Tripartite round table on pension trends and reforms

Overall assessment of the pension system

Canada (Workers)

Achievement of ILO core principles by Canada's Retirement Income System (RIS)

The first two pillars of the Canadian RIS provide nearly universal coverage, predictable benefits and basic protection against poverty. Pillars 1 and 2 are financed collectively and solidaristically, albeit at a comparatively low level. They are fiscally sustainable over the long run. The state has clear primary and overall responsibility for Pillars 1 and 2, and state benefits recognize and partially respond to discrimination and special needs. In general, the first two pillar meet ILO Principles 1 to 6.

One shortcoming lies in the area of transparency and involvement of the social partners in governance, oversight and review. We believe the government would benefit from working more closely with the social partners with regard to those first two pillars of the RIS, especially Pillar 2. This is particularly the case with respect to the indexation mechanisms of public pensions and the realities of workers who are found in non-standard forms of work.

The most important deficiency in Canada's RIS is found in the third pillar. This pillar, private and voluntary, does not allow all Canadians to save enough to reach the required levels of saving they need, especially for those earning between half and twice the average. There are numerous problems in the third pillar, but we can identify at least two very important causes which limit the level of coverage and the sufficiency of contributions.

The first is that the private third pillar does not require any compulsory participation or contribution from either employees or employers. Despite government efforts to improve financial literacy for workers and employers and legislative reforms to support the financial sustainability of workplace pensions plans, employers continue to withdraw from workplace pensions and group retirement plans, terminate their defined benefit pension plans, and shift the burden of savings to workers. Because this trend is much greater in the private sector than in the public sector, a growing gap between public and private sector coverage is eroding social solidarity. For workers who are still participating in a workplace pension or retirement savings plan, benefits are increasingly inadequate and unpredictable. Despite the recent enhancement of the second pillar, income-replacing benefits are inadequate for average earners without additional third-pillar savings. The higher the wages, the higher the contribution rates required to achieve the 70% target income replacement ratio. It will be necessary either to further increase Pillar 2 benefits or to make Pillar 3 contributions from employers and employees compulsory, while modulating these compulsory contributions according to the level of wages and the levels of savings required. Over the past 10 years, there has been no progress regarding the right to an adequate and predictable pension for private sector workers with incomes above half the average earners. Instead, we are seeing a decline in the effectiveness of the third pillar.

The second difficulty arises from the fact that the government encourages retirement savings by using tax incentives and not direct contributions. Contributions paid by workers are deductible from taxable income. This tax assistance, intended to support retirement saving, flows disproportionately to higher income and wealthy Canadians. Statistics show that the higher the wages of workers, the more they contribute and benefit from this fiscal policy. A method where the government would pay a matching contribution equal to that of the worker would be more favourable for middle-class employees, who have the most difficulty saving for retirement. Without this step, a growing number of modest and middle-income workers face financial insecurity in retirement.

In some provinces, workers have little informed engagement or decision-making authority over workplace pensions and retirement income arrangements, while in others they have a role in the governance of the pension plan. Social solidarity applies to the first two pillars of the system, but not to the third pillar. Finally, the third pillar is inadequate for workers in small companies and particularly for workers in non-standard forms of work who are largely left to fend for themselves with banks and mutual fund companies.

Recommendations for Strengthening Canada’s RIS

- Better index Pillar 1 benefits to reflect, partially or fully, the growth of average real wages.
- Increase transparency, accountability and participation of the social partners in the administration and oversight of Pillars 1 and 2.
- Address Pillar 3 weakness by further enhancing Pillar 2 pensions (CLC) or making employer and employee participation and contributions in workplace pension plans mandatory (CSN).
- The Government of Canada should ratify ILO Convention 102 (Social Security (Minimum Standards)) and ILO Convention 128 (Invalidity, Old-Age and Survivors’ Benefits).

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