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Federal Pension Plan Changes

A brief to the

Minister of Finance

from the

British Columbia Teachers' Federation

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President

Executive Director

Federal Pension Plan Changes Brief 2010

BC Teachers' Federation

www.bctf.ca/BriefsAndPositionPapers.aspx.

The British Columbia Teachers' Federation (BCTF) is the professional union, which represents all public school teachers in British Columbia. It is the Plan Member Partner of the Teachers' Pension Plan in British Columbia. The Teachers' Pension Plan is a jointly trusteed, defined benefit, member and employer supported plan consisting of 87,000 active, inactive, and retired members.

The BCTF seeks input from all members of the Teachers' Pension Plan through two advisory committees—the Teachers' Pension Plan Advisory Committee and the Pensions Committee. As well, it deals with pension matters at the Executive Committee, Representative Assembly, and Annual General Meetings.

The BCTF supports the following policy:

> *The BCTF opposes changes to the Canada Pension Plan that would raise the age level for eligibility, reduce benefits, and dramatically increase premiums in a short period of time.*

The BCTF supports a public pension that provides a fair standard of living for all senior Canadians. At present, the three government- and worker-supported plans fall short of that ideal.

No Canadian should be subjected to living below the poverty line, particularly in their old age, when costs for accommodation and healthcare rise with increasing needs. The present OAS and GIS do not provide an income that is above the poverty level. These two pensions, available to all Canadians, but based on long-term residency, may be the only income for Canadians who did not participate in the Canada Pension Plan. This is particularly true for single women who did not work outside the home.

The current OAS/GIS is means tested, and the benefit should be raised to at least the level of the after-tax, low-income cut off.

The current Canada Pension Plan (CPP), combined with the OAS/GIS provides for less than 25% of pre-retirement income at the Yearly Maximum Pensionable Earnings (YMPE). The goal for Canadians should be to double the current CPP benefit to provide a minimum standard of living, as well as decreasing dependence on the GIS. The CPP has an excellent history of benefiting all workers in Canada. It is portable from one province to another, it is well-funded. In fact, it is the envy of many countries and the fund is well managed.

Doubling the Canada Pension Plan benefit would particularly assist young workers as defined benefit pension plans continue to disappear in the private sector. A strong CPP combined with the OAS would provide 50% of pre-retirement income for all workers, this would keep our senior citizens out of poverty and provide for a dignified retirement.

The current changes to the Canada Pension Plan have a negative effect on the income levels of workers who choose to retire before age 65. Although they may continue working through partial retirement and contribute to the plan, the net result will still be a lower income than under the current plan because of the increased penalty for early retirement.

The increase in the number of “drop-out years” for low income is a benefit for all workers as the current CPP is based on a 40-year work history, which very few Canadians actually achieve. However, increasing the number of drop-out years by one year will have a limited effect.

The overall effect of the proposed changes will have a negative impact on most teachers. At present, due to our 10-month salary schedule, most teachers are able to apply for CPP as early as age 60 because they have no income during the summer months, thus fulfilling the reduced income requirement of the current rules. With the new rules, teachers will still be able to collect their CPP at age 60, but will see a 0.7% per month penalty, rather the current 0.6% per month penalty, resulting in a 42% lower CPP at age 60. If they continue to work they will continue to contribute to CPP until age 65. At present, when a worker collects CPP they no longer contribute. Workers will see an increase in their CPP payments if they continue to work, but the net benefit is undetermined.

For younger workers, the CPP changes will have a net negative effect.

With regard to the policy, there are no planned contribution increases and eligibility ages have not been affected. The change that will have the greatest detrimental effect will be the increased penalty for taking CPP prior to age 65.

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