Standing Committee on Alberta's Economic Future Bills 9 & 10

June 5, 2014

Introduction:

Thank you, Mr. Amery. The Canadian Association of Retired Persons, CARP, is a non-partisan, not-for-profit national organization with 300,000 members across the country in 60 chapters. We are committed to a 'New Vision of Aging for Canada' promoting social change that will bring financial security, equitable access to health care and freedom from discrimination. Our mandate is to promote and protect the interests, rights and quality of life for Canadians as we age. There are over 14,000 CARP members in Alberta, with active local chapter participation in **Calgary (3,700 members), Edmonton (2,600 members), and Fort McMurray (115 members).**

My name is Bernice Rempel. My 44 years of employment, prior to my retirement in 2006, involved human services responsibilities in municipal and provincial governments in 3 Canadian provinces as well

as a total of 7 years as a civilian employee with the Canadian Armed Forces in Germany. Those years provided opportunity to accumulate deferred income. Some people call them pensions.

I have served as Chair of CARP Edmonton for the past 6 years. My role is to facilitate the lines of communication between CARP Edmonton and CARP National to help keep members informed and involved in the policies and priorities of the organization. Chapters inform the National Office of regional/provincial legislative bills, issues and policies that relate to the mission and objectives of CARP---positive ones for support and endorsement and negative ones for advocacy and recommendations.

CARP National Vice President for Advocacy, Susan Eng met Finance Minister Doug Horner in Toronto while attending an Economic Club of Canada event in April. During their discussion, an Edmonton meeting was arranged between herself, Minister Horner, and representatives of CARP Edmonton and CARP Calgary. During our meeting May 1, we discussed pension caps and learned more about the consultation process that the department had announced. This issue is important to CARP, and we are pleased to have been invited to address it as part of today's consultation process.

Pension issues are a top priority for CARP members. According to CARP National Member Polling, the vast majority of CARP members have pensions, with two thirds belonging to Defined Benefit plans and almost half belonging to the kind of public sector Defined Benefit plans under discussion in Alberta.

CARP is concerned that the changes proposed to the Alberta Public Sector Pension plans will erode pension benefits for active plan members and jeopardize the retirement income security for future retirees of these plans.

CARP is encouraged that the government has tabled implementing changes to public pension plans until further discussion and consultations are done. But, the proposals come with considerable risk to the health and well being of the plan and future retirees.

I am here today to speak to our concerns primarily on three proposals currently on the table:

1. The proposed change to the early retirement formula from 85/55 to 90/60.

2. The reduction of Cost of Living Adjustments for active plan members.

3. A firm Cap on contribution rates.

Taken together, these three changes to public pension plans will mean that the fundamental Defined Benefit structure of Public Pension Plans will be compromised as will the promise of a robust, defined retirement benefit.

1. Early retirement

The government's proposal to change the early retirement options for benefits earned on service after 2015 means that all active employees will have to pay into the plan for longer and delay retirement or risk a permanently reduced pension. As such, changing the formula for early retirement represents a reduction in benefits for active employees – for whom, especially those with long tenure, early retirement under the existing formula is an earned benefit. Many have been paying for years with the hope that they would be able to retire early without penalty.

This provision will be especially problematic for active members who have already factored early retirement provisions into their retirement planning. For many, that may mean working longer than expected. Older, active employees who had planned around early retirement will now functionally have to wait longer for reduced benefits. Many older workers have had long, arduous careers, and the extra working years may prove difficult physically as well as financially.

Although it is unlikely to be noted as an item on a financial spreadsheet, the benefits of the family, community and social services contributed by the person who retires early, merits consideration. Only a portion of the early retirement group are able to take advantage of their free time as a retiree to travel, fish, golf or quilt. A large segment of this population assumes more responsibility for the

care of an aging parent, an ailing spouse, incapacitated children and grandchildren. If not serving the caregiver function, the early retiree is available to help elderly neighbours, act as volunteer drivers for cancer patients, volunteer visiting for shut ins, coordination and management of the many volunteer organizations that are so important to the quality of life of Albertans. As mentioned these services aren't part of the financial spreadsheet, but to borrow a line from a banking ad—these services are "Priceless" and should be recognized for their value.

CARP is asking that the years of service and age formula used to determine early retirement benefits be left at the current levels of 85/55 rather than reduced to 90/60.

2. Cost-of-living adjustments

The Bills under discussion here today will also aim to remove **guaranteed** Cost Of Living Adjustment (COLA). It is currently set at 60 per cent of Alberta inflation and will remain there for people retiring before the conversion date. But it will be changed for service after 2015 to "**target** COLA" at 50 per cent of Alberta inflation, and will not be guaranteed nor will contributions be reduced to account for the lost benefit. COLA would only be paid if the plan were financially stable.

This is another case of asking active members to pay more for less. Reducing the COLA from 60 to 50 percent of inflation is onerous on its own, as the value of one's pension recedes yearly as inflation rises. As life spans increase, many future retirees may experience substantial loss in real pension dollars.

This will be the case even if the COLA is paid yearly, but since the proposals calls for conditional COLA, there is no guarantee that COLA will be paid. Each missed COLA benefit is a permanent reduction in total, real retirement income that cannot be regained.

Conditional COLA will also make it difficult for future retirees to predictably plan retirement income. Not knowing when or whether to expect a cost of living adjustment will have a material effect on the short and long term planning of retirees.

CARP is asking that COLA benefits remain at 60% of inflation in Alberta and be guaranteed rather than contingent on the health of the plan.

3. Contribution Caps

The Government proposes to unilaterally set contribution caps for all active members after the conversion date.

Setting a hard contribution plans strikes at the centre of a Defined Benefit plan. By setting a hard cap on contributions, the plan essentially becomes Target Benefit plan, in which benefits are no longer defined and guaranteed. In a true Defined Benefit model, employees and employers negotiate together the benefits and the contributions required to pay for those benefits. By capping contributions, the plans will essentially forestall benefit improvements and ensure than any future underfunding is accounted for by further erosion of benefits rather than in an increase in contributions.

CARP recently polled membership on pension plans and had the opportunity to ask about contributions and plan sustainability. The majority of CARP members think that the best way to make DB plans sustainable at current levels is to gradually increase contributions. What is more, when asked what their preference would be if faced with the choice of seeing benefits reduced slightly or paying higher contributions, 80% of CARP members polled said that would prefer to pay higher contributions than to see benefits decline.

Most of CARP members are retired and many have public sector defined benefit plans like the ones under discussion today. They have the perspective of retirees who know that protecting benefits, even if it means adjusting contributions is essential to protecting the promise of Defined Benefit plans and securing retirement.

By unilaterally capping contributions, these plans will lose the essential traits that make Defined Benefit plans reliable sources of retirement income and will prevent active members from having a negotiating voice in contribution and benefit levels going forward.

CARP is asking that contributions not be capped unilaterally and that active members have the right to engage in negotiations over contribution and benefit changes.

That concludes the presentation from Canadian Association of Retired Persons --CARP.

Bernice Rempel

Chair, CARP Edmonton