatives on the defensive. The lack of any credible response from the current government has only served to support these inaccuracies and misrepresentations.

Perhaps it's time we invested some effort in bringing together some basic pension facts and explored some of the history, issues and myths surrounding the federal government pension plan. If this plan is perceived as a Cadillac, maybe it's time we kicked some tires, looked under the hood and took a spin around the block…

A. The Federal Government Pension Plan (Superannuation)

Let's say you are an employee of the federal government considering retirement. We'll simplify the analysis by considering only the most straightforward of cases. The calculation of your pension is a relatively straightforward calculation:

The Pension Formula

2 percent X number of years of pensionable service X average salary for your 5 consecutive years of highest paid service

You can start receiving your pension if you are 60 years of age or older and have two or more years of service. You may also receive an immediate annuity (pension) if you are 55 to 60 years of age and have at least 30 years of pensionable service. The second condition is often referred to as an early retirement provision. The situation is also referred to as the "85 formula", when age plus years of service equal 85. However, you must be at least 55 years of age in this case. Consider the following examples, which allow an employee to receive an "unreduced" pension:

1. An employee, aged 61 with 20 years of service, whose highest average salary for 5 consecutive years was $50,000. Such an employee would be entitled to an immediate pension of $20,000.
2. An employee, aged 55 with 30 years of service, whose highest average salary for 5 consecutive years was $50,000. Such an employee would be entitled to an immediate annuity of $30,000.

Under the federal plan, the maximum percentage possible is 70%, reflecting a period of 35 years of service. This is referred to as a "full pension".

3. An employee, aged 59 with 35 years of service, and a highest average salary for 5 consecutive years of $50,000 would be entitled to a full pension (immediate annuity) of $35,000.

If an employee does not meet the conditions for an immediate annuity (age 60 or older, or age 55 to 60 with age plus service equal to 85), then they have the option of deferring their pension until they are 60 years of age. Alternately, if they are at least 50 years of age, they may receive an "annual allowance", which is a pension reduced by taking into account the early retirement.

B. Full Pension and Unreduced Pension

The public and the press often confuse an unreduced pension and a full pension. In confusing these points the public has been lead to believe that government employees can retire at age 55 with a full pension of 70% of their best consecutive five years' average salary. However, most employees, if not the overwhelming majority, who retire at age 55 have less than 35 years of service and will not receive a "full pension". To retire at age 55 with a full pension would have necessitated commencing work at age 20. Most university educated individuals, such as members of CAPE, would still be in school at age 20. In fact, given the increasing age at which individuals commence work in the public service, one cannot expect a full pension at age 55. The overwhelming number of individuals who retire at age 55 with 30 or more years of service receive an "unreduced" pension, which may be up to 10 percentage points less than a full pension.

C. Pension Contributions

There is also a public misperception that employees do not contribute to their pension plan. Some mistakenly believe that the public, through its taxes, pays all pension premiums. In fact, government employees pay a significant share of pension contributions from their salary. Interestingly, the amount that employees pay has been increasing over time. There is, however, one added note of complexity. The public service pension plan is integrated with the CPP or the QPP. As such, one cannot discuss contributions or benefits without mentioning two plans.

There is a maximum salary for contributions under both CPP and QPP. Federal government employees like all other Canadians, pay a percentage of their salary on these earnings (Yearly Maximum Pensionable Earnings or YMPE). For earnings over the YMPE, they pay an additional percentage, which also includes a premium for pension indexation.

Employee Contribution Rates 2000 – 2013

Year	2000	2006	2008	2009	2010	2013
Maximum CPP/QPP Earnings	4.0%	4.3%	4.9%	5.2%	5.5%	6.4%
Salary over the maximum CPP/QPP	7.5%	7.8%	8.4%	8.4%	8.4%	8.4%

Since the year 2000 employee contributions to CPP and QPP have increased by 37.5%, and their remaining contribution for salary over the YMPE has increased by 12%. A further increase in the employee CPP and QPP pension contributions rate is scheduled for 2013. In addition to employee contributions, the CPP, QPP and the PSSA require employer contributions. It is estimated that by 2013 the employer share will represent 62% of total contributions, and the employee share will be 38%. The current legislation specifies a maximum employee contribution of 40%.

It should also be noted that an employee's pension contribution also includes a 1% of salary payment for the purpose of indexing the annuity or annual allowance to the Consumer Price Index.

D. Benefit Integration with CPP/QPP

You may think that government employees receive, like their private sector counterparts, a CPP benefit *in addition* to their pension. That is not completely true. As the two plans are integrated, the annuity, pension or allowance a retired government employee receives will be reduced by several thousands of dollars at age 65. The intention is that the total amount an individual receives from both CPP or QPP and Superannuation after age 65 will not be more than what they received from Superannuation alone prior to age 65. The blending of premiums for the two plans results in a blending of the benefits at age 65. There are other pension plans which stack benefits, as opposed to blending. Consequently, though government employees contribute to CPP or QPP, an offsetting reduction in benefits yields no net improvement in earnings when they reach age 65. There is a reduction formula in the PSSA that deals with this issue. Recent changes to the reduction formula in the PSSA were necessary to ensure that PSSA benefits were not reduced by more than the benefit from the CPP or QPP after age 65.

E. Comparisons to Other Plans

In the spring of 2007, consultants commissioned by Treasury Board presented to the Public Service Pension Advisory Committee an analysis comparing the PSSA to 18 other large comparable pension plans. These included plans in the private sector, various provincial governments, university, and other quasi government organizations. Surprisingly, the only logical conclusion one could draw with respect to the PSSA is that it is a decidedly average plan.

1. Premiums

In the consultants' report, the employee contribution rate on earnings below the YMPE was 4.6% for the PSSA (2007). It was the fourth lowest contribution rate among the plans studied. However, the increase in PSSA contributions scheduled for 2013 (6.4%) should bring the contribution rate up to the median value. (Please refer to Chart 1 on page 9, and "Employee Contribution Rates 2000 – 2013" on page 4.)

Similarly, for contributions over the YMPE, the PSSA employee contribution rate of 8.1% (2007) was near the median value of 8.5%, and with the increase to 8.4% commenced in 2008, should be viewed as decidedly average in this respect. Interestingly, the private sector plans benchmarked by Treasury Board had contribution rates under 5.1%. In contrast, several other plans above the median had contribution rates from 9.6% up to 10%. (Please refer to Chart 2 on page 10.)

2. Benefits

As some plans may be integrated with the CPP or QPP and others are stacked we can compare all plans if we examine lifetime pension credits for salary above and below the YMPE. Not surprisingly, all 19 plans benchmarked had a credit of 2% of salary for each year of pensionable service for amounts above the YMPE. The difference in benefits pertained to the credits earned on income under the YMPE. For 2007, 9 plans including the PSSA had the lowest earnings credit of 1.3% for each year of pensionable service on income below the YMPE. This again reflects the integration with CPP/QPP and the impact of a reduction formula in the legislation (PSSA). Private sector organizations were significantly higher, with up to 2.0% for each year of pensionable service for income below the YMPE. (Please refer to Chart 3 on page 11.)

Please note that scheduled changes to the reduction formula in the PSSA will yield a result of 1.375% for each year of pensionable service on income below the YMPE. However, even when legislative adjustments to the PSSA are made in 2012, its lifetime pension credits for income below the YMPE will be less than the two private sector plans and several other comparable organizations.

3. Average Salary and Indexation

Again, in the benchmarking study commissioned for the Public Service Pension Advisory Committee, three of the 19 plans had an average highest salary based on a three year average, which provides for a more generous calculated average salary than the PSSA. Of the remaining 16 plans, 9 were based on the average salary of the highest 5 years. The remaining 7 plans, including the PSSA, had an average salary based on the highest 5 consecutive years, which is less advantageous.

Of the 19 plans that were benchmarked seven plans had annual indexation that was less than the full Consumer Price Index (CPI). The remaining 9 plans including the PSSA had full indexation based on the CPI.

F. Surplus and Risk

No single pension issue has received greater media exposure than the government's confiscation of the employee pension surplus in 1999. The litigation in this matter continues today. However, one of the arguments which the government has advanced in the public discussion, apart from the legal issues, is based on the notion of risk or shortfall in plan earnings. The government has argued that since employees have a risk free defined benefit plan, the government alone bears the full risk of any shortfall in plan earnings. Consequently, the government should be the sole beneficiary of any surplus in the plan. At face value, that is a convincing argument.

Unfortunately, the government has for the longest time – particularly in periods of financial difficulty – made repeated attempts to shift this risk (costs) to federal public service employees, and even retirees.

1. In the early 1980's, Canada was caught in the grips of a severe global economic recession, compounded by rampant inflation. The Liberal government responded with the introduction of the 6 & 5 program, which limited income and price increases to six percent and five percent over two years. The program had a direct impact on public service wages and the indexation of pensions. However, the government gave assurances to seniors that at the earliest possible moment it would restore the full indexation to which they were entitled. This "promise" has never been fulfilled by any government.

2. In 1985, the Conservative government, facing a forecast of increases in plan costs, and an actual "plan deficit", sought to replace the guaranteed CPI indexation with indexation dependent on earnings of the fund. In exchange the government offered a joint management pension board, which would have representatives from both management and labour. A political backlash and rejection of this proposal by the various government unions and retirees saw this attempt collapse.

3. In the 1990's, the Liberal government instituted a program of wage controls, which lasted for 6 years, and which featured a freeze on salaries for the last 5 years of the program. As employee pensions are based upon an average salary, the net effect was to reduce future pensions by an estimated 15%. Note that this was the primary reason that the pre-1999 federal public service pension plan accumulated a surplus of $30 billion, which the government then confiscated.

4. Naturally, the actions of the federal government in 1999 cannot be examined in a vacuum, or apart from those of other employers faced with similar responsibilities. At the same time the Liberal government misappropriated the pension plan surplus, the Canadian Central Housing and Mortgage Corporation (CHMC) was also faced with a similar dilemma. The CMHC plan had a substantial surplus, and the plan was moot on its distribution. Its decision was to share the surplus with its employees. There was no legal obligation. It was a moral decision on what was the right course of action. Other pension plans have routinely distributed surpluses to employers and plan members. Naturally, in some circumstances, Canadian courts have had to defend pension plans from employer raids. In 1985, the federal government passed legislation, the Pension Benefit Standards Act (PBSA), to regulate private sector plans, and protect pension plan surpluses from employer raiding. The PBSA does not apply to the public service pension plan. The PBSA requires any employer seeking to access a surplus or part thereof to obtain a 2/3 vote of consent from plan members, as well as a 2/3 vote of consent from former members of the plan. It is both ironic and hypocritical that the federal

Continued on page 7 ▸

Historical Lessons

As noted, no issue has galvanized employee opinion more than the pension litigation between the Government of Canada and the federal government bargaining agents and representative associations.

It should be realized that prior to 1999, the PSSA was a paper plan with no monies invested in financial markets. True, the government did take 7.5% of its employees' wages from their paychecks, but these monies were quickly added to the government's general revenues and spent. This amount plus the employer's contribution were then shown on the pension accounts as a debt owing the plan. Effectively it was one of the largest IOUs in Canadian history. The monies owing were then credited with interest based on the moving average of the 20 year bond rate. This of course was very advantageous to the government, as that rate was substantially less than current interest rates throughout most of the 1970's and 1980's. It was effectively a source of capital borrowed at less than market rates. The difference between the amount owing the plan and the projected costs of plan benefits was the "actuarial surplus". Owing to the 6 year wage freeze imposed by the Liberal government in the 1990's, actuarial projections of plan benefits declined sharply, and thus an actuarial surplus of approximately $30 billion was now on the official pension books. The problem for the government was how to access these monies in a creative way, for its own purposes. So, commencing around 1995, the government began to "amortize" a portion of the surplus as a net credit for its contribution, as well as the interest. Effectively the government gave itself a pension contribution holiday. Naturally, the government kept two sets of books. The pension accounts always reflected the $30 billion surplus, but the government's National Accounts reflected the amortization of the surplus and the net reduction in the national debt.

There are at least two lessons to be learned. First, only suspect organizations keep two sets of books for the same thing. Second, if there are sizable amounts of cash at stake, the government's financial interest in the plan will always win out over any perceived responsibility to administer pension monies in a fair and evenhanded manner.

Surplus and Risk, cont'd from page 6

government obligates private sector firms with pension plans to a high standard, from which it exempts itself.

5. The current Conservative government has recently limited employee salary increases in the last round of bargaining to 1.5%, and has indicated that it may freeze wages in the next budget. These limitations and control of bargaining will undoubtedly lead to reductions in anticipated retirement incomes for all government employees, and create, once again, a plan surplus. Of course, as stipulated in the current legislation, the government may take this surplus at its discretion or give itself a contribution holiday.

G. Impact of Wage Controls

From the actions of successive governments one can only conclude that, protestations to the contrary, the federal government, as employer, has through its setting of contributions and its control of wages routinely shifted plan risk to the detriment of its employees/retirees. As in the past, these actions will probably generate plan surpluses in the future, which the government will most likely confiscate.

The government's actions to control wages, through threats and legislation, have had a dramatic impact on employee pensions. As mentioned earlier, any government employee who worked during the wage control period of the 1990's and subsequently retired, probably experienced a reduction in pension earnings of approximately 15%, as compared to what would have transpired in a period of normal wage increases. Additionally, it would seem that individuals who worked during that period of wage controls, and continue to work in the current period of threatened wage restraint, may experience a shortfall on future pension earnings well in excess of 15%.

H. A Cadillac Plan?

By any stretch of the imagination it is difficult to describe the PSSA as a Cadillac plan. As we demonstrated, in comparisons with other comparable plans it is average with respect to contribution rates. For income above the YMPE, its percentage earned for each year of pensionable services is identical to all other plans. However, for income below the YMPE its percentage earned is less than average. And while it is also average with respect to CPI indexation, its method of calculating a salary average is moderately less advantageous than half of the other plans used in the comparisons.

In addition, the PSSA is vulnerable to unilateral action by the government to significantly reduce salary value through legislated wage freezes. Freezing employee wages not only has an immediate impact on government expenditures and budget, it creates future pension surpluses which the government can either remove from the plan, or alternatively use to create a pension premium holiday for itself. Finally, given the PSSA's unique legislative nature, there are a number of options which the government can pursue to effectively transfer costs to its employees.

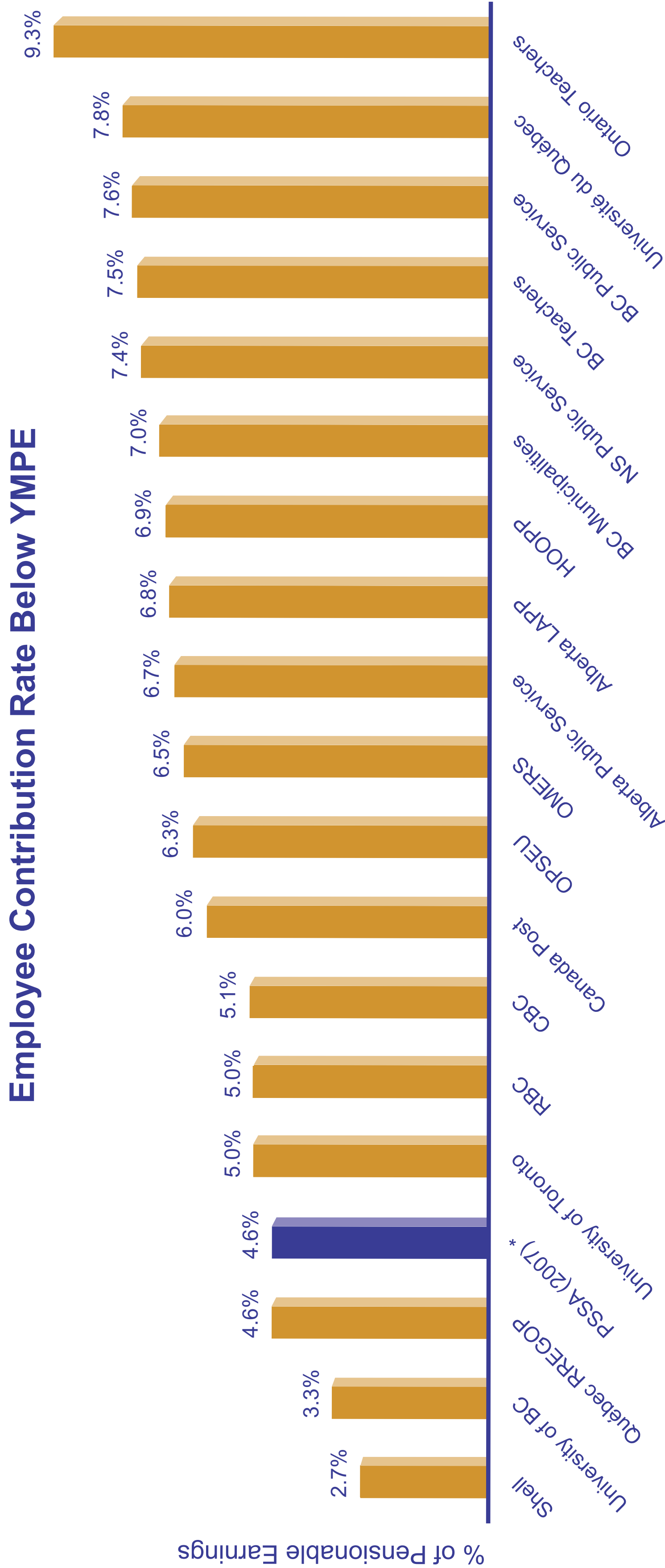
Before one buys this Cadillac, it would be wise to check under the hood!

CAPE would like to thank past President Bill Krause for his contribution to this publication. Mr. Krause served as a long time member of the Public Service Pension Advisory Committee, and is considered an expert in this field.

⇦ TOC
<= Return to page 5

Chart 1

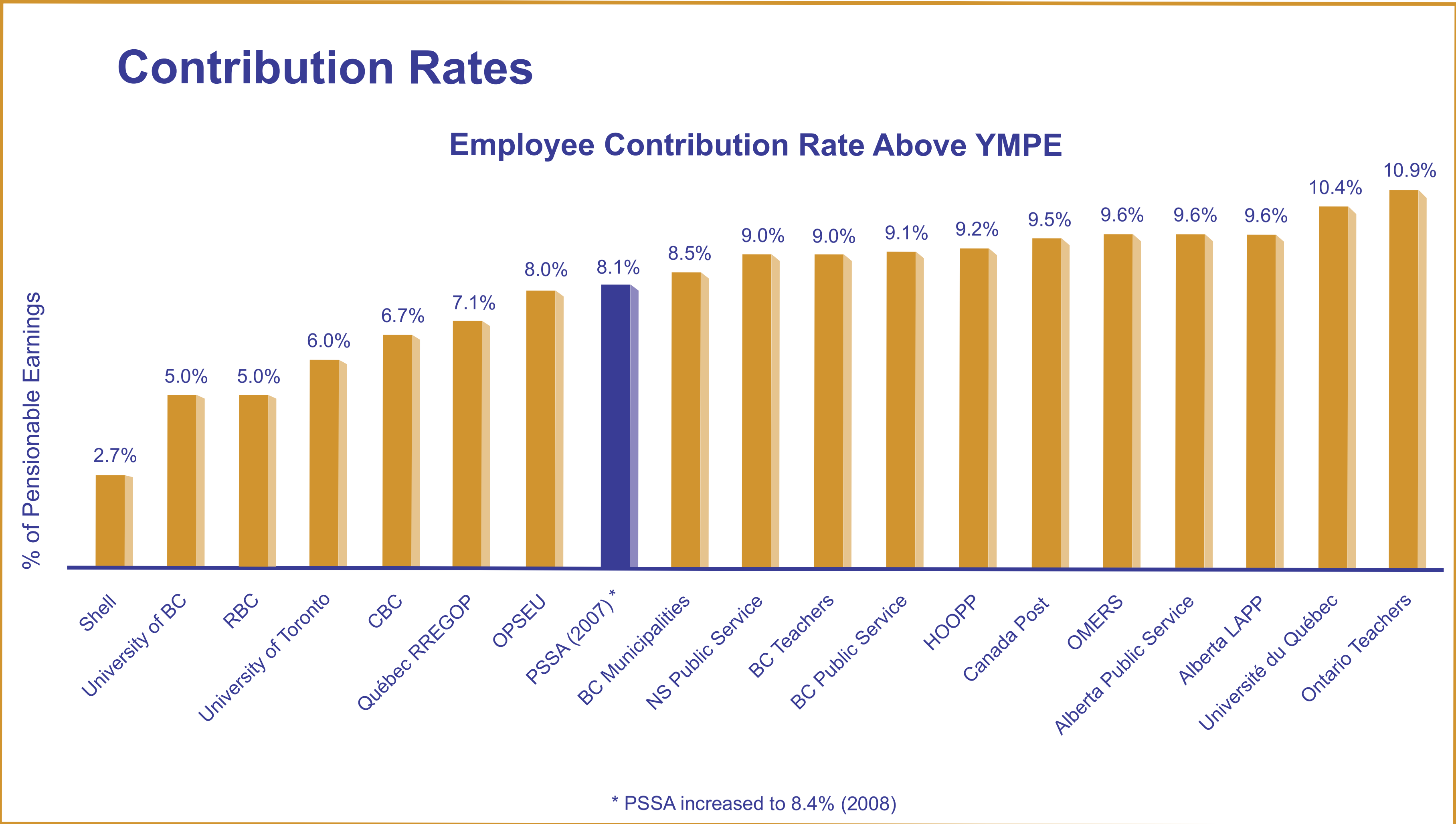
Contribution Rates



* PSSA increases to 4.9% (2008), 5.2% (2009), 5.5% (2010), 6.4% (2013)

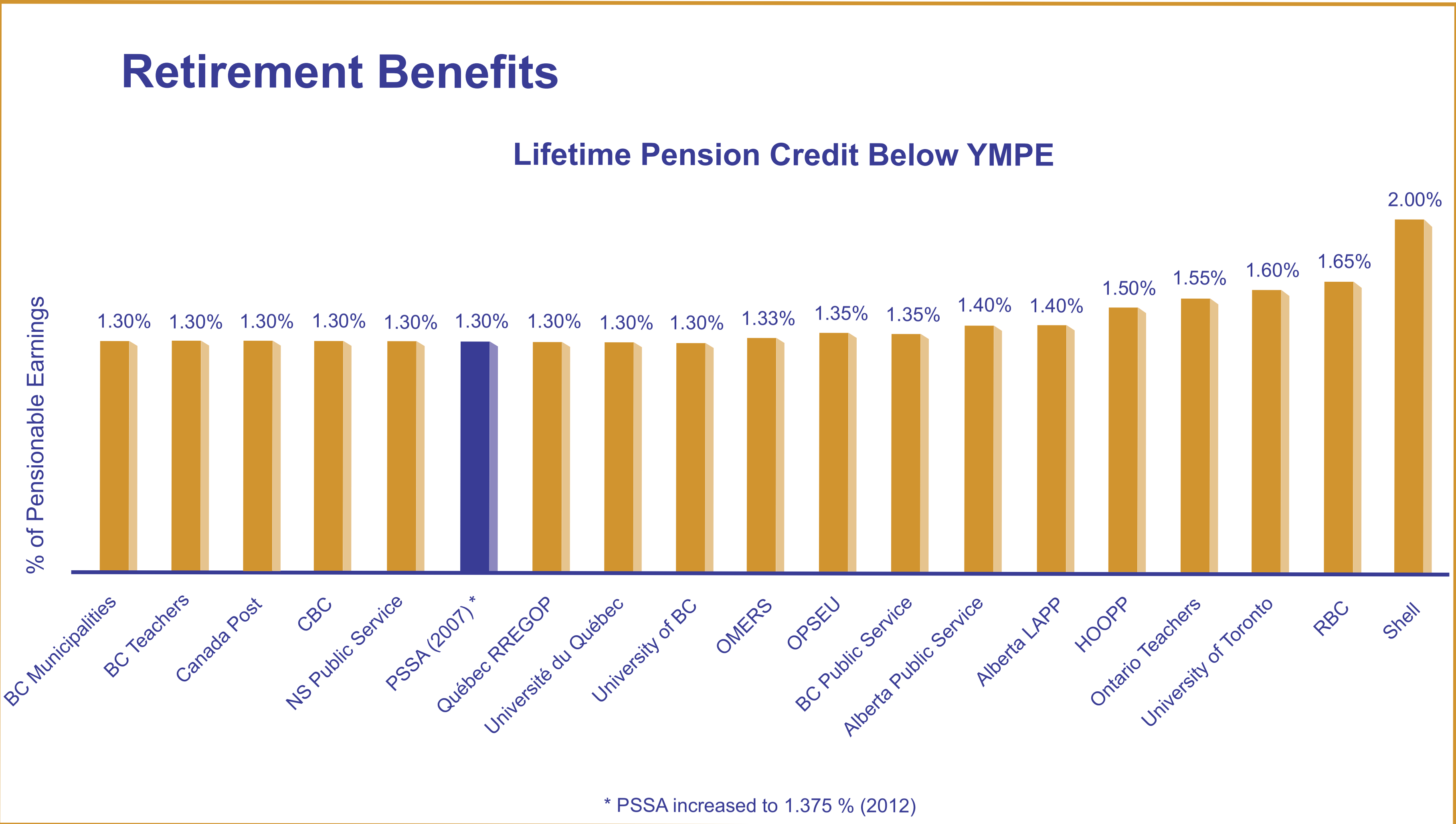
ACEP CAPE

Chart 2



⇦ TOC
<= Return to page 5

Chart 3



ACEP CAPE

Canadian Association of Professional Employees National Executive Committee

Minutes of all CAPE committee meetings can be found on the CAPE website at www.acep-cape.ca

Name	Position	Department	Phone
Claude Poirier	President	CAPE	613-236-9181, 1-800-265-9181
Ray Zwicker	EC/LoP Vice President	Public Works and Government Services	819-956-7153
André Picotte	TR Vice President	Public Works and Government Services Translation Bureau	819-994-1288
Jean-Luc Bourdages	LoP Director	Library of Parliament	613-996-8979
Sandra Chatterton	EC Director	Health Canada	613-954-8769
Ian Dawson	EC Director	Public Works and Government Services	604-775-9356
Richard Duranceau	EC Director	Human Resources and Skills Development	819-994-4973
Carl Lakaski	EC Director	Public Health Agency	613-954-8645
Damian Londynski	EC Director	Human Resources and Skills Development	819-953-7555
Sean Mauguire	EC Director	Indian and Northern Affairs	819-997-9139
Stephen Mullen	TR Director	Public Works and Government Services Translation Bureau	613-995-7974
Julie Pentick	EC Director	Health Canada	613-946-9163
Gregory Phillips	EC Director	Statistics Canada	613-951-3353
Geneviève Thibault Gosselin	TR Director	Public Works and Government Services Translation Bureau	450-361-9485
Lee Whitmore	EC Director	National Defence	613-995-6244
Michael Zinck	EC Director	Veterans Affairs	902-566-8017
Claude Danik	Executive Director	CAPE	613-236-9181, 1-800-265-9181
Jean Ouellette	Director of Labour Relations	CAPE	613-236-9181, 1-800-265-9181
Donna Martin	Manager of Administration Services	CAPE	613-236-9181, 1-800-265-9181

Canadian Association of Professional Employees National Office Staff

Name	Position	Email
Claude Poirier	President	cpoirier@acep-cape.ca
Claude Danik	Executive Director	cdanik@acep-cape.ca
Jean Ouellette	Director of Labour Relations	jouellette@acep-cape.ca
Donna Martin	Manager of Administration Services	dmartin@acep-cape.ca
Hélène Paris	Research Officer	hparis@acep-cape.ca
Deborah Fiander	Communications Officer	dfiander@acep-cape.ca
Isabelle Borré	Education Officer	iborre@acep-cape.ca
Sylvie Richard	Information Officer	srichard@acep-cape.ca
Liana Griffin	Professional Services Assistant	lgriffin@acep-cape.ca
Sandra Wensink	Finance Officer	swensink@acep-cape.ca
Sylvie Francoeur	Finance Officer Assistant	sfrancoeur@acep-cape.ca
Claude Archambault	Labour Relations Officer	carchambault@acep-cape.ca
Karen Brook	Labour Relations Officer	kbrook@acep-cape.ca
Isabelle Germain	Labour Relations Officer	igermain@acep-cape.ca
Luc Gervais	Labour Relations Officer	lgervais@acep-cape.ca
Bertrand Myre	Labour Relations Officer	bmyre@acep-cape.ca
Isabelle Petrin	Labour Relations Officer	ipetrin@acep-cape.ca
Lionel Saurette	Labour Relations Officer	lsaurette@acep-cape.ca
Aleisha Stevens	Labour Relations Officer	astevens@acep-cape.ca
Claude Vézina	Labour Relations Officer	cvezina@acep-cape.ca
Anita Bangiricenge	Administrative Clerk	abangiricenge@acep-cape.ca
Mark Courty	Administrative Clerk	mcourty@acep-cape.ca
Chantale Lebel	Administrative Clerk	clebel@acep-cape.ca
Julie Parisien	Administrative Clerk	jparisien@acep-cape.ca
Sharon Wilson	Administrative Clerk	swilson@acep-cape.ca

Ce document est également disponible en français. Si vous désirez recevoir une version française d'*Entre professionnels*, veuillez communiquer avec le bureau national de l'ACEP.

ACEP CAPE

Professional Dialogue™

Professional Dialogue is the newsletter of the Canadian Association of Professional Employees, representing approximately 13,000 federal professional employees across Canada.

100 Queen Street, 4th Floor
Ottawa, Ontario K1P 1J9
(613) 236-9181 • 1-800-265-9181 • Fax: (613) 236-6017
Web site: www.acep-cape.ca