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Public Pension Principles:

Reforming Canada's Retirement Income System to Bear
the Weight of an Aging Society

By
Shawn McCarthy

A thesis submitted to
The Faculty of Graduate Studies and Research
in partial fulfillment of
the requirements for the degree of
Master of Journalism
Department of Journalism and Mass Communications

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and Research acceptance of the thesis

"Public Pension Principles: Reforming Canada's Retirement
Income System to Bear the Weight of an Aging Society"

submitted by Shawn McCarthy, B.A.

in partial fulfilment of the requirements for
the degree of Master of Journalism

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ABSTRACT

The aging of the baby boom generation and increasing longevity among Canadians pose tremendous challenges to the country's retirement income programs. The system now requires current taxpayers to fund the pensions to current retirees. Many Canadians, including the country's finance ministers, argue that system would pose an unacceptably high burden on future generations, who will have to divert increasing resources to support retired boomers. Economic stagnation exacerbates the problem.

As a result, the federal government has launched major reforms of the two publicly-funded legs of the retirement income system, the Canada/Quebec Pension Plan and the Old Age Security/Guaranteed Income Supplement. The political debate has often pitted generation against generation and has led some to challenge the very essence of social security. Defenders of the pension system fear the reforms will unravel a crucial social safety net. For its part, the Liberal government insists the public pension system will be maintained. But it has sent a clear message that baby boomers will have to save more, both through the Canada Pension Plan and through RRSPs, to secure a comfortable retirement.

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INTRODUCTION

The baby boom generation that once had the motto 'Never trust anyone over 30' is turning 50. And as if growing old wasn't traumatic enough for the former acolytes of the youth culture! Now, many fear their dreams of a comfortable, perhaps even early, retirement may turn into a nightmare. There is no longer any security in old age security. Many baby boomers are wondering if there ever was a rational plan behind the Canada Pension Plan. Those programs were put in place more than a generation ago and had two complementary aims: anti-poverty and income replacement. They assured all Canadians that they would escape dire poverty in their sunset years. And if workers managed to save, they could even build a comfortable retirement on the foundation of their public pensions.

Now, the majority of Canadians under 50 have lost faith in that promise, or at least that's what they tell pollsters.¹ And for people under 35, it has become conventional wisdom that the hordes of front-end baby boomers ahead of them will bankrupt the system long before the tail-enders and post-baby boomers retire. That lack of faith poses a serious challenge for the Liberal government, but also an opportunity. Because the legions of baby boomers don't even begin to retire for another 15 years, there is

still time to make the changes necessary to put the system on a sounder financial footing. The trick for the government is take enough action to re-instill confidence, without fundamentally undermining the pension system itself.

Politically, the Liberals have taken a gamble as they attempt to tackle the multi-headed problem. They stand to gain voter support if they are seen as making the hard decisions that will save the public pension system. But they could lose big if Canadians believe either that they have unravelled a crucial social program or, conversely, that they have not done enough to fix a daunting problem. The most vivid signal of the looming crunch is the forecasted, escalating premium rate of the Canada Pension Plan. Under the current funding system, CPP premium rates would have to rise 2 1/2 times by 2030 to a level that critics insist is unsupportable but defenders claim is quite manageable. That's just the most obvious fault line. Right across the spectrum, Canadians are asking whether today's programs will be affordable when baby boomers retire. Tellingly, while it was the ministers of health and welfare - including Paul Martin Sr. - who guided the creation of the programs, it is the finance minister, Paul Martin Jr., who is overseeing their overhaul. Cost and financial sustainability have

become paramount; the income needs of the middle-class often appear to be an after-thought. Martin Jr. has made it clear he's prepared to sacrifice benefits of future, middle-class retirees to cost control. ''I don't think there is any doubt that when there is a shortage of public dollars, you should focus those dollars where they are needed most,'' he says.²

The political debate over the future of public pensions is one of the most divisive facing the country. But it is not unique to Canada. In the United States, in Europe, and even in newly prosperous Asia, government are trying to come grips with how their societies will support aging populations. In Canada, as in other developed countries, the debate not only divides left and right, it can flare up into an intergenerational battle. Fearful seniors defend their right to threatened benefits and resent being portrayed as selfish and affluent. Envious baby boomers question the generosity and sustainability of the programs but worry about how the cuts will affect their own living standards in retirement. And cynical post-boomers accuse their short-sighted elders of bankrupting the system, but resist paying the higher taxes needed to ensure that doesn't happen. While much is made of the looming intergenerational conflict, commentators often forget about the essential link

between the generations. It's easy to postulate that the future generations will refuse to pay for the pensions of retired baby boomers. But if they do, they'll be condemning their own parents to poverty.

Much of the public debate splits along ideological lines. The left - made up of some seniors groups, unions and social activists - insists the system isn't broken. They argue the so-called crisis is being hyped by headline-hungry media, right-wing ideologues determined to privatize the system, and Bay Street banks and investment dealers anxious to cash in on people's fears. The right - led by some business economists, conservative commentators and the financial press - claims the edifice is structurally damaged and will collapse around our ears if it is not gutted and rebuilt. The reality is somewhere in the middle. The neo-conservatives certainly are pursuing ideological aims and financial self-interest in pushing for a downsized public pension system. They come to the contest with the smug assurance that markets will almost always work better than government programs, that the days of the welfare state are quickly drawing to a close. And there are massive profits to be made as fearful Canadians plow their money into mutual funds and other RRSP investments. The commentators on the left are being naive when they

suggest that the next generation will happily pay a growing portion of their income to support baby boomers in retirement. And they are wrong to suggest the crisis of confidence has been *manufactured* by the Department of Finance and Bay Street: *exacerbated* would be a fairer description. Canadians know there is a baby boom out there that has dominated social trends since its birth. And they know the legions of baby boomers will soon be retiring and looking to the state to keep them in the manner to which they've become accustomed. It doesn't take the Department of Finance to convince people that something's gotta give.

By now, Canadians are used to hearing about the aging population and the looming pension crisis. Though there is considerable debate about how much of a crisis there actually is, there is no doubt that both demographics and economics pose a serious threat to the living standards of baby boomers in retirement and to those who are trying to support those retirees. In 1992, there were 3.3 million Canadians over 65 and one senior for every five working-age Canadians. By 2030, there will be 8 million seniors and only three working-age people for each one of them.³ Somehow, society will have to support them. The present system assumes that virtually no one works past 65 and that taxpayers - mainly those of working age - can provide

the basic foundation for a comfortable retirement for all seniors. But when the large cohort of baby boomers retire, that pay-as-you-go system will come under immense stress. Younger Canadians would see an increasing proportion of their income being paid in tax to support the Canada Pension Plan and old age benefits. That might be defensible if incomes break out of a decade-long slump and begin to grow again. In that case, future generations would still be paying a larger percentage of their income to support the elderly, but their standard of living would still be rising. If Canadian incomes continue to stagnate, future generations would see their disposable income actually drop in the face of rising costs of the seniors' benefits.

This thesis explores some of the options for providing support for future retirees without bankrupting succeeding generations. It assumes the three legs of the Canadian system will remain in place: the Canada\Quebec Pension Plan, which is funded through payroll levies; Old Age Security and Guaranteed Income Supplement, which are supported from general revenues, and the RRSP/workplace pension system which benefits from tax incentives. While it is fashionable to claim the sky is falling, I will argue that the three-tiered system can provide the

foundation for a decent retirement system long after the baby boomers retire. But there are two conditions that are essential to that optimistic outlook. Firstly and most importantly, Canadians' incomes must grow by at least one per cent a year after inflation. More would be a bonus; much less would force a fundamental rethinking of retirement. Secondly, Canadians as a whole must save more and borrow less. That means government dramatically reduce, if not eliminate, their deficits; the Canada Pension Plan builds a larger fund to cover future obligations, and individual Canadians save more and reduce their personal debt loads.

Chapter one of this thesis describes in greater detail the pension system and the forces that threaten to tear it apart. The Canadian pension system has been successful in rescuing a generation of seniors from dire poverty. And even middle-class retirees depend on government programs for a significant portion of their income. Perhaps the most critical challenge to the retirement income system is the lack of faith that Canadians have in it. If they are not confident the pensions will be there for them in the future, many working-age voters will withdraw their support for taxes needed to support the programs. The aging of the baby boom is obviously a

critical factor, but not always as straightforward as it seems. Actuaries assume everyone over 65 depends on the rest of society and every working age Canadian is a contributor. That's clearly not always the case. Economic stagnation also threatens the pension system, just as it undermines the living standards of all Canadians. Clearly, governments have to address the moribund economy if they hope to preserve the pension system. However, it's not clear how much influence the government can exert over the economy, and there's little consensus on how best to proceed.

Chapter two will look at the history of the country's public pension plan. Canada was a relative latercomer, along with the United States, to a system of state pensions for the elderly. A new world ethic of self-reliance, federal-provincial bickering, concern over cost and pressure from a well-developed, powerful insurance industry were all factors that worked against the kind of comprehensive coverage that was adopted earlier in European and Commonwealth countries. However, the need was no less great. It's clear the post-war public pensions weren't just 'an historical oddity,' as suggested by Peter Shawn Taylor in a recent Saturday night article,⁴ or the result of some fuzzy, liberal welfarism. They were finally implemented to rescue millions of elderly

Canadians from abject and humiliating poverty, and to pool workers' resources to allow for a dignified retirement.

However, while the need for comprehensive, public pension system has been amply demonstrated, that does not mean the current system is untouchable. The rest of the thesis will detail the Liberal government's efforts to rein in the costs of the system and shift some of the burden onto the baby boomers to finance their own retirement. Chapter three looks at the Liberals' new Seniors' Benefit which is scheduled to replace the Old Age Security and Guaranteed Income Supplement in 2001. In announcing the targeted program in their 1996 budget, the Liberals put the final nail in the coffin of the universal old age benefit. It had been killed when former Conservative government began taxing back the benefits of high-income earners in 1989. The Liberals boosted the benefit slightly for low-income Canadians, and those with modest incomes will win because the money will be non-taxable. But most future retirees who have incomes above the average 1995 seniors' income will lose under the new system. So will low-income spouses of retirees with high incomes. That's because the benefit will be based on family income, rather than an individual's. One critical design

problem is the high marginal tax rate which future seniors will face as each additional dollar of income is not only taxed but results in a loss of benefits.

Chapter four examines the often bitter debate over future of the Canada Pension Plan, including a menu of suggested cuts to benefits. While no decisions had been made by the summer of 1996, the direction was clear. Federal and provincial ministers of finance had rejected the privatization option favored by neo-conservative commentators. They agreed in principle that premiums would be increased more quickly than previously planned to build a larger CPP fund, at least a portion of which would be invested in the financial market. Benefits would be pared back, though current seniors would likely face no cutbacks. Ministers are hesitant to raise the age of eligibility for CPP benefits, though some experts insist a later retirement age is inevitable. Disability benefits were targeted for significant cuts. Defenders of the current system - including seniors' groups, unions and social activists - insist benefits are barely adequate now and any reduction would simply push more seniors into poverty. And they argue the projected increases in premium rates would be acceptable to future workers if they could be persuaded that the plan will be there for them when they retire. These

groups blame the Liberals and corporate Canada for creating a crisis where none existed. On the other side, politicians and many actuaries argue the current funding arrangement is monumentally unfair to the generations that will have to pay for boomers' pensions. Without reforms, they argue, the pension plan will be politically and economically unsustainable.

Much attention during the debate over reform of the CPP has focused on the disability side, where costs have risen rapidly since 1988. Both finance ministers and business critics have targeted the disabled for cuts. Some experts have even argued the disability benefit should be stripped out of the CPP and combined with other programs such as Workers Compensation into one national program. For this reason, chapter five focuses on disability - why the costs rose, what the administrators at Human Resources Canada have done to stem the increase, and what the impact of proposed cuts would be on the people who depend on the system. Chapter five also includes a discussion of other 'ancillary' benefits, such as survivors' and death benefit.

Canadians have always had to rely on savings and workplace pensions in order to have a comfortable retirement. And the cumulative effect of various

reforms - both announced and proposed - will be that future seniors will have to rely even more on those quasi-private retirement programs. Chapter six looks at the RRSP and workplace pension systems and the tax benefits that support them. Contributions to RRSPs and workplace pensions are tax deductible, while income is allowed to grow tax-free. However, the income is taxable when it is withdrawn. While Ottawa hasn't directly cut those tax benefits, it has frozen limits, which means inflation will reduce their real value. Many Canadians argue it is perverse for the government to reduce tax benefits that encourage savings when it is asking Canadians to do more to look after themselves. The staunch defenders of public pensions argue it is even more perverse to be cutting those government plans which cover every working Canadian while allowing huge tax breaks that are largely used by those on the upper half of the income scale. It is also questionable whether the private sector can fill the gap left by the cuts to public programs. The percentage of Canadian workers covered by a pension plan peaked at well under 50 per cent and has been declining since the beginning of the '90s. And while more Canadians are plowing money into RRSPs, the amounts that low-income Canadians can afford to save won't yield them much of a retirement income.

With all the discussion of intergeneration equity and financial sustainability, there is a more fundamental issue that underlies the pension debate. And that is the role of the state in protecting society's most vulnerable citizens and as an agent for collective financial security. The thesis rejects the increasingly common view that governments govern best that govern least. Even a casual perusal of history illustrates the market's failure to provide for citizens who are no longer productive. The American term for its state-run pension system, Social Security, sums up the approach. Society is providing for collective security for its citizens. But while the thesis argues the radical reforms of the right go too far, it also concludes the naive, wishful thinking of the left is equally untenable. Union economists and social groups are right to link economic performance to the sustainability of the pension system. Income growth is crucial, but it cannot be taken as a given. Changes must be made to the programs. Savings must be increased, though tax assistance for RRSPs should be geared to middle-income earners. And the growth in the cost of benefits should be restrained without fundamentally undermining public pensions. Finally, the thesis concludes the Liberal government must do a better job communicating

how its various reforms fit together and what their impact will be on the income needs of retiring Canadians. The government had promised a sweeping discussion paper on the aging society but shelved that for various political reasons. So far, the Liberals have failed to provide a coherent plan for the retirement system. Without one, they resemble a group of citizens frantically sandbagging to battle a swollen river, rather than a team of engineers designing a flood control system.

CHAPTER ONE

Canada's Aging Dilemma: The Reform Imperative

By international standards, Canada's retirement income system is not overly generous. In fact, a 1993 study by the Organization for Economic Co-operation and Development - which represents the 22 largest industrialized countries - found that the cost of public pensions in Canada is lower, measured as a percentage of annual economic output, than that of any OECD country except the United States.¹ And given the current programs offered in the various countries, that comparison would not change with the retirement of baby boom, except that U.S. costs would surpass Canada's. The problem, of course, is that Canadians don't really measure their well-being against that other people, except the Americans who are in the same boat. They want to know whether they'll be better off tomorrow than they are today, or at least no worse off. On the pension issue, they question whether they'll benefit from the same pension promise that sustained their parents in their old age, and at a price the country can afford.

David Ritchinger is a Doubting Thomas on the pension promise - he'll have to see to believe. The 25-year-old teacher from Yellowknife appeared before a government panel reviewing the Canada Pension Plan in May 1996 and gave a bleak assessment of his generation's prospects. Ritchinger, who was laid off

at the end of the 1995-96 school year, says he's not worried about his own retirement. He simply assumes he'll have to finance it himself or continue working well past 65. ``Freedom 55? I don't buy that and I think most of my friends laugh at that as a pipe dream,'' Ritchinger says in an interview.<sup>2</sup> ``Freedom 65, or 75 sounds a lot more realistic.'' His bigger concern is paying for the retirement of baby boomers. ``What we're worried about is when our parents have retired and we're 30, or 40, or 50 and (Canada Pension Plan) premiums are at 15 per cent,'' he says. ``The cost of employing someone will be so high!'' Ritchinger says he's willing to reconsider his views as Canadian politicians attempt to grapple with the problem, but he isn't overly optimistic. ``It's pretty easy to be negative,'' he says. ``But I don't even think my generation is watching. It's much easier to make negative, little, black jokes and change the subject.''

Baby boomer Reid Wilson certainly is watching and he doesn't like what he sees. The self-employed land surveyor from Uxbridge, just northeast of Toronto, figures government has mismanaged the pension system as it has mismanaged most things. And he's vehemently opposed to paying more to support the Canada Pension Plan and other public pensions while

seeing the benefits eroded. ``I'd rather take my hard-earned money and make my own investments that I have some control over,'' the 46-year-old surveyor says.³ In fact, Wilson concedes he doesn't have a lot of money for investments these days. He was laid off from a major surveying company during southern Ontario's real estate bust of the early 1990s and now is struggling to build his own business. Retirement plans? He doesn't really have any. ``I figure I'll be working until I'm 75,'' the bitter boomer says.

What's at stake here? Canada's retirement system has three main pillars. First, there is the Old Age Security which is complemented by the Guaranteed Income Supplement for low-income seniors. They are funded out of general government revenues. The OAS is taxed back from higher income earners, and the threshold does not rise with incomes. As a result, growing numbers of Canadians in the future would see their benefits taxed back. In March, 1996, the Liberals announced those two programs will be rolled into a single Seniors Benefit for new retirees in 2001. That program will be fully protected from inflation. The second pillar is the Canada/Quebec Pension Plan, which is undergoing a fundamental review in 1996. The CPP is supported through employee-employer premiums on a pay-as-you-go basis, meaning

workers fund current benefits. And third, there are workplace pensions and Registered Retirement Savings Plans, which are nominally private but publicly supported through tax breaks.

In 1993, Canadians over 65 relied on the two government programs for 42 per cent of their income.⁴ Women relied more heavily than men on programs funded out of general revenues, since they weren't as active in the workforce as current working-age women. Together, the Old Age Security and the GIS, which is paid to the poorest of the elderly, accounted for 42 per cent of the income of senior women. For senior men, the workplace pensions - both public and quasi-private - were relatively more important. The Canada\Quebec Pension Plan and workplace pensions made up 20 per cent and 27 per cent of their income respectively. Income from savings is also key, representing 24 per cent of the total for men and 30 per cent for women. The two publicly funded programs were crucial to lower-income seniors. People receiving \$10,000 to \$20,000 a year relied on OAS/GIS and C/QPP for more than three-quarters of their income. Still, those programs also provide a solid foundation for middle-income retirees. For seniors receiving \$30,000 to \$40,000 in income in 1993, the two public programs accounted for 29 per cent of their income.⁵

By and large, the public pension system has been successful in reducing poverty among the elderly. In 1969, just a few years after the CPP was introduced, families headed by elderly Canadians had very high poverty rates: 45 per cent compared to 21 per cent for all Canadian families.⁶ Now, elderly families have a lower risk of poverty than non-elderly. About 20 per cent of all Canadians over 65 have incomes below Statistics Canada's low-income cutoff.⁷ However, for single elderly - largely women - the picture is not so encouraging. Some 48 per cent of single elderly - and 53 per cent of such women - have incomes below that commonly accepted poverty line. Still, while these people aren't jetting off to a Florida condo, they have escaped the desperate poverty that afflicted previous generations. In addition to their basic income, current seniors enjoy a wide range of subsidies, from drug-plans to lower public transit fares to subsidized housing. As well, most experts argue retired people need only 70 per cent of their pre-retirement income to maintain their living standards. As a result, the comparison of seniors' incomes to poverty lines for average Canadians may exaggerate their plight somewhat.

It's difficult to project from current income patterns to the future needs. Women's participation in

the work force is far higher now than it was when current retirees were young. As a result, women may in the future rely less on the OAS/GIS, or the new Seniors Benefit. That's because they can expect more Canada Pension Plan income, more pension income and, perhaps, more from their own savings. However, they still tend to have fewer years in the workforce than men and earn, on average, only two-thirds of the salaries of men. So the workplace plans may simply replace income from general revenue, leaving them not much better off financially. Working-age men face a number of challenges in their quest for a comfortable retirement. Unemployment is higher than it was in the 1950s, '60s or '70s and older workers who lose their jobs tend to stay unemployed for much longer. People don't stay in jobs as long as they used to and, if they are covered by a pension, it loses value when they leave the job. As well, a smaller percentage of working men have workplace pensions than did in the early 1980s.⁸ On the other hand, both men and women are plowing huge amounts into RRSPs to fund their own retirement. Usually, the people who are saving are the same ones with good jobs and decent workplace pensions. In the future, there may be more elderly couples with near-poverty level incomes and more with affluent lifestyles, but fewer in between. Concludes

economist Monica Townson: ``A strong public pension plan will become even more important given the increasing polarization of the work force into what the (now-disbanded) Economic Council has called 'good jobs' and 'bad jobs'.'''⁹

But Finance Minister Paul Martin has insisted the present system is not sustainable financially. The cost is already rising and will explode when the baby boomers start retiring. In 1995, the government paid out \$20 billion on seniors' programs from general revenues, even after tax on the OAS.¹⁰ Seniors with family incomes above \$50,000 received about \$1.9 billion in after-tax benefits. As a percentage of government spending excluding interest payments, seniors programs grew from 14.5 per cent a decade ago, to 20 per cent this year.¹¹ And as the Liberals slash other spending to cut the deficit, seniors will account for an increasing share of federal program spending in the next five to 10 years. The Department of Finance estimates that after-tax spending on OAS and GIS will increase by 65 per cent between 1996 and 2011.¹² After taxes and inflation, spending on OAS and GIS is forecasted to more than double between 1996 and 2030. (That latter forecast assumes full inflation protection.) Meanwhile, expenditures under the Canada Pension Plan would double between 1995 and 2006, and

increase tenfold between 1995 and 2030.¹³ Some of that increase is needed just to keep up with inflation and wage growth. But Ottawa forecasts that expenditures on OAS and the Canada Pension Plan will grow as a share of the economy to eight per cent in 2030 from 5.3 per cent in 1993.¹⁴

Some observers question whether those increases constitute a crisis. Canada currently is on the low end among industrialized countries in spending on public pensions. While Canada was committing just over five per cent of Gross Domestic Product to those programs in 1993, the U.S. was spending more than six per cent and most European countries were at or above 10 per cent. Actuary Bruce Macdonald, in a report for the federal Human Resources Development department, concluded that the OAS and CPP ``should be considered affordable . . . if the measure of affordability is the costs of similar plans in other developed countries.’’¹⁵

While questions of cost or affordability are open to debate, certain demographic factors are not. The fundamental and irreversible fact is that the largest generation ever born in Canada is edging inexorably toward old age. And those baby boomers can expect to live longer after age 65 than did previous generations. Left to support them will be a smaller

contingent from the baby bust generation - those born in the late '60s and 1970s when fertility rates dropped dramatically - and the slightly larger cohort from the 1980s and early '90s who are the boomers' own children. The baby boom started suddenly, then grew in intensity. Demographer David Foot says it began in 1947, a year later than the American boom because Canadian men returned home from war later. In each year of the 20-year boom, Canadian women gave birth to more than 400,000 babies, peaking in 1959 at 479,000.¹⁶ The front end of the generation is hitting 50 in 1997 and will reach 65 in 2012. But the largest portion of the boom won't reach that age until 2020. Those tail-end boomers born in the early 60s will be paying for their older siblings' retirement as they try to prepare for their own around 2025.

The Canadian baby boom was bigger than elsewhere and the bust more precipitous. In 1992, there were 3.3 million Canadians over 65; by 2030, there will be 8 million seniors.¹⁷ As a result, Canada will have the most rapidly aging society of any industrialized country over the next 30 years. Only India, Hong Kong and China will experience a greater percentage increase in the number of old people, says University of Western Ontario expert Robert Brown.¹⁸

''But those three countries have not made significant

promises to their populations, at least not as significant as ours," Brown says. "In terms of the western industrialized nations, we have the most fun."

Not only will there be increasing numbers of elderly after 2012, but the older people will be living longer. When the Canada Pension Plan was introduced in 1966, Canadians lived an average of 15.3 years after retirement. In 1995, they could expect to live 18.4 years in past 65 and, according to government forecasts, people retiring in 2030 will have life expectancies of another 20 years.¹⁹ So not only will there be more seniors, there will be more old seniors whose needs are far greater than the recently retired. The longer life expectancies mean that government benefits will be paid out longer and the retiree's savings will have to stretch further.

However, the demographics aren't as straightforward as they are often portrayed to be. The issue involves the much-banded "dependency" ratio. The common assumption is that there are currently five workers for every senior but that will drop to three to one by 2025. It is cited to indicate the monumental burden future workers will have to bear. But the measure is crude at best. It assumes that every 20- to 64-year-old is working, and that everyone 65 and older

is retired. That assumption is wildly optimistic in the nasty '90s. With unemployment consistently around 10 per cent and early retirement the norm, it's clear that a large percentage of working-age people are not supporting seniors but are being supported. (Even those lucky Freedom 55ers who are not getting government benefits are being supported by pensions and investment income.) Youth unemployment in Canada was 16.6 per cent in June 1996 and that only includes those who were actively seeking work.²⁰ Many have simply dropped out of the labor market. Meanwhile, older workers have been forced out of their jobs or lured out with attractive buyout and early retirement packages. In the past 25 years, the participation of older men in the labor force has dropped dramatically. In 1971, 86 per cent of men between 55 and 64 were in the labor force, and the vast majority were working. By 1995, only 59 per cent of men in that age group were participating in the job market, and many of them were unemployed.²¹ To an extent, women have picked up the slack. The participation of women age 55 to 64 grew to 36 per cent in 1995 from 28 per cent in 1971. So while there may be five working-age Canadians for every senior now, there are not five workers. Those who are working are not only supporting seniors' pensions, but the unemployment insurance, the social

assistance and the disability and early retirement Canada Pension Plan benefits for the working-age people who depend on those programs. Demographers such as the University of Toronto's David Foot suggest some of those labor market problems will disappear as baby boomers retire and there is a smaller supply of workers.²² Perhaps, though other experts are not as confident. If Foot is right, the increased pension costs will be offset somewhat by lower unemployment, welfare, and disability and early retirement benefits. But there will be an incredible hangover of people who were not able to prepare adequately for their own retirement.

The ratio also assumes that people stop working after age 65. As already noted, many stop earlier. But many want to continue. In 1995, 6.3 per cent of people over 65 were still in the workforce, including 10 per cent of men in that age group, according to Statistics Canada.²³ Others want to continue but face mandatory retirement rules. In 1990, the Supreme Court of Canada upheld the mandatory retirement rules of universities, colleges and hospitals in Ontario and British Columbia.²⁴ In turning down appeals by doctors and professors, the court ruled that mandatory retirement was an infringement of their rights but was justified because

the social upheaval would be monumental if compulsory retirement were abolished. Calls for later retirement ages are still met with outrage and disbelief by many in the public. Critics asked how we could possibly delay pension eligibility when many workers are being forced out of their jobs before 65.

University of Waterloo's Robert Brown argues the later retirement is inevitable, given the financial pressures which the pension system will face in 2025.²⁵ Foot argues it's not only inevitable, but makes sense in a world where there will be a need for experienced, knowledgeable workers. ''Older workers should be able to ease their way out while retaining the dignity and sense of self-worth that comes with productive activity,'' Foot writes in his book, Boom Bust & Echo.²⁶ ''A good worker doesn't suddenly lose his skill and knowledge at the age of 65.'' To the extent that people continue working past 65, either voluntarily or because retirement ages have been delayed, the ''dependency'' of seniors on workers will decline.

While the country's population profile poses a formidable challenge to the retirement system, its poor economic performance in recent years compounds the problem. Under current pay-as-you-go system, workers and taxpayers fund the pensions of retirees.

That system can work - even with a growing senior population - if unemployment is low, and productivity and incomes outpace inflation. Those conditions existed in the 1950s and 1960s when the programs were put in place. But by the 1980s, incomes stopped growing faster than inflation and unemployment rose. Some of that weakened performance may well have resulted from the surge of workers into the laborforce as baby boomers matured and women's participation climbed. But clearly, there are other factors at work. The technological revolution and globalization of the economy have resulted in a fiercely competitive business climate in which high-priced Canadian labor can be replaced either by technology or lower-wage workers in other countries.

The economic malaise saps the ability of workers both to save for their own retirement and to pay for current retirees. It's obvious that someone who is unemployed or not in the workforce is not building Canada Pension Plan benefits, is not covered by a pension plan, and has little opportunity to save. Less obvious is the changing composition of work. More people are working for themselves, on contract or in part-time jobs. Their incomes are often unstable. And while they can expect some Canada Pension Plan benefits, the size of that pension would be reduced if

they did not consistently earn at least the average annual wage. That's because the CPP is calculated as a percentage of average lifetime earnings, up to a maximum roughly equivalent to the Canadian average wage. As well, people in non-standard jobs often are not covered by workplace pensions, or if they are covered as part-time employees, their benefits would be minimal. Recent data suggest that 30 per cent of the Canadian workforce is in non-standard employment - not a good sign for future retirement incomes. That's not to say some Canadians aren't doing very well. A sizeable minority of the working age population do have decent workplace pensions, are pouring money into RRSPs, and can expect secure retirements. But they remain a minority.

For their pensions to be truly safe, Canadians must hope that the country breaks out of its 15-year slump and sees a return to productivity, employment and income growth. Without income growth, the pay-as-you-go system that funds both the OAS and CPP would come under incredible strain. An influential 1995 report from the Canadian Institute of Actuaries - representing the profession that oversees pension financing - calculates what the cost in 1992 would have been of providing seniors' pensions and Medicare for an elderly population of proportionate size to the

one that will be retired in 2030. The total cost would have been \$93 billion, just over double what the government actually spent on pensions and seniors' healthcare, the report says.²⁷ The added tax burden to support that spending ''is equivalent to a 45 per cent increase in personal income taxes (both federal and provincial), or a 270 per cent increase in the GST, from seven per cent to 26 per cent,'' the report says. The widely-quoted calculation is somewhat dishonest as a portrait of what costs will be in 2030 - when there are expected to be eight million people over 65 - because it doesn't factor in income growth. But it stands as a reasonable proxy for the expected impact of baby boomers' retirement if the economy remains stagnant.

With reasonable income growth, the picture doesn't look nearly so grim. A study for Human Resources Development Canada estimated that, assuming an average of one per cent a year in after-inflation wage growth, the average Canadian would see his real disposable income grow by 32 per cent between 1995 and 2030 - even after big increases in CPP premiums.²⁸ However, some of that gain could be eaten up by the increased cost of the Seniors' Benefit and Medicare. Says Townson: ''The best way to ensure stability of funding (for pensions) is through macroeconomic

policies that focus on full employment and productivity growth.' '29

In fact, Canadians might not even be debating the funding of the Canada Pension Plan and seniors' benefits if the economy had continued growing as it did in the 1960s and 1970s. In those two decades, total wages grew by 5.1 per cent and 4.8 per cent, respectively, as average salaries and the number of workers increased. In the 1980s, that after-inflation growth in wages fell to 2.1 per cent and it has been nil for the first half of the 1990s.³⁰ The slower growth in output per worker has hurt government finances, as Canadians have had to pay a higher share of their incomes to fund government activities. Resistance to those higher taxes, an unwillingness to cut spending and steep interest rates combined to fuel the massive buildup of public debt through the 1980s and 1990s. The slower productivity growth also means that future workers will have to pay a larger percentage of their wages to CPP premiums. Ottawa's chief actuary - who oversees the CPP finances - estimates the change has added 2.2 percentage points to the 14.2-per-cent premium rate that will be needed in 2030.³¹ (That does **not** mean workers will be paying 14.2 of their income to the CPP; premiums are split between employers and employees and only cover

earnings up to the average annual wage.) In forecasting that 14.2-per-cent rate, the chief actuary assumes real incomes to be growing at one per cent a year; a better performance would reduce that required 2030 premium rate.

Virtually everyone agrees that the best way to secure public pensions is through a solid economy and strong employment. But there are sharp differences on how to get there. The Liberals, in opposition and in the 1993 election campaign, favored a balanced approach of spending controls and some strategic public investment in areas such as training, infrastructure and research and development. They argued then that the federal deficit was best attacked through growth since that would boost revenues and reduce costs. After taking office, the Liberals discovered the deficit was \$10 billion higher than the outgoing Conservative government had let on. They largely abandoned the balanced approach and introduced the deepest cuts to government programs seen in the post-war period. Some priority areas were protected - research and development, for example - but that simply meant their budgets were cut less than other programs. Prime Minister Jean Chretien now echoes his Tory predecessors by insisting it is crucial to 'get the fundamentals right' to restore economic health.

The government is now intent on driving down the deficit until the budget is balanced and on keeping inflation low. The combination is supposed to keep interest rates down and instill confidence in investors and Canadian consumers. The Chretien government has also aggressively pursued export markets through high-profile trade missions.

Critics in the Reform Party and among other neo-conservatives say the Liberals haven't gone far enough. Only a single-minded assault on the deficit can quickly lead to tax reduction, Reform Party Leader Preston Manning insists. And tax cuts for the middle-class are the true antidote for an ailing economy, Manning says. He ignores - as does Ontario Premier Mike Harris who is following a Reform-like prescription - the fact that a huge proportion of middle-class Canadians work for government or other public institutions such as schools, hospitals and universities. And those people don't get overly excited about tax cuts when their jobs are threatened or they face wage freezes or even rollbacks. As part of his assault on government, Manning says he would cut state support for retirees, forcing them to rely more on their own savings.

Critics on the left argue the government's preoccupation with deficit reduction through spending

cuts is doing more harm than good. They insist the government is cutting in the very areas - education and training, health, the social safety net - that are crucial to Canada's future prosperity and its ability to support public pensions. And they argue the government's goals of lower inflation and interest rates are being achieved through economically destructive policies that leave large numbers of Canadians, including far too many children, dependent on unemployment insurance or welfare. The government has added to that injury by cutting those very safety net programs, arguing people need to be weaned off them. In the last couple of years, a coalition of labor unions, social activists and church groups has produced what participants describe as an alternative budget. Echoing the federal New Democrats, these groups offer a prescription of easier monetary policy - meaning the Bank of Canada should force down interest rates and let the dollar slide - and higher taxes on corporations and the rich. The preferred monetary policy may overstate the influence the central bank exerts. While it can push short-term interest rates lower, such a move could backfire if investors lose faith in Canada's anti-inflation commitment and demand higher longer-term interest rates to compensate for the perceived risk. The 'tax

the rich' approach ignores the fact that capital is highly mobile in today's world and tax regimes have to be at least reasonably competitive.

Given the uncertain economic future, the federal government argues it would be ''imprudent'' to assume the country can grow its way out of the looming pension crunch. Instead, policymakers have settled on two complementary strategies to cope with it: reducing the value of the pension promise and pursuing a savings approach in which current workers would build up a fund that would be used to help pay for their retirement. The government has already cut back on many seniors' benefits and, in the summer of 1996, was considering a menu of options on the Canada Pension Plan. In reducing old age benefits for seniors with above-average incomes, politicians are assuming Canadians will make up the difference by boosting their savings, effectively amounting to the privatization of the system. However, neither the privatization nor the increased retirement savings necessarily reduce the cost to society of an aging population, says Florida State pension expert John Myles. He argues that those policies merely shift the burden from the public sector to the private sector, and from taxpayers to corporate profits which will increasingly be paid out as dividends to pension

plans. The costs to society can only be reduced through a later retirement age or lower living standards for the elderly. Myles, a Canadian who frequently appears on panels here, summed up the dilemma for a Parliamentary committee which held a one-day hearing on the aging population in June 1995. ``The fallacy is to assume that reducing public costs also reduces the total costs of supporting the retired and the burden on future generations of young people,'' said Myles, a former Carleton University sociology professor.<sup>32</sup> ``If pension spending as a percentage of GDP must be doubled to provide the elderly of 2030 with the same living standards as today, it matters little how it's paid for.'' Without a drop in living standards for the elderly, the share of national wealth going to the retired population will increase and the share going to workers will drop, he said. ``The only sure-fire way of supporting an aging society is to ensure that our young people have good jobs and good wages.''

Others insist that it matters very much how the pensions are paid for. Economists at the Department of Finance argue that increased savings from pre-funding baby boomers' retirements will boost investment and economic growth over the long term, making it easier to afford pensions.³³ While the costs

would not be reduced, Canadians' ability to handle those costs would be much improved. An influential report from the World Bank on the global pension crunch concurs that a growing economy is crucial to safeguarding pensions, but it also argues the pension system itself can affect the performance of the economy for better or worse. ''The choice among alternative arrangements for old age security affects the welfare of the old because it determines the share of the national pie they can claim,'' the World Bank report says in arguing for greater pre-funding. ''More fundamentally, it affects the welfare of everyone, old and young, by influencing the size of that pie.''³⁴

The funding question pits boomers against their successors, but ignores current seniors. They appear to be emerging relatively unscathed in the reform effort, though they say they've already taken their hit. Some observers argue today's elderly and those who are about to retire will receive far more than they ever paid into the system and should contribute more to putting the public pension on a sustainable footing. Given the current fiscal climate, there has been a backlash against affluent seniors who draw government cheques while travelling the world, wintering in Florida or Arizona, and generally living it up. A 1995 Saturday night cover portrayed an

affluent, gray-haired couple barbecuing in front of a motor home in a southern clime, with an in-your-face cover line: ``Sorry seniors, the party's over. Get back to work!'' Author Peter Shawn Taylor tells his upscale audience that 'most seniors are having the time of their lives.'³⁵ And he argues they don't deserve the public largesse. (The logical extension of Taylor's argument: only the well-off deserve a leisurely retirement; the rest should work until they become too sick or die)

Vancouver theology student Jim Love took on the seniors during a session of the federal-provincial-territorial consultations on the CPP conducted in the spring of 1996. He said future generations are going to ``pay through the nose'' for pensions and that young people are now struggling while paying benefits to wealthy seniors. ``We need to have concern about our entire society,'' Love lectured.³⁶ ``We have to ask, Are there seniors who are getting money and are wealthy enough to take care of themselves, who are selling out younger generations for a house and a golf membership?'' An elderly member in the audience chastised him: ``I paid for your university, for God's sake. You paid \$3,000 and it cost \$10,000.'' A number of experts suggested current seniors should share the pain. The Canadian Institute

of Actuaries suggests the CPP benefits should not be fully indexed for inflation for the next 20 years. Instead, they should be adjusted each year by the Consumer Price Index minus two per cent. So someone who retires now and lives 20 years would see the value of the CPP benefit reduced by 40 per cent. Actuary Malcom Hamilton says that approach would be coupled with fuller funding. ``It asks both seniors and baby boomers to help solve the problem they created,'' Hamilton says.³⁷

Jack Dyce, an 82-year-old former middle manager from Hillsburgh, Ont., says seniors have already been hit and it would be punitive to cut their benefits further. ``When you spent your life planning for a retirement based on a certain system, it's unfair to change that system now,'' says the former president of the United Senior Citizens of Ontario, an umbrella group for the province's seniors' organizations.³⁸ Dyce says he gets half his income from OAS and CPP. He admits he could adjust to proposed cuts, though it would be painful. But he adds that the adjustment would be more difficult for many nominally well-off seniors who live in expensive nursing homes or have medical problems. And Dyce says it is a myth that most seniors are wealthy. Those who travel south in winter can live nearly as cheaply as

they can at home and without the physical dangers that an icy Canadian winter poses to their frail bodies. And while some may be wealthy on paper, their assets are often tied up in their homes or in savings that have to last an indefinite period.

Certainly, seniors haven't escaped unscathed from recent efforts by governments to reduce deficits. In 1989, then finance minister Michael Wilson introduced the clawback to Old Age Security benefits. The clawback essentially ended the universal old age benefit, which was introduced in 1952. Seniors had already paid tax on those benefits, unlike the Guaranteed Income Supplement which was non-taxable. But after 1989, high-income retirees paid a surtax on their OAS that increased with income until the benefits disappeared at \$80,000. In their first budget in 1994, the Liberals continued scaling back benefits by introducing income testing for the pension credit and age credit that had been previously available to all seniors. They also allowed the OAS clawback to bite deeper each year as the threshold for the surtax did not move up fully with inflation. Those measures will cost higher-income seniors thousands of dollars in additional taxes.

Still, current seniors will likely escape the big axe, thanks in part to separatists' dreams in

Quebec. Finance Minister Paul Martin announced in his 1995 budget that the government would be overhauling the old age system. At the time, it was unclear whether upper-income seniors would lose under the reforms. In fact, the question was a key part of the debate that occurred within government through the latter part of 1994 and the first half of 1995. In the summer of 1995, Martin signalled that retirees could breathe easier when he said in an interview that the even affluent elderly have a special problem in trying to replace income lost through government cuts.³⁹

Prime Minister Jean Chretien formally closed the debate just prior to the October 1995 referendum in Quebec when he denied separatist claims that the government was secretly planning to cut seniors' benefits after the vote. "We have no intention of cutting old age pensions to people who are already retired," Chretien told the House of Commons.⁴⁰ "To those who are afraid today because the (separatists) are trying to frighten them, I say: Don't be afraid." Not only were benefits maintained for current seniors when Martin introduced the Seniors Benefit in his March 1996 budget, the Liberals protected people who were 60 and over as of Jan. 1, 1996. And despite widespread calls that seniors should "contribute" to the solution to CPP funding, federal and provincial

finance ministers have given every indication that, whatever cuts do occur, they will not affect those who are already drawing retirement benefits.⁴¹ There are two explanations for the government deciding not to target current seniors, and they are not mutually exclusive. First, seniors are particularly vulnerable to cutbacks because they have no way to replace lost income. The second, and likely more important, reason is the political fallout of hitting current seniors. They can mount an extremely effective lobby. They vote in higher percentages than the rest of the population. The Liberals remember Brian Mulroney's Conservative government and its humiliating retreat from its 1985 effort to cut benefits. And Chretien is not likely to retreat from his promise to Quebec seniors that their pensions would not be touched if they voted for federalism in the October 1995 vote.

Canada has a formidable challenge in coping with its aging population, but it is not alone. In fact, Canadian public pensions are rather miserly compared to those in many countries, so its problem is more tractable. The U.S. baby boom/baby bust mirrors the one in Canada while its pension promise is somewhat greater, especially for surviving spouses and orphans of contributors who die. And its entrenched, powerful seniors' lobby - headed by the American

Association of Retired Persons - has led one commentator to label the social security system the 'third rail of American politics: Touch it and you're toast.'⁴² European countries virtually all face rapidly rising costs of their extensive pension systems and many are facing social unrest as they attempt to trim back benefits. In France, there were riots in early 1996, forcing the Conservative government of Prime Minister Alain Juppe to back off its plans to cut pensions and other social programs. Several South American countries are looking to follow the example of Chile, which pioneered the privatization of public pensions when its own system teetered on the brink of collapse 15 years ago.⁴³ And even some Asian countries, which don't have well-developed public pensions, face the challenge of supporting rapidly aging societies. Countries such as China, India and Korea successfully stemmed the explosion in population, only to be faced with a new problem: How to care for an aging society.

World Bank economist Estelle James doesn't look like a harbinger of doom. Yet her diminutive stature and calm demeanor belie the stark, bleak message this Cassandra of pension pain proclaims. On a frigid February morning, James travelled to Queen's University in Kingston from Washington to issue a

warning. The next generation simply won't be able to support the lucrative pension plans now in place in the developed world and being considered in the fastest growing countries of the Asia, she told a pension conference.⁴⁴ James is the chief author of the influential report from the World Bank, Averting the Old Age Crisis which describes a rapidly aging global population and the dire implications for public pensions. From Kingston, James was travelling to India where she would deliver a warning: You can get yourself in a lot of trouble with a pension system modelled on those in the industrialized world.⁴⁵

Instead, the influential development bank recommends countries adopt a two-tier system: a public system aimed at alleviating poverty and a mandatory private system in which savings would be channelled into RRSP-type accounts. The private system would be mandatory to ensure that short-sighted citizens did not over-burden the safety net. James insists pension systems must be judged by two standards: whether they protect the elderly poor and whether they promote or inhibit growth in the broader economy. Many public systems in the developed world fail both tests, she asserts. 'The challenge,' her World Bank study concludes, 'is to introduce reforms that are good for the economy as a whole in the long run, even if this

involves taking expected benefits away from some groups in the short run.''⁴⁶

Canadians have a huge stake in the pension dilemmas and resulting debates that exist beyond their borders. Conservative Canadians - including the Reform Party and many business-oriented journalists - have seized on the recent World Bank report and its neo-conservative solutions to buttress their case here. The Reform Party, for example, recommends Canada follow the example of Chile, where mandatory payroll deductions going into privately-managed, RRSP-type accounts instead of into a publicly-managed fund like the Canada Pension Plan. Defenders of Canada's pension system note that other countries have long had more generous plans and, despite some recent retrenchment, those plans have not bankrupted Sweden, say, or Germany. Meanwhile, debate over the future of social security in the U.S. inevitably helps shape Canadian perspectives, given the penchant here for reading American magazines, watching American television and covering American news.

Canadians also have a direct interest in how countries cope with the international retirement crunch. In the global economy, Canada's standard of living depends very much on health of key economies around the world and on international capital markets.

If - as the World Bank suggests - the shaky public pension system will severely undermine world growth in a couple of decades, Canadian exports would suffer. If countries increase their pools of savings now to better fund future retirement, current consumption would drop and that would hurt Canada's global sales in the near term. Meanwhile, higher world savings should result in lower interest rates, driving up investment and boosting long-term growth. For a debtor country such as Canada, lower global interest rates would be a godsend after two decades of very high ones.

The debate in the U.S. mirrors the Canadian experience, with the seniors' lobby and liberals lined up against conservative proponents of tough measures. Few deny there are problems with the U.S. Social Security system. Americans already pay far higher payroll taxes than do Canadians in order to support social security, even after one calculates the payroll equivalent of money that goes to support OAS and GIS. American workers and their employers pay a 12.4-per-cent levy on a much higher percentage of their earnings than are taxed in Canada.⁴⁷ On top of that, the U.S. funds its Medicare program - which provides health benefits for retirees - through payroll levies. But even that high level of tax is not

enough to fund the plan in coming years. By 2012, spending on Social Security and Medicare - plus interest on the national debt - would consume all federal revenues, in the absence of further tax increases or benefit cuts.⁴⁸ In a bipartisan report to the U.S. president last year, Senators Robert Kerrey, a Democrat, and Republican John Danforth warned of a government swamped by its pension commitments once the baby boom generation retires. ``In a single decade, while our overall population increases by two per cent, our retired population will increase nearly 30 per cent,`` Kerrey and Danforth say in their letter to the president.⁴⁹ Though the 32-member commission couldn't reach consensus, the two co-chairs recommended a basket of reforms. Key ones would raise the entitlement age to 70 over the next 30 years and take away some of the generous inflation protection and increase premiums for Medicare. They would also reduce the Social Security payroll tax by 1.5 percentage points and require the money to be invested in a personal retirement plan in order to boost national savings. ``Specifically, if we delay action now, the choices will be higher taxes for Americans still in the workforce or larger benefit reductions for retirees,`` they said.⁵⁰

Defenders of the U.S. Social Security worry

about concerted attacks to undermine, or even privatize, the system. Richard Trumka, president of the United Mine Workers of America, sat on the Kerrey-Danforth commission and objected to the senators' conclusions. He said their package of reforms ``represents a fundamental attack on the idea of Social Security, arguably the most fundamental attack in its 60-year history.'' <sup>51</sup> Echoing complaints in Canada, Trumka said the reforms would hurt average Americans. ``By only looking at the cost side, the commission's report ignores the fact that Social Security keeps 15 million people out of poverty and many millions more from near poverty.''

But the Kerrey-Danforth reforms look fairly moderate compared to some of the more extreme ideas being floated by conservatives. U.S. businessman Peter G. Peterson insists the senators didn't go far enough. Peterson was a member of the Kerrey-Danforth commission and founder of the Concord Coalition, which has been pushing for Social Security reform. He argues the U.S. is robbing its future in order to pay generous, largely tax-free benefits to retirees, including many who don't need them. ``No other industrial nation tilts its tax system away from the elderly - or tilts its benefits system toward the elderly - as much as the United States does,''

Peterson writes in a recent issue of The Atlantic Monthly.⁵² He says that in addition to the proposals by Kerrey and Danforth, the U.S. should take several more steps: phase out benefits for upper income Americans; tax all Social Security benefits; redirect a greater portion of the payroll levy into private retirement plans, and reform the tax system to favor savings.

Meanwhile, neo-conservative activists are mounting a push for privatization, with the quiet financial backing of the investment and insurance companies. American writer Robert Dreyfuss has detailed the efforts by conservative coalitions to begin the politically delicate task of building support among the American electorate for overhauling Social Security. "More public agitation is in the offing," Dreyfuss writes in the liberal journal, The American Prospect, "because business proponents of Social Security privatization do not believe that it can move forward until Americans are convinced that Social Security is bankrupt and mismanaged by the government and that the private sector ought to take the whole thing over."⁵³

In that sense, Canada is ahead of the U.S. Many Canadians are already experiencing that sense of crisis that the American conservatives are seeking to

create. And Canada's three-legged system is perhaps more amenable to reform than the single, over-arching Social Security program in the United States. By largely sparing the current seniors, the Liberals here have defanged some biting critics of reform. But they still face a skeptical working-age populace who doubt the pension system - modest as it is - will provide much for them in their retirement. Tough economic times and debt-burdened governments have made cynics of many Canadians. If their worst fears are borne out and the economy does not rebound, the future public pension system may resemble the pre-Second World War programs, when only the poorest elderly got assistance.

CHAPTER TWO

Struggling for Dignity:

The History of Canada's Public Pensions

Pensioner Lou Goldenberg remembers well his childhood in Montreal when families and the religious charities - not the state - provided the safety net for seniors. With no pension and little savings, his grandfather toiled with his horse and wagon as a furniture mover, virtually to the day he died at age 72 in 1926. When his father died of heart failure in 1931 at age 41, there was no Canada Pension Plan survivors' benefit. Goldenberg's mother had to take in sewing and he and his sister had to quit school to help feed the family. "There was nothing at all in those days - no pensions at all," says Goldenberg, a retired garment worker from Metro Toronto's North York.¹ Instead, families looked after their elderly parents - usually widowed mothers who would move in with a daughter, or if there were no daughter, a son and daughter-in-law. Those who didn't have families to look after them were often forced to rely on charity from Montreal's tight-knit Jewish community, Goldenberg recalls. Now, he's afraid financial pressures and fading memories of how bleak retirement could be will combine to roll back the clock. "As time progressed, we became more civilized. But now it seems we're going backwards and it's frightening."

In fact, Canada arrived rather late to the civilized state in which fear of destitution did not

oppress workers and their families in their declining years. Several characteristics of the young Canadian nation - its very youth; its reliance on free markets; its Protestant work ethic; in Quebec, French Catholic patriarchy and distrust of the state, and the ever-present tension between federal and provincial levels of government - combined to delay any introduction of a public old age pension system for decades after continental Europe and the Commonwealth countries began theirs. Cost was also a major concern. The first Canadian pension plan was not introduced until 1927, more than 20 years after the United Kingdom, New Zealand and Australia introduced theirs.² And even then, it was a modest effort - co-financed and administered by the provinces with a strict and demeaning means test to ensure none but the ``deserving poor`` would receive succor. Despite constant agitation by unions, progressive politicians and social agencies, the Canadian government did not introduce its national universal pension scheme until 1951.

Conservative writers are simply wrong when they argue the growth of the public pension system somehow created the notion of retirement. It did, however, establish for the masses the possibility of a comfortable or leisurely retirement, which until then

had been the preserve of the rich. As early as 1921, before Canada had even the meanest government pension, less than 60 per cent of the male population over the age of 65 was in the workforce.³ And by 1951 - the year the universal system was introduced - less than 40 per cent of the older men was active in the workforce. (Older female participation dropped to 4.5 per cent in 1951 from 6.6 per cent in 1921.) The development of generous public pensions clearly encouraged retirement - older people didn't have to work themselves to death to avoid penury. But many older people were forced out of the workforce well before Old Age Security or the Canada Pension Plan offered them any security.

In Europe, industrialization and the breakdown of the extended family forced governments to consider publicly-sponsored old age assistance by the middle of the 19th century. Prior to that, the individual and his family were considered responsible for providing for anyone who survived an often nasty and brutal life into old age. In Europe and Great Britain, from the Middle Ages to the 19th century, parents would transfer property to their children in return for guarantees of provision in their old age, notes author Harry Weitz, in The Pension Promise.⁴ 'The underlying philosophy of the retirement contract was that

children were responsible for their aged parents,''
Weitz says. In fact, he notes, the Elizabethan Poor
Law of 1601 codified that familial duty.
Responsibility for support was placed first on the
individual, then on the family, and finally on the
public, meaning the local community. But that informal
system was liable to break down. William Shakespeare's
King Lear provides a vivid illustration of the
humiliations that an elderly person could be forced to
endure when he turned over his property to ungrateful,
scheming children. After being stripped of his retinue
and insulted by his daughters, a broken Lear confronts
the stormy elements of uncaring nature on the heath:

I never gave you kingdom, called you children,
You owe me no subscription. Then let fall
Your horrible pleasure. Here I stand, your slave,
A poor, infirm, weak and despised old man.⁵

The industrial revolution in the late 18th and
early 19th centuries - and the urbanization that
accompanied it - broke down the family compact.
Younger people flocked to cities looking for work,
leaving older parents to fend for themselves - a
pattern now being replicated in the urbanization of
the Third World. At the same time, people were
increasingly unable to look after themselves.
''Economic change, uncertainty and the absence of
reliable financial instruments made it difficult for

people to plan and save for their old age," notes the World Bank in its 1994 report, Averting the Old Age Crisis.⁶ "A growing number of old poor filled poorhouses ill equipped to deal with their special problems." In addition, most industrial workers barely earned enough to live on, let alone to save for the future. In any event, as the World Bank report notes: "The industrial working class began to demand new ways to deal with old age income security."

One common response was the friendly society, a relief fund to which individual workers paid out a nominal sum in return for coverage in the event of injury or the infirmity of old age. Those societies flourished in England in the mid-19th century but were largely the preserve of professional craftsmen, the elite of the working class in newly industrialized society. But the combination of inadequate controls and the flight to cities of younger workers left the societies financially strapped.⁷ Many went bankrupt. Finally, in 1854, British Chancellor of the Exchequer William Gladstone introduced a Government Annuities Bill, which allowed working people to purchase annuities at the post office and provide for their own retirement. The British system served as a model for one adopted by the Dominion of Canada more than 50 years later.

In Germany, chancellor Otto von Bismarck sought to defang an increasingly radicalized workforce and turned them away from revolutionary socialism by instituting the first structures of the welfare state, including a contributory old-age pension.⁸ It's easy to mock Bismark's reforms as political manouevring aimed at preserving his new German state, as author Peter Shawn Taylor does in a recent Saturday night article.⁹ But whatever Bismark's motives, the groundswell for reform came from the mass of industrial workers and their advocates who insisted the state - as the broadest expression of community - must take a lead role in mitigating the misery of the common man's life. In 1891, Denmark put in place a means-tested program and such old age schemes were subsequently established by Australia, France, Iceland, New Zealand and the United Kingdom. In the U.S., individual states pioneered old age assistance in the 1920s, usually offering small pensions to the most destitute elderly. The United States had no national program until President Franklin D. Roosevelt instituted social security as part of his Depression-era New Deal in 1935.¹⁰ Still, by the start of the Second World War, national contributory or universal schemes were in place in more than a dozen European and Commonwealth countries and the United States.¹¹

Canada waited more than six years after the war's end to introduce a universal plan and more than 20 years before it established its Canada and Quebec Pension Plan.

But while Canada lagged behind much of the developed world in putting in place those programs, the need was recognized just as early. In 1889, the government of Sir John A. Macdonald ordered a Royal Commission on the Relations of Labour and Capital in Canada in response to appalling conditions in Canada's factories. As Weitz notes, the resulting report detailed "the long hours, horrible working conditions and low wages that prevailed in early Canadian industrialization. The abuses in the factories were so extensive," he adds, "that the main emphasis of the recommendations was on the immediate need for improved working conditions."¹²

The commissioners also briefly examined the conditions of working people when they were beyond their useful economic lives. In appendix C, the commission report looked at the savings of the working class and their insurance against accident and old age. It noted that a few companies - mainly railroads and banks - had insurance plans. These required mandatory and often onerous deductions from wages that were pooled to provide accident and death benefits,

but over which the workers themselves had no control. A well-established, private life insurance industry also thrived in Victorian Canada, but its premiums were largely beyond the means of the working or even middle classes. Therefore, the committee recommended the government establish public annuities, which would allow diligent working-class Canadians to provide for themselves.¹³

Opponents of state insurance, the royal commission reported, argue that "the State should not, in any form whatsoever, enter into competition with private enterprise; and that moreover, the State is always a poor administrator."¹⁴ Those arguments echo even today in regards to many public services, including pensions. But, while "these reasons are not wanting in force," the commission said, "there is an interest which surpasses all others: it is the public interest."

Far from detracting from the then-current ethos of self-reliance, the state-run annuities would promote independence and thrift, the report said. "This institution offers, then, to every man who lives by his wages, the possibility of preparing under conditions of absolute security and with the greatest possible advantage, rest and independence in his old age. He will thus be certain be certain not to be a

burden on his own children.''15 To accomplish that financial independence, it recommended that a laborer earning \$1 a day save two cents a day from the time he was 18 years old until he was 65. He would then have accumulated a pension nearly equal to a year's salary. The commissioners had a strong sense of the fallibility of the common man who, they felt, had to be protected from his own vice. They recommended that it should be impossible to withdraw from the annuities until retirement. And they urged ease of deposit. Otherwise, the report suggested, the laborer might squander his pittance. ``Unfortunately for the workingmen, they meet on the road which they traverse twice a day more taverns than savings banks, and it is more easy for them to spend five cents for a glass or beer or of ginger ale than to walk a mile to find a savings bank.''16 There was virtually no mention in the report of the impecunious existence of elderly women in that society.

Despite that strong support for state-sponsored annuities, it took 20 years to overcome resistance from the insurance lobby and opponents of state activity. Even then, the annuities plan was seen by the Conservative government of the day as a stop-gap measure to reduce pressure for public pensions.¹⁷ Senator Richard Cartwright, who tabled the draft

Government Annuities Act in the Senate in 1907, argued that the plan to allow workers to invest in their own retirement would guarantee that the government would not be forced into ``socialist experiments,’’ Bryden notes. He quotes Cartwright to the effect that government pension plans were necessary only in ``old and densely populated lands where a large proportion of the population are leading a life from hand to mouth.’’¹⁸ The preamble of the act itself lays out the goal of encouraging self-reliance, stating that ``it is in the public interest that habits of thrift be promoted and that the people of Canada be encouraged and aided thereto.’’¹⁹

The adoption of the government annuities program did not quiet the calls for public pensions, however. In 1907, the year the Government Annuities Act was tabled, Conservative MP R.A. Pringle introduced a resolution in the Commons calling for an inquiry into ``a scheme or schemes of state aid for the aged and deserving poor,’’ Bryden notes.²⁰

However, it wasn't until 1912 that such an inquiry was undertaken. In that year, a Commons committee held hearings on the conditions of Canada's poor; its work continued in 1913, before being abandoned because the Liberal government of the time indicated it had more than enough problems on its hands without taking on

old age pensions.

Many witnesses at the 1912-13 committee argued that Canada should follow the lead of European countries and adopt some form of pension. Dr. Bruce Smith, provincial inspector of charities in Ontario, told the MPs that ``the old age pension system is one of the great landmarks of Christian civilization and that it is called for in this country.'' ²¹ John Joy, business agent for the Longshoremen's Association of Halifax, told the committee that the majority of the 350 inmates in the Halifax poorhouse were old. ``There are so many old persons in the poorhouse that they have to maintain two separate wards for them, one for the aged poor and then they have another for the aged and infirm,'' Joy told the committee. ²²

The MPs were sympathetic but clearly concerned that a pension system might discourage thrift and reward shiftlessness. Conservative MP George Bradbury (Selkirk) challenged Joy: ``Have you ever taken this question into consideration, that if this old age pension scheme were adopted, it might encourage men to disregard the future and discourage them from making provision for the future?'' Conservative committee chair John Burnham interjected: ``The old age pension scheme would provide that if a man was not deserving, he would not get a pension.'' Then Bradbury asked:

‘‘The question is what would constitute a deserving man, or would a man’s needs simply be considered?’’

‘‘Not simply his needs,’’ responded Burnham.

‘‘Supposing he was idle, vicious, drunken or anything of that sort, he would not get a pension.’’ Even Smith, who saw public pensions as the hallmark of a great civilization, would restrict them to ‘‘those who have earned their pensions by years of good conduct.’’

(The enlightened Mr. Smith suggested another way of preventing poverty: the ‘‘absolute necessity of preventing certain classes of people from reproducing their kind.’’)²³ The 1912 committee was the last pre-war gasp for those advocating a public pension for Canada’s elderly. The group of MPs never even finished their work. Instead, as Bryden writes, Burnham succumbed to pressure from the government to let the committee die. ‘‘I am advised,’’ Bryden quotes him as saying, ‘‘that this government has all it can do in the way of financing without being burdened at the present time by any scheme no matter how desirable.’’²⁴

In the aftermath of the First World War, the push for public pensions and other social issues gained momentum. The devastating war had shattered the illusions of social order and, at the same time, sped up the process of urbanization which had already been

underway in Canada. And - as in the 1880s in Europe - the threat of Communism, this time under the guise of Bolshevism, forced politicians to respond. Following the bloody Winnipeg General Strike of 1919, a government commission recommended that immediate studies be undertaken into unemployment insurance and old age pensions. The Liberals had already been working on their own social platform. In 1915, liberal leader Wilfrid Laurier set up a national advisory committee to prepare for a post-war policy convention.²⁵ Toronto Star publisher Joseph E. Atkinson chaired the social policy group which recommended old age and widows' pensions. In 1918, future Liberal leader and prime minister W.L. Mackenzie King published his 529-page treatise Industry and Humanity, which argued for the need for co-operation between labor and capital and for a broad social safety net.

But it was a long and tortuous road from social reformers' theorizing to winning the political battles that finally resulted in the Old Age Pension Act of 1927, Canada's first, though seriously limited, public pension scheme. Though it has been characterized as ``niggardly'' by writer Ann Finlayson in a 1988 book on pensions,²⁶ the 1927 act represents a milestone in Canadian social and constitutional

history. It was ``the first significant and continuing federal intervention in the social welfare field,`` Bryden notes.²⁷ ``It was also the first significant and continuing shared-cost program.`` It also represented the first time - though certainly not the last - that progressive MPs in a forerunner party to today's New Democrats forced social reforms as the price for propping up a minority government.

After winning the 1921 election, King had to put his own beliefs on the shelf and concentrate on holding together a coalition that included social conservatives from Quebec who believed the state had only a limited role in providing for its citizens.²⁸ Still, in 1924, King moved to set up a special committee which recommended a joint federal-provincial pension for indigent seniors who were British subjects and had lived in Canada for at least 20 years. The government tried to interest the provinces in the scheme but was largely rebuffed. The provinces were reluctant not so much because it represented federal intrusion in their jurisdiction - though it did - but because they argued they couldn't afford the additional expenditures. Given the lack of provincial interest, King dropped the matter. However, the election of 1925 provided an unexpected opportunity for social progressives to push home their cause. The

Liberals won only 99 seats versus 116 for the Conservatives and had to rely on the Progressives for support. After forming a government, King narrowly survived a quick non-confidence motion. Progressive MP J.S. Woodsworth - who would become the first leader of the Commonwealth Co-operative Federation (CCF) - and Labour MP A.A. Heaps extracted a promise of old age pension legislation. It was introduced and passed by the Commons in 1926, with even Conservative support.

However, the bill ran into a brick wall in the Senate. Tory Senators argued it would discourage thrift, reward profligacy, intrude on areas of private enterprise and amount to a massive intrusion into provincial jurisdiction. They rejected the bill. A series of events led King's minority government to move dissolution and launch a general election, which the Liberals won convincingly. Bryden attributes the victory, at least in part, to the pension issue.²⁹ The government re-introduced the bill and quickly passed it. This time, the chastened Tory Senators did not block it.

The act required the federal government to reimburse the provinces for 50 per cent of any pension paid to a British subject over the age of 70 who had lived in Canada for 20 years. However, there was a strict means test. A pension would only be paid to

someone earning less than \$365 a year and had not transferred property to qualify. Those qualifying conditions led to an intrusive and often humiliating examination of any applicant. Getting provinces to co-operate in the administration was another matter. Initially, only British Columbia agreed, though the other western provinces and Ontario quickly implemented their own joint plans. But Quebec - which had opposed the federal scheme - didn't implement it until nine years after it passed. The Maritime provinces were only a few years ahead of Quebec. They agreed to set up the plan only after Ottawa decided in 1931 to pick up 75 per cent of the financial burden.

One of the most troubling aspects of the 1927 legislation was the means-test. It was a degrading, often counter-productive device to ensure the pension only went to the 'deserving poor.' The maximum pension was \$240 a year and a person's total income could not exceed \$365. That meant any income above \$125 was deducted dollar-for-dollar from the pensions.³⁰ While a person could own property or have savings, the government imputed income from those assets according to a formula. The pension authority then deducted that amount from the pension, assuming the person received more than \$125 a year. Provincial pension authorities were authorized to recover the

amount of pension paid out from the estates of deceased pensioners, though not if it was being passed on to a surviving spouse. The means test effectively discouraged saving among the working class because any such saving would reduce the value of their pension. There was also evidence the authorities were more rigorous in the poorer provinces, doubtless to keep down costs to provincial treasuries.

MPs and Senators who reviewed the old age pension system in a 1950 committee were unanimous that the means test had to go. Most witnesses, even business groups, agreed. The joint committee summarized the consensus view as follows:

''Such a test with its undesirable stigma of indigence, penalizes thrift and discourages personal saving, destroys the initiative to continue productive employment, undermines the independence of the individual and interferes with the management of his own affairs. It cannot be effectively administered considering the large numbers now in need of assistance, and finally, it provides assistance which is uncertain and unpredictable as payment depends, to some extent, on individual judgement.'' ³¹

G. F. Davidson, the deputy minister of welfare in the Department of Health and Welfare told the Parliamentary committee that the threat of claims against the state had caused ''widespread fear and misconceptions'' and may have discouraged some needy elderly from applying for the pension.³² One Manitoba widow had had her pension reduced as a result of a

bequest from a son, even though she did not receive the full amount from her son's estate, NDP MP Stanley Knowles told the committee. The woman's son died in Detroit and she sent another son to settle the estate. Knowles said the woman's son was ``fleeced'' by a Detroit funeral home, which charged him \$1,000 more than the pension authority in Manitoba would allow for such an expense. As a result, the woman was considered to have annuity income from \$1,000 which she never saw, Knowles said.³³ And he said that was just one case of the typical inequity that occurred under the means test.

While the 1927 pension was clearly flawed, it remained fundamentally unchanged until after the Second World War. In the 1930s, the federal government boosted its share of old age pension payments to 75 per cent of the cost in order to entice Quebec and the Maritime provinces into the system. But while Canada tinkered, the U.S. forged ahead. In the depths of the Depression, President Franklin D. Roosevelt introduced a two-tier, national social security system as part of his radical New Deal program. Title I of the federal Social Security Act sought to expand the pension programs offered by 31 states by offering matching funds for pensions up to \$50 a month given to ``needy'' Americans over 65.³⁴ The state-to-state

management left quilt-like coverage for Americans; by 1947, an indigent New Yorker could collect a monthly pension of \$46.99, while a poor Georgian got only \$17.04 a month. Title II of the 1935 act was the old age and survivors' insurance, now simply known as Social Security. It was a contributory pension plan financed by premiums paid by workers and their employers. As such, it was a forerunner of the Canada/Quebec Pension Plan which would be introduced in 1965. Originally, the U.S. plan did not cover farm workers or the self-employed but was expanded in the 1950s to do so. Subsequently, the state-managed programs were phased out and the Social Security system expanded to become today's virtually universal, generous retirement plan.

In Canada, unions, social groups and political progressives kept up the pressure for expanded pension coverage. Towards the end of the war, as the government began to prepare for peace, the need of the elderly once again became part of the public agenda. At the same time, the profound influence of Roosevelt's New Deal and the theories of British economist John Maynard Keynes changed the way western people viewed their governments. 'Governments were now seen to have a major potentiality and responsibility for promoting economic growth and full

employment and for providing wide-ranging social security," Bryden says. Two influential reports - the Beveridge Report released in Great Britain in November 1942, and Leonard Marsh's 1943 Report on Social Security in Canada - urged government action aimed directly at relieving poverty in their respective nations. Marsh - who later testified before the 1950 Parliamentary committee that provided the impetus for the Old Age Security plan - argued government should provide a basic guaranteed income that individuals could augment to the best of their ability.

Meanwhile, the Liberal government was warming to the idea. In his government's 1943 Speech from the Throne, King indicated old age pensions were a top priority for his government. The Throne speech - which is written by the government and delivered by the Governor General - said a "comprehensive national scheme of social insurance should be worked out at once, which will constitute a charter of social security for all of Canada."³⁷ In the following year's Throne Speech, King indicated that there was a need for a contributory old age pension that would be "more generous" than the federal-provincial program then in place, as well as federal assistance for national health insurance.

Through the late '40s, debate raged not only

about the need for a pension scheme, but about its design and cost. Most government and business leaders favored some form of contributory plan on the assumption that only direct payment by beneficiaries would keep a lid on the cost. Though the government had doubled the federal-provincial old age pension to \$40 a month between 1943 and 1949, the program was still seen as badly flawed and generous enough only to prevent absolute starvation. Still, the cost was immense; Ottawa's portion climbed to \$89.7 million in 1950 from \$43.8 million in 1947. The Liberals were adamant that only a contributory plan would keep costs down. In February, 1950, Prime Minister Louis St. Laurent told the House of Commons: ``When we have a direct, contributory system, we will get what we pay for and pay for what we get. When suggestions are made that the old age pension should be increased by 50 per cent, it will be something for consideration. It will mean, however, that contributions will also have to be increased by 50 per cent.''³⁸

Even with the increases to the old age pension in the second half of the 1940s, one didn't have to look far to find poverty among the elderly. In March 1949, Maclean's magazine ran a long expose on the plight of poor seniors, headlined: ``How Will You Live When You Are Old?'' Written by Harold Dingman, the

article provided a sobering answer. ``In a dark, cheerless room in downtown Toronto, Miss Phoebe Grant, a tiny, wrinkled woman of 76, lives alone and almost friendless,'' Dingman wrote.<sup>39</sup> Miss Grant lived on a \$40 pension cheque, \$24 of which went to rent. Her life, Dingman says, ``is a nightmare of scrimping and cheap buying.'' He describes the resistance among the elderly to ``old age homes'' which are nevertheless filled to capacity. The homes - mainly run by private and religious charities - separate husband and wife and force their residents into a de-humanizing regime. ``These institutions are disliked because of the discipline imposed - meals at given hours, lights out and so on, and the general feeling of being herded and pushed,'' he reported. Dingman also took aim at the means test, a degrading investigation ``which enquires into every minute detail of a person's life.''

Ironically, while early designers of public pensions worried about discouraging thrift, the means test did exactly that for working-class people. There was little incentive for people to save because everything above the most meagre savings or income was deducted dollar for dollar from the pension. (The problem illustrates a critical lesson for today's pensions planners: government cannot clawback pensions too rapidly as income climbs without creating a

disincentive to saving.) But while Dingman's piece clearly illustrated the flaws in the system at that time, he also warned of the cost of a more generous one. Again the language is echoed in today's debate about funding: ''The squeeze hits the man who is somewhere in the middle years,'' Dingman wrote. ''He must provide for the education of the young and the care of the old.''40

The Maclean's article was written in the run-up to the 1949 election. As Dingman pointed out, all three parties were promising improvements in the old age security, largely focused on removing the means test. The Liberals under St. Laurent won decisively but then appeared to backtrack on pensions. In order to force the government's hand, the CCF moved a non-confidence motion aimed solely at the Liberals' failure to get on with the removal of the means test. Embarrassed, the Liberals struck a joint Senate-Commons committee in 1950 which held sweeping hearings and recommended a compromise: a universal pension at 70 complementing a means-tested one at 65.⁴¹

The joint committee was chaired by Liberal rising star Jean Lesage, who was later premier of Quebec, and it included such luminaries as future Conservative prime minister John Diefenbaker, prominent Liberal MP and future Senator David Croll

and long-time NDP MP Stanley Knowles. Unlike earlier Parliamentary committees, the 1950 version did not spend much time demonstrating the need for old age pensions, or debating whether government had a role in providing them. Those were taken as givens. Instead, the committee focused on how to improve benefits and at the same time keep the cost down; on the constitutional questions, and - interestingly in light of today's debate - the appropriateness of a retirement age of 65.

In its report submitted June 28, 1950, the Lesage committee noted the Canadian population was aging as a result of improved health services and a drop in fertility during the Depression and war years. In 1931, the average life expectancy for a man was 60 years and for a woman 62.1 years and only one in 18 Canadians were 65 or older. By 1947, life expectancy had climbed to 65.2 years for men and 69 years for women, while the elderly represented one in 13 Canadians. The committee calculated that providing a \$40 a month pension for everyone over the age of 65 would cost \$782 million by 1971. Restricting that universal pension to people over 70 would reduce that figure to \$500 million. It noted there were other social needs to be met: mother's allowances, unemployment insurance, and calls for government

health insurance and disability pensions. And it argued the government must avoid ``such a substantial diversion of the total national income into a program for the aged as to preclude the possibility of developing in years to come a fully balanced social security system.' '42

At the same time, the MPs and Senators noted the difficulty in constructing a blanket old age security system for everyone over 65. Some people at 65 remain in good health and are quite capable of working - even eager to. Others at 65 are sick or decrepit. There is also a wide discrepancy between the needs of a healthy 65-year-old and a failing 80-year-old. So the committee argued that a two-tiered system would be appropriate, both to save money and to reflect that diversity.⁴³ All those above the age of 70 would get a pension, while people between 65 and 70 would have to qualify based on need, thereby encouraging them to stay in the workforce if possible. The politicians were also reflecting the concerns of the prominent business lobbies, including the Chamber of Commerce, which argued the system should not be so generous as to require onerous taxes.

The committee chose to avoid the straight contributory insurance scheme favored by the Liberal government and later adopted under the Canada-Quebec

Pension Plan. It argued such a plan was too limited in coverage because people outside of the labor force - largely women at that stage - would not be eligible for pensions. However, it urged the government to earmark certain taxes to support the old age security plan ''because of the importance of establishing a close association in the mind of the individual between his contribution to the cost and the ultimate benefit he is to receive.''⁴⁴ The committee also rejected the argument that a universal system for people over 70 would be ''economically wasteful'' because it would provide benefits to rich and poor alike. Instead, it argued that universality would ensure the support of the broadest segment of society. With a universal system based on individual contributions, ''individuals in the upper income groups would, through their personal contributions, have bought and paid for their own retirement security, as well as making a substantial contribution towards the cost of retirement security for others,'' the Parliamentarians said.⁴⁵ The rationale - which led to a specific 'OAS levy' on income tax forms until 1974 - was an important one, and is cited even today by current seniors who argue that they in fact ''bought and paid for'' their OAS benefits. However, it must be remembered that the contribution

rates were based on a \$40 pension, kicking in at age 70 for people whose life expectancy was lower than at present. The OAS levy was folded into the general income tax system in 1974 because the revenue it generated did not come close to paying for the program.

The St. Laurent government moved quickly to implement the committee's report. By Christmas, it had proposed to the provinces a constitutional amendment which would allow it to administer old age pensions and to levy direct taxes to pay for them. Quebec Premier Maurice Duplessis resisted at first, but then agreed to a strictly worded amendment. On May 31, 1951, the British Parliament passed the amendment to the BNA Act providing Ottawa with the authority to legislate in areas of old age pensions. The new system meant an immediate doubling of the number of elderly Canadians receiving a government cheque. On Dec. 31, 1951, some 308,825 people were receiving pensions under the 1927 joint federal-provincial program. By March 31, 1952, there were 686,127 people over 70 receiving the universal pension and another 87,675 between 65 and 70 getting the means-tested pension.⁴⁶ The universal pension for those over 70 was financed by an added two per cent levy on personal income tax, sales tax and corporate income tax, the

so-called 2-2-2 formula.

With the passage of the Old Age Security and the Old Age Assistance Acts of 1951, the pension issue disappeared from the political agenda for several years. However, in the latter part of the decade, the Liberals sought to provide new ways for Canadians to look after themselves in retirement. In the dying days of the St. Laurent regime, the Liberal government introduced tax measures that have become a cornerstone of Canadians' efforts to augment the subsistence-level public pension. On April 12, 1957, Royal Assent was given to an amendment to the Income Tax Act, giving birth to the Registered Retirement Savings Plan.⁴⁷ The key features of the plan have not changed, though the limits for contributions have been greatly expanded. Contributors deduct the amount of contribution from income for tax purposes, while earnings accumulate tax-free until they are withdrawn on retirement. The RRSP was meant to provide similar tax advantages for people who did not have company pension plans as were enjoyed by those who did. But the limits were modest. A person who did not have a company pension plan could contribute 10 per cent of his earned income to a

maximum of \$2,500. Private plan members could contribute a maximum \$1,500. But Canadians were slow to take advantage of RRSPs to save for their retirement. In 1969, for example, only 2.3 per cent of all taxfilers contributed to RRSPs and their average was \$867.⁴⁸

While the Liberals were addressing the private side of the retirement equation, the debate over public pensions re-emerged. In the second half of 1950s, inflation started to eat into the value of the \$480 annual benefit established in the 1951 legislation. In 1957, just before a general election, St. Laurent's Liberals announced they would increase the monthly payment by 15 per cent, or \$6.⁴⁸ During the campaign, Diefenbaker's Conservatives ridiculed the meagre increase, dubbing the Liberals the ``Six-buck Boys.'' One of the first acts of the Diefenbaker minority government was to boost the benefit by \$15 to \$55 a month. After winning a huge majority in 1958, the Conservatives boosted the OAS taxes to 3-3-3.

As private savings languished, there was increased pressure through the early 1960s for a more generous public plan. The OAS was the barest minimum

as a safety net - providing enough only for elderly Canadians to scrape by. But politicians, bureaucrats and business people were alarmed at the fiscal implications of providing ever more generous universal pensions. Meanwhile, labor unions argued for a universal system, augmented by a contributory, earnings-related plan financed by employers and employees. On the eve of the '63 election, the Conservatives once again raised the OAS benefits, increasing the pension by \$10 to \$65 a month. The Liberals under their new leader, Lester B. Pearson, promised a contributory pension scheme as a key plank in their election platform.⁴⁹ They won.

The time was ripe for a contributory plan. Judy LaMarsh, the Liberal health and welfare minister when the Canada Pension Plan was formulated, later wrote that there was a broad consensus on the need for a national, contributory plan.⁵⁰ ``Some such provision had certainly come to be an acknowledged necessity,`` LaMarsh wrote in her 1968 memoir. Canada had become an increasingly mobile country and workers usually lost all pension rights - if they were lucky enough to have a workplace pension - when they moved. ``Politicians

almost daily came face-to-face with incidents that could only be characterized as unfair," wrote LaMarsh, the feisty maverick - who retired from politics after only one term as minister.

Many Canadians nearing retirement age in the 1960s had lost a decade or more from the workforce as a result of the Depression and war. The Liberals were pondering a new contributory system, but the benefits would not kick in for years as contributions built up. It became clear that any long-term program was going to have to be accompanied by short-term aid for the indigent elderly. Shortly after taking office in 1963, the Liberals increased the universal pension by \$10 a month to \$75. That increase did not quiet the call for more. Led by NDP MP Stanley Knowles, seniors' lobbies demanded \$100 a month pensions - much to the exasperation of LaMarsh and her colleagues. "Stanley Knowles in the House and groups of little old retired ladies and gentlemen who had nothing else to do but hold meetings and ask for bigger benefits for themselves kept up the clamour," LaMarsh recalled in her memoirs.⁵¹ (She also credited Knowles's feisty, unrelenting campaign for helping her get improved

pensions past her more fiscally prudent cabinet colleagues.)

Many in business - particularly the insurance industry - didn't share LaMarsh's conviction that the contributory pension plan was an obvious necessity. Tom Kent, a key adviser to then-prime minister Lester B. Pearson, wrote 25 years later that it ''was almost impossible to appreciate what strong emotions, interests and political pressures in 1963-64 clashed around the idea of the comprehensive pension plan. It was denounced as a fraud and as certain to bring the ruin of the nation,'' Kent wrote in his memoir.⁵² The insurance industry, led by Great West Life president David Kilgour of Winnipeg, mounted a massive campaign to stop the introduction of the Canada Pension Plan. Both LaMarsh and Kent were harshly critical of what they saw as the industry's shameless promotion of its self-interest at the expense of public interest. The industry, with its vast network of aggressive agents in virtually every small town in Canada and its supporters in the business press such as The Financial Post, kept up an aggressive lobbying effort against the public pension system. Though it was futile,

LaMarsh said the campaign was ``cussedly troublesome`` for her. She concluded: ``The opposition of the insurance companies is a shameful chapter in the history of Canadian business and I hope no industry ever tries so blatant an attack upon a duly elected government again.``⁵³

More vexing than the business lobby was the opposition the federal Liberals met among provincial governments, particularly (but for vastly different reasons) from Ontario and Quebec. In fact, provincial reluctance nearly scuppered the entire project. In July 1963, the newly elected Pearson government held a federal-provincial conference where the Liberal pension plan was broadly discussed. Provincial co-operation was crucial to setting up the pension plan. Under the 1951 amendment, Ottawa could enter the pension field, but only if a province was not already offering or planning to offer a similar plan. Ontario Conservative Premier John Robarts - who was facing an imminent election campaign - equivocated, but let it be known he was not opposed in principle to a contributory plan. Quebec Premier Jean Lesage - the former federal Liberal who co-chaired the 1950 joint

committee on pension reform - indicated he would not stand in the way of a federal plan in the other provinces, but that he would be introducing his own version.⁵⁴

In August 1963, the Quebec premier introduced a motion in the provincial national assembly which said his government intended ''to pass as soon as possible an act to establish a public and universal retirement fund based on actuarial calculations and maintained by compulsory contributions from every employer and employee as well as from every independent worker.''⁵⁵ Lesage had two goals in establishing a fully-funded public plan: to provide pensions for Quebec workers in the future, and to generate a huge fund which could be used to finance the much-needed building of the province's social and physical infrastructure. In the latter case, Quebec was not alone. The post-war baby boom and industrial growth had left social infrastructure sorely lacking and provinces were looking for ways to fund schools, colleges and universities, parks, libraries and other amenities we have come to take for granted. As Bryden notes: ''It was inevitable that, when Lesage had

pointed the way, other provinces would see the pension funding as the means to help finance this needed social investment.' '56 It is fashionable now, of course, to criticize the fact that provinces were allowed to borrow from the Canada Pension Plan at attractive rates. But the provinces were borrowing to provide services demanded by the same people who are now expecting the benefits and the infrastructure that was built is still serving the Canadian population.

In any event, Quebec's insistence threw the federal Liberal plan off course. Ottawa could hardly adopt a plan that was radically different from a one of a province representing one-fifth of the population and one that - with its lucrative funding plan - many provincial governments were regarding with envy. So Pearson was forced to find a common ground between the his version and Quebec's. He hoped to offer a joint plan, with Quebec administering its own and Ottawa acting on behalf of the other nine provinces. However, Quebec's plan differed dramatically from the proposed federal one. Ottawa's was to be pay-as-you go, meaning current taxes pay for current benefits; Quebec wanted a large fund to be built up. The federal Liberals

wanted as short a transition period as possible; Quebec argued benefits should not be paid for 20 years. Ottawa wanted a two-per-cent contribution rate; Quebec proposed four per cent. And Quebec's plan included a broad range of survivor, death and disability protection, something Ottawa did not have jurisdiction to include.⁵⁷ Through the winter of 1963-64, officials from the two sides negotiated towards a compromise. In April, Tom Kent and some key federal officials met secretly with their Quebec counterparts and hammered out a deal. Judy LaMarsh was livid at being frozen out of the negotiations and was less than happy with the result, but she had to go along. ``There was no other way if there were to be a system of universal (contributory) pensions across the whole of Canada,'' LaMarsh wrote in her memoir. ``One for nine provinces was unthinkable and probably unworkable.'' ⁵⁸

Though the Quebec compromise was the essential break in the logjam, Ontario still posed some problems. Chiefly, Robarts demanded access for the provinces to the CPP fund. In an early draft bill, Ottawa proposed to keep half of the revenue from the

CPP fund, which would be building up over the 10-year phase-in. Ontario also insisted on a higher contribution rate than the Pearson government intended.⁵⁹ However, in exchange for those concessions, the federal government won a few of its own, including a higher benefit rate and an exemption from contributions on first 10 per cent of covered earnings to ease the burden on low-income people. With those amendments, the Canada-Quebec Pension Plan passed in early 1965 and took effect Jan. 1, 1966. Some 78 years after Germany's Bismark had introduced the first contributory, public pension plan, Canada achieved its own version.

Not surprisingly, the passage of the Canada-Quebec Pension plan did not quell the pressure to improve living standards for seniors. The Guaranteed Income Supplement - introduced the followed year - was meant to cover those seniors who were receiving the OAS and would qualify for CPP after the 10-year transition period. As such, it was meant to disappear in 1976 when the CPP matured. The GIS remains essential for relieving the poverty of seniors, especially the very elderly and single women. Still,

the passage of the CPP and the GIS brought the final pieces of the puzzle that form Canada's public retirement system. In subsequent years, Ottawa and the provinces approved improvements to Canada/Quebec Pension Plan. In 1974, in the wake of the inflation-causing oil crisis, they provided full indexation of benefits. Later, they extended survivors' benefits to widowers as well as widows. And they made several improvements to the disability program of the CPP. But on the whole, the three pillars of the retirement system stood firm until the Conservative government launched its ill-fated assault on the OAS in 1985.

The battle for public pensions had its roots in the darkest days of Victorian industrialism when industrial workers earned subsistence wages and often looked forward only to the poorhouse if they survived into old age. The fight for pensions was not an isolated struggle, however. The same forces that pressed for state assistance for the elderly - the unions, progressive politicians, social reformers - also worked to obtain unemployment insurance, mother's allowances, pensions for the disabled and all the other trappings of the welfare state. And they were

driven by the same belief - that the state had a duty to care for the most vulnerable in its midst. The obstacles they had to overcome were formidable. For the first half of the 20th century, most politicians seemed less concerned about the impoverished state of their elderly citizens than they were that public pensions might discourage ``thrift'' or might be extended to ``un-deserving'' poor who had spent their lives in idleness or, worse, drunkenness. At the same time, powerful business interests, especially in the insurance industry, opposed state-run pensions at virtually every stage of their development. An even greater hurdle was what might be called the ``Canadian disease,'' the penchant for Ottawa and the provinces to engage in jurisdictional battles at the expense of progress.

Many of the same forces that worked against the establishment of public pensions now press to severely limit them. They include the ideologues who have insisted individuals must be left to fend for themselves except in the most dire circumstances; the corporations that have seen an opportunity to earn profits off the savings of fearful Canadians, and the

politicians who have worried more about the public cost of providing as decent standard of living for their citizens than the more insidious costs of poverty. This is not to say that reforms shouldn't be undertaken or costs cut. But the long struggle to obtain even modest public pensions in this country surely provides a cautionary tale for today's would-be reformers.

CHAPTER THREE

Reforming Old Age Security:

Burying Universal Benefits

The wizened woman welcomed Finance Minister Paul Martin into the drab meeting room of the city-subsidized apartment building in east-end Ottawa. Solange Denis, now 73, had made a national name for herself 10 years earlier by publicly scolding former prime minister Brian Mulroney for breaking faith with Canadian seniors in an attempt to cut the costs of old age assistance. But on this Sunday afternoon in March, she came to praise a minister, not bury him. Martin - and his media-savvy advisers - had picked Denis' drab building to explain his plan for biggest changes to the old age security system since it was established in 1952. The reforms, to take effect in 2001, represent a dramatic shift in Canadian pension policy away from a universal system to one that is targeted to lower- and modest-income seniors. The biggest losers will be the upper-middle-class Canadians, who stand to lose as much as \$7,000 of retirement income from what they would currently get. But having learned the lesson from Denis' first encounter with Mulroney, the Liberals ensured that no current seniors - or even anyone over 59 years old on Jan. 31, 1995 - would be hit. Their pensions were safe, Martin declared with obvious pride to Denis and her neighbors. The Liberals held the post-budget dog-and-pony show with poorer seniors, who would see their benefits rise under the

new program. Denis - who received a kiss and a quick dance with the personable Martin when he arrived - was clearly relieved. ``It's OK for me,`` she told reporters. ``They don't touch the pensions for my age.``¹

Martin's reform, which was to be passed into legislation in the fall of 1996, marks the formal end to universality in old age pensions. In effect, it finishes the work started by his predecessor, Conservative finance minister Michael Wilson. After an earlier attempt to cut benefits failed, Wilson resorted in 1989 to a sneakier approach to pare back pensions to more affluent seniors. In 1989, he instituted the clawback, which taxed back benefits from upper-income seniors at an increasing rate until someone earning \$73,000 paid all their OAS benefits back through income taxes. The Tories could claim universality still existed since every senior received a cheque. By 1995, however, Canadians seemed to be far more concerned about deficits than providing social benefits to affluent retirees in the name of universality. And younger Canadians were worried that, given the aging of the huge baby boom generation, the old age security system simply wouldn't be there for them when they retired. So Martin packaged his reforms for the 1990s: universality gave way to cost control

and targeted assistance. Current seniors and those about to retire were protected. In fact, they can choose between the two systems once the new one is in place in 2001. And boomers received some assurance the government was working to ensure the system would survive their retirement. The Liberals also promised to restore full inflation protection for benefits after the Conservatives had removed it in 1989. There are still outspoken critics of Martin's approach who fear it will amount to welfare for seniors. Others worry the rapid decline in benefits as income increases will discourage people from saving for their retirement or force them into complicated tax planning. But there certainly was not the kind of uproar that staggered Wilson when he first attempted to rein in the costs of old age pensions a decade ago.

Ann Pajunen expects to be one of the big losers from the Liberals' overhaul of the old age system. In fact, she hopes to not have to depend on public pensions much at all. The 41-year-old homemaker and her middle manager husband, Jyrki, are looking to build a retirement nest egg that would reduce their Seniors' Benefit substantially, though not completely. Jyrki has a good pension after 20 years with Bell Canada and its affiliated companies and they've saved diligently, contributing to RRSPs each year though not

always to the maximum. Ann, the financial planner in the family, says she'd like to have at least \$50,000 a year in retirement income. That's equal to roughly 70 per cent of their pre-retirement income, which is what experts recommend in order to maintain a couple's lifestyle. ``I have my goals where I want to be,`` Ann says. ``We're not there yet, but we're working on it.``² The self-described conservative says she's not worried about losing benefits as a result of her thriftiness. ``Even if I'm going to lose benefits, I still want to save as much as I can,`` she says. ``Governments can change, and they can change their programs whenever they want to. I am not counting on that income at all.``

Pajunen may be fortunate enough to feel she won't have to rely on government benefits in her old age. But millions of Canadians do now and will in the future. The Old Age Security - along with its complementary Guaranteed Income Supplement - has been the cornerstone of the government's safety net for seniors since 1952. Its purpose was twofold: to eliminate the dire poverty among the elderly that had existed before its inception, and to provide a basic source of income for all retired Canadians so that they could maintain a comfortable standard of living. The taxable benefits are paid out from general

government revenues and represent one leg of the three-tiered public retirement system that includes the Canada Pension Plan and tax assistance for private savings and pensions. In 1996, 3.6 million Canadians will receive a total of \$16 billion in pre-tax OAS benefits, with individual maximum of \$4,760. Of those, 1.4 million seniors - largely single women - will receive the Guaranteed Income Supplement which is provided to the poorest retirees based on family income. Together, OAS and GIS provide a maximum of \$10,420 for a single and \$16,900 for a couple.³ Those levels are several thousand dollars below the Statistics Canada's low-income line for city dwellers. But there is no doubt that the OAS\GIS has rescued many seniors - again, especially single women - from destitution. It has also been a crucial cornerstone for middle-class Canadian couples as they build a comfortable retirement. For the average retired couple receiving \$40,000 a year, the two OAS cheques represent a quarter of their income.

But like all government programs in the '90s, the seniors' benefits have been under assault as being too rich. Many Canadians - like Pajunen - believe the system simply won't be able to stand up under the weight of a projected 8 million seniors once the baby boomers have all retired. The Finance Department

forecasts that the after-tax cost of the OAS/GIS system would more than triple between 1996 and 2030, when the last of the baby boomers are due retired.⁴

(That figure assumes full inflation protection was restored.) Even in constant 1996 dollars, the program would double in cost. In its booklet on the Seniors Benefit released with the 1996 budget, the government noted that public pensions make up a ``large and growing'' share of government spending.<sup>5</sup> Together, OAS/GIS costs now account for roughly one-fifth of federal program spending. Given that overall program spending is shrinking rather than growing due to deficit pressures, ``this share is projected to grow rapidly over the next 35 years,'' it adds.

While the costs can be calculated, the question of affordability is a different matter. That really depends on the growth of Canada's national income - if incomes grow, the pension burden does not look so weighty. The situation can be compared to family finances: Carrying a \$100,000 mortgage would put a severe strain on a family earning only \$60,000 a year in income but would be easily handled by a couple with \$120,000 annual income.

Defenders of the current system insist that the doubling of program costs would be easily sustainable under the right economic conditions.

Unions and some seniors' groups argue the government needs to get its economic policies right, and then universal pensions will be affordable. Even under cautious assumptions, the combined cost of the Old Age Security benefits and the Canada Pension Plan are forecasted to grow from 5.3 per cent of the country's national income to eight per cent by 2030 - hardly an explosion given that most developed countries are above that level now.⁶ Labor, senior and social action groups argue that interest rates need to be kept down to encourage income growth and to relieve pressure on the federal budget. If the economy grows by two per cent a year between now and 2030, the OAS cost as a percentage of Gross Domestic Product would climb from 2.03 per cent in 1995 to just 2.37 per cent in 2030.⁷ That forecast, however, assumes that the program would continue to be eroded by inflation. Meanwhile, interest on the federal debt is costing Ottawa \$48 billion this year, nearly a third of all federal spending.⁸ 'Clearly, one issue that should be dealt with in trying to assess the long-term affordability of OAS is what are debt service payments going to be in the future,' suggests Bob Baldwin, a pension expert with the Canadian Labor Congress.⁹ 'Will they continue to crowd out program spending or will there be a fiscal dividend from debt and deficit reduction

that will make it easier to afford OAS in the future?''

But the rising OAS cost isn't the only burden retiring baby boomers will place on the next generation. The explosion of costs under Medicare and Canada Pension Plan will exacerbate the OAS funding crunch. Even if incomes rise, much of the additional money would go to seniors' programs rather than working age Canadians. If real wages don't increase, we'd be asking the next generation to accept a steep reduction in their standard of living to support elderly baby boomers. ''If future seniors are to enjoy the same level of financial support as today's seniors, the additional transfer from working age Canadians to senior citizens will be significant,'' says the Canadian Institute of Actuaries in their 1995 report, Troubled Tomorrows.¹⁰

Some experts such as Queen's University economist Thomas Courchene predict the universal system will continue to be pared back until it more closely resembles the pre-1952 Old Age Pension, which offered a means-tested stipend to help those seniors living in abject poverty.¹¹ The rest, he says, will have to rely on the Canada Pension Plan - if they're lucky - and private savings and perhaps even some part-time work if they hope to live comfortably in

their sunset years. Martin, however, insists the changes announced in the 1996 budget - which would pare 10 per cent off the program's projected costs in 2030 - will ensure a safety net for poor seniors and some income replacement for the middle-class.¹²

Martin announced the coming overhaul of the old age benefit system in his 1995 budget, though few details were provided.¹³ Government sources have said the Department of Finance had been pushing to announce concrete steps in that budget. But the deficit fighters couldn't overcome the political hurdle: the government was unwilling to anger seniors early in the mandate as Mulroney had done, especially with a Quebec referendum looming. Martin instead settled for a clear commitment that the matter would be dealt with in the 1996 budget and for the enunciation of five principles that would guide the reform. Those were: undiminished benefits for poorer seniors; full inflation protection, the provision of benefits based on family income rather than individual income; greater progressivity, and cost control.¹⁴ Martin also formally and without fanfare ended the pretence of universality: no longer would Ottawa send out cheques to seniors who would have all their benefits clawed back. In his annual post-budget luncheon in New York City, Martin basked in business

praise for his tough budget which had taken the axe to government departments, unemployment insurance and transfers to provinces for health, education and welfare. Next on his hit list, Martin promised, would be baby boomers' pensions. ``In terms of old age pensions, the problem does not exist with the current elderly,`` he told his business audience.¹⁵ ``The problems exist with the sustainability over the longer term for those people who are middle-aged today.`` But he added that the cuts would ``guarantee`` middle-aged Canadians that the system would be there for them.

Though Martin suggested in New York that baby boomers were the main targets of his pension reform, the 1995 budget document was vague about whether current seniors could expect to be hit. It did warn that the cost of OAS and GIS benefits would grow by 60 per cent over the next 15 years, even before babyboomers began to retire.¹⁶ By laying out the steep rise in OAS costs over the next 15 years, Martin seemed to suggest that some medium-term savings were being sought. Seniors were worried. In the summer of 1995, articles in The Toronto Star warned that the government was considering a number of proposals to cut OAS.¹⁷ The deepest bite would have saved \$1 billion a year - about 1/20th of the program's current cost - by reducing benefits to those earning more than

\$40,000 a year in family retirement income. At that point, no decision had been made about whether current seniors would be hit or how quickly the reductions would be phased in.

Seniors' groups were adamant that any reductions to their benefits would be unacceptable. ''We seniors have paid for the OAS,'' Jack Dyce, an 81-year-old former middle manager from Hillsburgh Ont., said that summer.¹⁸ ''When you spent your life planning for a retirement system based on a certain system, it's not fair to change that system now.'' Even Solange Denis conceded in March 1996 that she had been worried about the Liberals' plans for the OAS/GIS system.¹⁹

Martin had tried to sound reassuring. In the summer of '95, he said in an interview that he appreciated the special problems which seniors have in coping with an unexpected loss of income. ''There are plenty of older people who have incomes well above the poverty level,'' Martin said.²⁰ ''But the fact is that every single time they lose a dollar, they don't have a capacity to replace that dollar. If there is a change in the cashflow affecting a 72-year-old couple, it's very hard for them to adjust, very hard.'' But seniors remembered too well former prime minister Mulroney talking about the ''sacred trust'' of

universal benefits before cutting them and were skeptical about Martin's sympathetic view. Lou Goldenberg, an 81-year-old former garment worker, said many retirees have simply lost faith in government promises. 'I'll never forget Mulroney, his arm around his mother's shoulder and saying in a sad voice: 'Would I take money from her pension?' And then he started the clawback.'²¹

Martin surprised Canadians with his announcement of the Seniors Benefit in the March 1996 budget. The government had been promising that any changes would be preceded by the release of a wide-ranging paper on aging that would lay out the challenges posed by the country's graying society. However, an aging paper that included options for cutting back current seniors' incomes was seen as far too politically sensitive to be released in the fall of 1995 when the Quebec referendum was under way. And Prime Minister Jean Chretien pre-empted the key debate over whether current seniors would have their benefits cut by assuring Quebecers during the runup to the fall referendum campaign that their pensions were safe. Martin also wanted the provinces to have joint authorship of a discussion paper on the Canada Pension Plan, given that he needed their support to reform that plan.²² So the CPP paper was broken out and the

government decided to proceed with reforming the OAS\GIS system. Martin conducted his own ``consultations`` with seniors, including Denis herself, while social policy expert Ken Battle of the Caledon Institute helped design and roadtest a system of senior benefits based on the five principles laid out in the 1995 budget. Meanwhile, the communication gurus at Earncliffe Strategy Group, including long-time Martin supporter David Herle and former CBC Ottawa bureau chief Elly Alboim, tested the plan with polling and focus groups. The result was a plan that was highly saleable politically.

The Seniors Benefit offers marginal improvements to the vast majority of future seniors, those with expected retirement income of less than \$40,000. Seniors who have no income other than OAS and GIS - most of whom are now women - will get an additional \$120 a year in 2001, boosting their benefit to \$11,420. Caledon's Battle now concedes the \$10-a-month increase is largely a token improvement. There are so many seniors on the bottom rungs, a more generous improvement would have negated the savings.²³ As a result, the increase was included as much for political salesmanship as any anti-poverty goal. Those with modest incomes would do even better under the new system because the benefits are not

taxable. For example, the Department of Finance illustrates a fictitious couple with \$18,000 in income, not including OAS and various tax credits. Under the current system in 2001, they would receive \$7,530 in after-tax OAS payments plus \$2,180 in refundable tax credits for a net benefit of \$9,710. Under the Seniors Benefit, they would receive \$10,320 in non-taxable payments, for a net gain of \$610 over the old system.²⁴

Those Canadians who expect their family incomes in retirement to exceed \$40,000 will likely lose under the new system. Currently, retirees see their OAS benefits clawed back - on top of normal taxes - when their incomes hit \$53,000. Benefits disappear completely at about \$80,000. But that is based on individual income. A couple can earn \$100,000 in family income and escape the clawback entirely if their income is split evenly. Under the new system, the Seniors Benefit disappears at \$52,000 in other income for a single and \$78,000 in family income for a couple. The reforms will mean the loss of thousands of dollars in annual income for seniors who have above-average incomes but are not wealthy. Even some middle-class couples will lose big. A fictitious couple described by the Department of Finance booklet receive \$40,000 in non-OAS retirement income, split 60-40

between the man and the woman.²⁵ Under the old system, they would receive \$9,820 in after-tax benefits. Under the Seniors Benefit, they would lose \$2,310 of that, receiving a benefit of \$7,510. (That's still a substantial benefit, representing more than 15 per cent of their total income.) Another couple - described as an accountant and a teacher - expect a combined income of \$90,000 in retirement, split 55-45. Under the old system, they would still receive after-tax benefits of \$6,350; under the new one, they'll get nothing. But Jan. 1, 1936 is a magic date that separates winners from losers. If one partner in a couple was born before that date, the higher-income pair can remain under the OAS system.

The Department of Finance estimates that 75 per cent of current single seniors and senior couples - including nine of 10 senior women - would have done better under the new system if it had been in effect in 1996. About 16 per cent of seniors - with above-average income - would have still received benefits but at a lower level. Nine per cent - those at the top of the income scale - would have gotten nothing.²⁶ However, the government clearly over-stated the number of future seniors who would benefit from the changes. The officials based their assessment of winners and losers on 1995 incomes; given any income

growth between 1995 and 2001, more seniors will fall into the loser category. They also used slice-in-time view, which didn't take into account a person's changing income over the retirement period. Baldwin, the CLC expert, says there is a serious flaw in the way the plan hits couples with higher than average incomes and modestly increases the benefit for poor seniors. ``This analysis forgets that most people enter their elder years as members of a couple and that the singles are, in large measures, surviving spouses of a former couple,'' Baldwin says.<sup>27</sup> ``Thus, while it is true that many of the single elderly may not be made worse off when they are single, they may have been made worse off earlier on in their retirement years when they were members of a couple.''

One of the Finance Department's fictitious couples serves to illustrate Baldwin's point. The bureaucrats call them Boris, a plant manager, and his wife Elizabeth, a hospital volunteer.²⁸ In retirement, Boris will receive \$40,000 in income from a workplace pension and CPP; Elizabeth will have no income. Under the new seniors benefit, they will lose \$780 a year compared to what they would have received under the old system. If Boris lives 10 years, the couple would lose a total of \$7,800 in retirement. When Boris dies, his pension and CPP benefits die with him. Elizabeth

now has to rely on the seniors benefit, which is \$120 more than she would have received under the old system. But Elizabeth, now 75, would have to live another 65 years to recoup the money she lost when her husband was alive. Finance officials estimate that 40 per cent of all retired couples have high enough incomes that they would lose under the new system. But Liberal MP David Walker, who was Martin's parliamentary secretary during the design of the Seniors Benefit, says the Elizabeth-Boris example would represent a rare case in which the income split and types of income create a significant loss for a modest income couple. Most couples who will lose, he says, should be able to anticipate and adjust for the loss.²⁹

On the March Sunday when Martin visited Solange Denis, he was greeted at her apartment building by a dozen protestors, opposing the end to universality. The placard-carrying critics were led by Maude Barlow, an author and chair of the Council of Canadians. Barlow had made her name in opposition to free trade and continues tilting against what she calls the corporate agenda, including cuts to seniors benefits. She says Martin's appearance before Denis and her neighbors was a ``cynical ploy'' designed to ``take advantage of a few people who are happy that

their pensions have been saved.''³⁰ She decries the end of the universal system, saying it will allow the erosion of the entire system over time until it merely represents welfare for seniors. While polls suggest most Canadians accept the government's premise that universal social programs are unaffordable, Barlow's concerns are shared by people in the labor movement, some progressive commentators and even some seniors' groups whose pensions were protected. ''The rationale for Old Age Security as a universal, flat-rate benefit paid to all seniors was that seniors had made a contribution to society and that society as a whole would acknowledge that by paying them benefits in their older years,'' writes pension expert Monica Townson in the booklet, *Our Aging Society*.³¹ ''It is widely recognized that such programs promote social solidarity and are far less vulnerable to cutbacks than social-assistance type benefits which are income and means-tested.''

Dan Benedict, co-chair of the Ontario Coalition of Senior Citizens Organizations, says many current seniors spent their lifetimes fighting to build programs that have been deeply damaged over the past 10 years. Martin has suggested that universality was essentially ended in 1989, when the Conservatives introduced the clawback of OAS benefits. Benedict says

that's no reason to continue in the direction the Tories started. ``If you make a wrong turn on the road, you don't keep driving and hope to find your way,'' Benedict says.<sup>32</sup> ``You go back and get on the right road.'' Benedict says the end to universality will erode political support for the old age benefit as Canadians with above-average incomes begin to resent the cost of aid to those on the bottom half. ``You politically kill something by dividing support for it,'' Benedict says. ``That's why we're so strongly in favor of universality.'' The former assembly worker in an aircraft parts factory and long-time union activist says the Liberal overhaul of senior benefits is a step backwards in the fight for social justice. ``It's an extension of the Margaret Thatcher, heartless approach,'' he says in reference to the former British prime minister and icon of the neo-conservative movement. ``It's charity for the society's losers and the rich can forget about it.''

However, the assertion that universal programs are more difficult to cut than targeted ones is debatable. In tight fiscal times, when debt-laden governments are looking for budget savings, benefits that go to high-income Canadians provide an obvious and tempting target. Queen's University's Courchene questions the equity, even the morality, of providing

generous benefits for well-off seniors when more than a million Canadians children live in poverty. ``We are probably at a stage where, for the first time in our history, the current generation of elderly is better off than the current generation of children,``

Courchene writes in his book, Social Canada in the Millenium.³³ Battle notes that the former Conservative government essentially ended universality in the family allowance program and in Old Age Security through the clawback without much opposition from the public.³⁴ ``There is simply no evidence that income-tested programs have eroded in support,``

Battle says in an interview. In fact, he argues just the opposite is true. To be sustained in times of tight public money, social programs have to be seen to be cost effective and targeted to people who need them. ``At the end of the day, I don't think that most Canadians would believe that it makes sense to be sending cheques to high income seniors,`` he says.

Battle also distinguishes between means-tested welfare programs and income-tested pension plans. The former implies an investigation into need and regular checks into living arrangements and, as a result, carries a stigma. The pre-1952 old age pension involved such a test. The latter is delivered anonymously to any seniors who reports a certain level of income on his

or her tax form. Martin himself says governments simply can't afford universal social programs, with the exception of Medicare. (And we have to wonder how long that will continue given the current funding crunch.) ''I don't think there's any doubt that when there is a shortage of public dollars, you should focus those dollars where they're needed most,'' he says.³⁵

One group who will be clear, unambiguous losers under the new benefit are individual seniors, mostly women, who have no income of their own but are married to wealthy spouses. Battle calls them ''poor wives with rich husbands.'' Under the current system, a woman receives a full OAS benefit if she has less than \$53,000 a year in income, even if her husband is a millionaire. That's because the supplement is based on individual income. By contrast, the Guaranteed Income Supplement is already based on family income. With the new Seniors Benefit, a couple's payment will depend on family income, with the benefit being equally divided between the two. Since women typically have a lower income than their husbands both during working age and in retirement, they are more likely to receive higher OAS benefits now and would be cut back more than their husbands under the new system of shared benefits. A woman whose husband earns more than

\$78,000 in retirement will see her benefits disappear altogether.

Women's groups decry the change, arguing it reverses a longstanding attempt to provide women with more financial independence. Rita Duenisch-Turner says she never knew financial independence until she divorced her husband late in life and got half the family assets. She claims that her husband had tight control over the money throughout their married life, parcelling out a pittance to run the household.

"There were times when I didn't have enough for bread, or milk or to pay the paperboy," she says.³⁶

"It was very demeaning." (Duenisch-Turner's former husband and his new wife reject her account, saying the woman is lying and motivated by bitterness.)

Nonetheless, her story is fairly common for older women, particularly those who did not work and were completely dependent on their husbands. Monica Townson, who represents the National Action Committee on the Status of Women on the seniors benefit, says there is mounting evidence that women do not have equal access to family income, particularly where there is spousal abuse. Townson explored the issue as co-chair of the Ontario Fair Tax Commission, which had a working group on women and taxation. That group noted that abusive husbands often force the wife to

ask for money, give her an allowance, take the wife's money away, or don't let her have access to, or knowledge of, family income. 'The assumption that all income coming into a family is pooled is misleading,' she concluded.³⁷ Even where there is not a case of abuse, Townson argues it is important for women to have independent sources of income that reflect their contribution - often unpaid - to society. Under the family-income system, 'a woman's right to benefits depends on her husband's income,' Townson says. 'Obviously, that undermines a woman's autonomy.'

Battle and the Department of Finance argue the switch to family-income testing is a matter of fairness. 'This ensures fairness and equality in the treatment of all couples, regardless of how their income is split,' says the government budget booklet.³⁸ Battle notes that under the current system, two couples with the same income can receive significantly different levels of benefit, depending on the income split. 'Only a family income-tested elderly benefits system can deliver the same amount to all couples with the same total income,' he says.³⁹ The social policy researcher also believes the elderly benefits system should be structured to reflect the family as the basic economic unit, and not based on a dysfunctional view of marriage. 'The 'poor wives with

rich husbands' argument raises the question as to whether social programs should be asked to try to solve the problem of income sharing between spouses,' he says. He suggests it makes no sense to provide benefits to well-off couples while 635,000 elderly Canadians, 1.3 million children and 2.9 million working age women and men remain thousands of dollars below the poverty line.

While critics slam the new system for its family-based income-testing, most give the government full marks for protecting the benefits from slow erosion due to inflation. In this, the Liberals seemed to have consciously pursued a policy that contrasts sharply with their Conservative predecessors. The Tories were keen practitioners of what Battle calls 'social policy by stealth' - letting inflation reduce the real costs of social programs over time. When the diminutive Denis confronted Mulroney on Parliament Hill, it was over the Conservatives' attempt to provide only partial inflation protection for pensions, a practice known as de-indexation. Finance Minister Michael Wilson's first budget, in 1985, brought in sweeping de-indexation, not only for Old Age Security but for family allowance benefits and in the personal tax system for tax brackets, personal exemptions and deductions. Wilson's budget

meant to limit the automatic increases in each case to the inflation rate minus three per cent; that means the programs would lose three per cent of their value in each year inflation exceeded that amount. The seniors' uproar quickly forced the Mulroney government to back down on the cuts to seniors' benefits, though the rest of the de-indexing remained. Battle has calculated what would have happened had Wilson and Mulroney succeeded on the seniors' program. In 1995, the maximum OAS benefit would have been \$3,679, more than \$1,000 less than its actual \$4,690.⁴⁰ The effect would have been felt more severely by the poorer seniors, who rely more heavily on OAS for their income. The federal government would have spent \$3.5 billion less than it did.

While the Tories failed in their first attempt to rein in OAS costs, they succeeded in their second go. In 1989, Wilson announced that OAS recipients would have to repay 15 cents in benefits - in addition to their regular tax - for every \$1 of net income over \$50,000. Once net income exceeded a certain point - \$72,521 when it was introduced - the retiree would have to pay back all OAS benefits through a combination of tax and clawback. Many seniors opposed the move, saying they had paid for their benefits through years of taxes, including a dedicated levy of

two per cent from 1952 to 1974. However, this time, the government remained steadfast and, in effect, ended universality.

The Conservatives not only introduced the claw, they made sure its bite would deepen over the years, again, by allowing inflation to do the work. The threshold for the clawback was only partially adjusted each year to reflect inflation, meaning it gradually hit people further down the income scale. The original \$50,000 threshold has risen to \$53,215 in 1996. But Battle calculates that, after accounting for inflation, the threshold has actually dropped to \$44,000 in constant 1989 dollars and will be down to \$41,000 by 2000.⁴¹ He also figures the clawback and its growing impact saved Ottawa \$400 million in OAS costs in 1995. Without adjustments, the deepening clawback would seriously erode the value of the Old Age Security benefit for middle-class baby boomers by the time they retire. Courchene's prediction that the OAS would be transformed into a super-GIS - that is, a mere safety net for poor seniors - would be realized through stealth, rather than an upfront policy decision.

In the 1995 budget, Martin promised that one of the principles guiding his upcoming reform would be 'a continuation of the full indexation of benefits to

protect seniors from inflation.''42 That sounded good for older people who remembered Wilson's attempt at de-indexation of benefits 10 years earlier. But those more familiar with the territory were nervous. Clearly, the government was hedging on whether the tax-back threshold would be indexed or whether that especially insidious form of cutback would continue. One Voice, The Canadian Seniors Network, released its own reform principles in October 1995. It called for full inflation protection for OAS benefits, including clawback threshold levels though the group fundamentally opposed the end of universality. Battle says he fought long and hard for the full indexation during the design of the program and feels he won a major victory when it was included in the Seniors Benefit. ''I told them I'd fight them tooth and nail on that one,'' he says.⁴⁴ Martin himself was clearly pleased with the protection and trumpeted it loudly in his budget speech. The full indexation is ''an important improvement for all seniors who worry about eroding benefits,'' Martin said in the House of Commons. ''The partial indexing of the clawback threshold will cease to be an issue.''45

Even with full inflation protection, however, seniors who rely on the government benefit could fall increasingly below the poverty line. Ironically, their

chances of falling into poverty increase if working-age Canadians break out of a decade-long slump and begin to see their earnings outpace inflation again. That's because the most common definitions of poverty - Statistic Canada's low-income measure and low-income cutoff - are relative. They measure a person's well-being compared to others in his or her community. A city-dwelling couple earning \$25,000 a year is now considered to be marginally above those poverty lines. With price indexation, their benefits hold their purchasing power; the couple can buy the same amount of food, clothing, heating and entertainment, but no more. If the rest of the community saw their real incomes double over 10 years, the couple would, by definition, now be below the poverty line, and hence, poor. In fact, the measures tend to gauge income disparity rather than absolute poverty, particularly in North America's relatively affluent society. The CLC's Baldwin notes that the OAS was originally designed to help middle-income workers maintain a standard of living and replaced 15 per cent of the average wage.⁴⁶ But if the benefits erode because wages are growing faster than prices, that income replacement goal will be undermined. "In order for the Seniors Benefit to retain its original relationship to the wage and salary structure, the

thresholds need to be wage indexed," he concludes. In fact, the pre-tax benefits have held up quite nicely compared to wages in recent years because average wages have barely kept up with inflation.

Baldwin and Townson both argue the government has largely abandoned the income-replacement goal for the OAS. They suggest it is becoming "welfare for seniors." Battle disputes that. He suggests middle-income Canadians will still receive sizeable benefits. For example, a couple with other income of \$36,000 would get \$8,310 in tax-free payments in 2001. Even a couple with \$50,000 in income would get \$5,510. Malcolm Hamilton, a pension expert with William Mercer Consultants, says the biggest losers from the system are those who can most afford it. "We're not talking about low income here; what we're talking about is how many months you can stay in Florida."⁴⁷ Hamilton suggests that a two-income, working couple who earn more than \$100,000 - not an extravagant income for urban homeowners with children - and have decent pensions would be the biggest losers. "The two-teacher family, for example, could see their benefits wiped right out," he says.

Many experts also worry about the relatively steep rate at which the benefits decline. Starting at \$26,000 in income for a couple, the benefit is reduced

by 20 cents for every additional dollar earned in retirement. Given that each additional dollar is also taxed, Hamilton estimates some people could lose up to 60 cents of each added dollar of income.⁴⁸ He suggests the steep grade could discourage people from saving as they approach retirement, and even pull money out of RRSPs prior to age 65. An extra dollar put into an RRSP and then pulled out in retirement would not only be taxed as income, it would also reduce the Seniors Benefit by 20 cents. Instead of saving, people might be better off paying off a mortgage or doing other things to reduce their future cost of living. Or they may save outside the RRSP system with after-tax dollars since they could withdraw that money once they retire without counting it as income and losing benefits.

Battle discounts the notion that there would be a large disincentive to save. ``I just don't buy it that people would not put money into an RRSP - especially given the tax benefits - just because they'd lose a few dollars of benefits,'' he says.⁴⁹ He concedes, however, that the system could encourage seniors to cheat by hiding income. He also agrees that the system could discourage seniors from taking part-time work, either to supplement their income or to keep busy. Hamilton figures a worker over 65 would be

taking home about 20 cents for every dollar in gross pay. And given that many experts are warning that Canadians will have to work past 65, Hamilton questions the wisdom of such a high penalty.

Baldwin adds another concern over the steep decline in benefits: One form of income being effectively taxed back at a higher rate than other sources. He argues a dollar of income - whether from Seniors Benefit, Canada Pension Plan, a private plan or investments - should be taxed the same rate. Baldwin says a future middle-income senior who relies on the Seniors Benefit for nearly a fifth of his income would be taxed at a higher rate than an upper income retiree who receives no benefit. (Although the Seniors Benefit is non-taxable, the declining scale of benefits represents an effective tax rate.) The union economist suggests Ottawa should look to a more progressive tax system, rather than single out the government benefit for special treatment. ''Why is it that we feel free to impose a 20-per-cent tax-back on seniors' incomes above \$25,000, but we ignore the seniors' incomes from other sources and we have no notion that equity requires a similar approach to incomes in the six- and seven-figure range for corporate executives who may receive no income from transfers?'' he asks.⁵⁰ Battle responds that

there is a big difference between not providing a benefit and taxing back income earned from non-government sources. And he argues most Canadians would be more upset about having a dollar taxed away from them than they would about not receiving a benefit that low-income people get.

In order to get significant savings, Ottawa had to phase out the benefits more quickly than many would like to see. Battle says Ottawa's restraint options were limited: have an even steeper slope on the benefits; cut more deeply into the middle-income people; or delay the retirement age.⁵¹ Even with the fairly deep cuts at the upper end, the government estimates it will only save 10.8 per cent of the old program's cost by the year 2030. (That comparison assumes full inflation protection would have been restored to the clawback threshold to avoid the complete erosion of the plan.) Townson, Baldwin and some seniors insist even those cuts are too deep, but many wonder whether they will be enough. Martin, himself, claims the savings are enough to keep the plan on track. He says a certain amount of rising costs are inevitable. "I think we've got to understand we've got an aging population and that the reasons those costs are going up is that there is going to be a much higher per cent of our population

that is going to be in retirement at that time," Martin told reporters on budget night.⁵² "I believe we have dealt with the issue of sustainability."

Others aren't so sure and the Finance Department hasn't persuaded people with the background document that accompanied the budget announcement. The officials make little reference to the changing labor market. How will the growth of non-standard work affect the old age retirement system? More women are working and building private pension and CPP credits, but often they are in part-time or temporary jobs. More older men are working non-standard jobs or are being forced into an early retirement in which they deplete any savings they may have had. The combination could result in poorer retired couples than we've seen in the last generation but, perhaps, elderly widows won't have to rely exclusively on government benefits. "The biggest negative is the goddamn labor market," Battle says in an interview.⁵³ "There are so many people who are going to have patchy coverage from private sources and patchy public income from the CPP - with all the ups and downs in the labor market - that there is going to be a hell of a lot of pressure on the public retirement system." The government officials gave no indication that they were even aware of those trends, let alone that they

took them into account in the design and costing of the plan. Nor have they apparently taken into account proposed cuts to CPP retirement and disability benefits, both of which could force older Canadians to rely more heavily on the seniors benefit. One Finance Department official says it would have been virtually impossible to factor in many of those issues, since it would have involved mere guesswork about their future impact. Instead, the department used an econometric model which projects past and current income patterns into the future. ''To the extent we have a good take on the past and the past resembles the future and we have a good model, then we've taken these things into account,'' the official says.⁵⁴ As for potential CPP cuts, he says decisions hadn't been made when the Seniors Benefit was designed, so there was no way they could be accounted for.

By trading off universality for cost control, Martin's Seniors Benefit represents an attempt to put the retirement system on a politically sustainable footing. Most low- and modest-income seniors will be better off; the program will still contribute to income replacement for many, moderately-affluent couples, and people have ample warning of the changes. It is critical that the government instill confidence among younger Canadians, who don't believe the system

will be there for them and may not support it in the future. ''To the extent that the government can sell its new old age pension as sustainable and fair, it may restore confidence in and generate public support for the public pension system,'' Battle says.⁵⁵ But unless incomes start growing again and the government solves its budget problems, the reforms are probably not the last, given the relatively modest savings achieved.

There is a troubling paradox in Martin's effort to restore confidence in the system. By cutting benefits to save them, Martin is sending the message to working-age Canadians that no pension promise is written in stone. People are going to have to rely even more on their own RRSPs and pensions, even as tough economic times make it more difficult for many to save. Worried Canadians will also be looking more to the Canada Pension Plan for retirement income, though polls suggest few have much faith in it. It is critical, then, that governments come up with a credible response to the perceived problems with the CPP, so that working age Canadians feel they can rely on it.

CHAPTER FOUR

Preparing for the deluge:

Reforming the Canada Pension Plan

Tom Kent shared in the optimism of the mid-60s, when incomes were growing, interest rates and inflation were low and Canadians were breeding like rabbits. As principal policy adviser to the then-Liberal government, Kent played a prominent role in the 1966 introduction of the Canada/Quebec Pension Plan. The pension plan, funded by employer-employee premiums, was the final leg of Canada's three-pillared public retirement system. The other two had been set in place in the 1950s. They are the old age security system, funded from general government revenues, and tax assistance for workplace pensions and other private savings. The CPP was set up to be largely a pay-as-you-go system, meaning the premiums of current workers would pay for the benefits of current retirees. Over the next three decades, Kent watched the erosion of the key factors that support such a system. The baby bust - fertility rates plunged just as the CPP was introduced - meant there will be fewer workers to support the massive generation of baby boomers who will retire between 2012 and 2030. Meanwhile, incomes have stopped growing faster than inflation, and interest rates have stayed stubbornly high. Together, those factors have undermined the CPP, but not the dire need that led to the plan in the first place. Kent, a CPP pensioner himself now, says

governments can't lose sight of the original rationale as they deal with the rising cost of the plan. ''The need for people to have a decent retirement income is not any less than it was 30 years ago and this is a reasonably fair way of providing it for people who do not have a lot of other resources,'' Kent says.¹

Every five years, federal and provincial finance ministers have to sit down to review the Canada/Quebec Pension Plan and set premium rates for the next 25 years. The most recent round - which began with a finance ministers' meeting in December 1995 - came at a critical time. Public confidence in the pension system had evaporated. And confidence is crucial to a pay-as-you-go system: those paying into the plan for today's seniors must believe they too will eventually benefit. Otherwise, they will not support it politically. But to borrow some hyperbole from the U.S., about as many Canadians believe in the long-term viability of the CPP as believe that Elvis lives. Canadian baby boomers - those between 30 and 50 - have little faith that the CPP will survive their collective weight and be there for them through their retirement. Those on the tail end of the baby boom and younger are even more skeptical; many feel they'll be asked to pay sky-high premiums for a plan that will be bankrupt by the time they need it.

In the months leading up to the finance ministers' meeting, newspaper headlines warned darkly that the pension system was going broke, based in part on a mistaken reading of a federal accounting of the plan released the previous February.² The report of the chief actuary warned that the CPP fund - a relatively small amount meant to offset wide swings in premiums - would be ''exhausted'' in 2015 with the current premium schedule. But he also suggested small changes to scheduled increase in premiums over the next 20 years that would avert that problem. The Reform Party and some conservative economists have highlighted the plan's estimated \$575 billion unfunded liability, which represents outstanding pension obligations for which no funds were set aside. Some conservative critics have argued the country would be better off by scrapping the supposedly bankrupt plan entirely and going to a system of private savings.³

In an interview in the summer of 1995 for a *Toronto Star* series on the pension system, Finance Minister Paul Martin insisted the problems with the CPP were fixable. ''We intend to deal with it,'' Martin said. ''And we intend to deal with it in a way that is going to make it sustainable.'' ⁴ The government's chief actuary, whose February 1995 report had contributed to the pessimism over the plan, was

equally reassuring in an interview with *The Star* for the same series. ``The concerns of people that the plan is going broke are not valid,'' said Bernard Dussault, who evaluates the plan's funding needs. ``It is expensive but it is not bankrupt. It may be too expensive but there are things that can be done to change that.'' ⁵ The same day those comforting statements appeared in *The Star*, its readers were asked to respond to a telephone poll and answer the question: Do you have confidence in the future of the Canada Pension Plan? More than 430 of the 523 readers who responded said they did not. ⁶ No assurances about the underlying soundness of the plan appeared to persuade the public, who continued to tell pollsters they had little confidence in the plan.

The Canada\Quebec Pension Plan is the backbone of the country's public retirement system. It provides retirement pensions for the elderly, survivor benefits for spouses and children of working-age contributors who die, and disability benefits. The CPP and its Quebec counterpart, the QPP, together accounted for about 17 per cent of seniors' income in 1993, an amount that can be expected to grow as more working women qualify. ⁷ (Old Age Security, by contrast, accounts for 42 per cent of senior women's income and 24 per cent of senior men's.) CPP benefits are

calculated on the number of years a person has worked and contributed to the plan and on the income he or she has earned. The benefits are fully indexed to inflation. The maximum pension in 1996 was \$8,725 a year.⁸ For a person who earned the average industrial wage or less, the retirement benefit equals 25 per cent of their average lifetime earnings. By the standards of many industrialized countries, the earnings replacement is low and leaves a senior who is dependent on CPP and other government benefits with an income below the Statistics Canada poverty line.⁹

Though reports of the CPP's imminent demise were greatly exaggerated, there is no doubt there are some formidable political and economic hurdles to be overcome. At a February 1996 meeting in Ottawa, the finance ministers agreed that Canadians simply won't accept a doubling and even tripling of premiums for the same CPP benefits. A discussion paper released after that meeting warned about the escalating costs, measured as a percentage of Canadians' earnings that would be subject to premiums.¹⁰ (CPP premiums are paid on "insurable earnings;" in 1996, the maximum insurable earnings were \$35,400 and from that is subtracted a basic exemption of \$3,500.) In 1966, when the plan started, it was forecasted that the cost would be 5.5 per cent of insurable earnings when the

last of the baby boomers had retired in 2030. Those costs are now expected to rise to 14.2 per cent by 2030.¹¹ Premiums in 1996 were 5.6 per cent on insurable earnings. ``There are serious concerns that future generations will be unable or unwilling to pay contribution rates in the 14 per cent range,`` the federal-provincial paper concluded. As a result, the ministers laid out a series of options meant to ``restore fairness to the Canada Pension Plan, and to preserve it for future generations.``

But the finance ministers took a narrow view of CPP reform, offering only a small range of sooner-than-planned premium increases and cuts to benefits. There was no discussion of the income needs of Canadians in retirement, what portion of that income would derive from the CPP, or how future seniors might make up any cuts to benefits. Nor did the ministers provide much of a look at grand proposals for reforming the CPP - including a Reform Party plan that would essentially privatize it, or calls from many experts - including Kent - to remove disability from the plan and create a national disability benefit which would replace Workers Compensation, Canada Pension Plan and social assistance. One of the most controversial proposals - short of privatizing the plan itself - is to delay the retirement age. But that

proposal also got short shift, a mere six paragraphs in the 62-page document, as ministers insisted such a move would be a last resort. And while a weakened economy was fingered as part of the cause of the CPP's problems, there was no discussion on how the ministers and their governments could improve the economic prospects of Canadians, particularly younger workers who will be shouldering the burden as boomers retire. Says pension expert Monica Townson: ''The best way to ensure stability of funding is through macro-economic policies that focus on full employment and productivity growth.''12

However, Liberal Finance Minister Paul Martin clearly wanted to avoid a sweeping discussion that would get bogged down in a philosophical debate among the federal government and 10 provinces. He preferred a more limited exercise which would have a better chance of producing results. To reform the plan, Ottawa must gain the consent of at least seven provinces, presenting two-thirds of the population. In an interview, Martin called the CPP reform ''a true test of federalism.''13 To him fell the daunting task of brokering a deal that would be acceptable to staunchly conservative governments in Ontario and Alberta as well as NDP ones in British Columbia and Saskatchewan. Complicating matters further was

Quebec's unique role: it runs its own plan but has a say in the reform of the federal one. Many observers feared the Parti Quebecois government would use the exercise to demonstrate the failure of federalism. But in taking a minimalist, pragmatic approach, Martin and his colleagues risked failure in their most important task: re-establishing confidence in the system itself.

For many in the pension debate, class warfare has been replaced by an intergenerational battle. The government's critics insist the intergenerational aspect has been hyped to provide a pretext for drastic cuts to the program. But Queen's University economist Thomas Courchene called the projected huge increase in premium rates ``a ticking societal time bomb.''

``Apart from the debt burden that the young will have to shoulder . . . we (will) also saddle them with a range of payroll taxes that reduce their employment prospects and, if they are employed, their take-home pay,' ' Courchene wrote in his 1994 book, Social Canada in the Millenium.¹⁴ Meanwhile, current retirees worry about ``seniors bashing'' from working-age people who resent the fact that debt-financed government programs benefit some affluent pensioners who can afford to travel the world and own retirement condos in Florida and Arizona.

It's clear that there are winners and losers

in pay-as-you-go schemes and that the breakdown often depends on age. Someone like Tom Kent - who was well advanced in his working life but not near retirement when the CPP was introduced - will get far more out of the plan than his contributions might warrant. That continues to be true for today's older workers, who paid premiums of less than five per cent for more than 25 years after the plan was established. But rising premiums reduce the attractiveness of the CPP. Baby boomers and especially post-baby boomers will get less out of the plan than their elders. In fact, they may get less than they would if they had taken their premiums and invested them in a mutual fund, says economist Bill Robson, of the C.D. Howe Institute, a business-supported think tank.¹⁵ The World Bank highlighted that intergenerational issue in its 1994 report on public pension plans, Averting the Old Age Crisis. "In all cases, (with pay-as-you-go systems), earlier generations have done better than later generations, regardless of income," the report says.¹⁶ "That is, covered workers aged 30 to 50 at the inception of the scheme gain, whereas their children and grandchildren always lose."

Lucie Bohac Konrad is executive director of the Canadian Youth Foundation, a government supported, non-profit research group. She says many young people

worry they are facing a triple whammy: that after being shut out of the best jobs for much of their working lives, they'll be forced to pay huge payroll taxes to support a retirement system that the baby boomers will bankrupt. ''Young people do not expect they will get anything out of these plans,'' Bohac Konrad said in an interview.¹⁷ ''And they worry they will be forced to bear a disproportionate brunt of the cost of social programs which they won't benefit from.'' She adds that many younger Canadians are frustrated that their views are not being heard as decisions are taken that will affect their lives and financial well-being long into the future. ''Nobody seems to be looking at it from the perspective of the younger generation,'' she complains.

Queen's University economics professor Lisa Powell had her public administration students attend a pension conference on campus in early 1996. She says her students remain supportive of the plan, despite the bleak assessment they heard at the conference of its benefit for them. The 29-year-old professor says her students don't feel any resentment toward the older generations. ''They don't feel any immediate animosity, but I think they may well change their minds in two or three years when they're getting into the labor force and they're facing tougher times.'' ¹⁸

Some defenders of the CPP feel the inter-generational conflict is being exaggerated by the media looking for a good story and conservative economists intent on undermining the plan. Supporters of the plan concede that pay-as-you-go plans provide the most generous benefit to the first generation of pensioners. But they also note that in Canada, that generation had survived the Depression and fought in the Second World War and therefore didn't enjoy the same affluence as today's workers. And they argue that transfers among the generations are a hallmark of western economies, whether by parents supporting children or workers supporting seniors. The difference, in the pension system, is that the transfer is provided publicly rather than privately.

Toronto-area retiree Rae McLeod notes he pays thousands of dollars each year in property taxes to support local schools, and he's happy to pay to educate other people's kids. "It's all part of the total picture," says the 75-year-old retired insurance executive in an interview.¹⁹ "You may be losing it on the apples but you are getting it back on the grapefruit." Halifax actuary Bruce Macdonald, in a study prepared for the Human Resources Canada, notes that "intergenerational transfers are common to all societies."²⁰ He cites the roads, airports,

hospitals, sewers and power installations which were built in the post-war era, in part with capital provided by CPP premiums, and which will continue to benefit younger Canadians. ``All these transfers are from the present and past generations to future ones and so in the opposite direction to that of concern in the CPP,`` MacDonald writes. He concedes, however, the aging of the population will exacerbate the problem.

Is the CPP really off the rails so badly? Some experts insist it is not. ``The argument being put forward is that we can't afford these benefits and in my view there is absolutely no evidence of that,`` says Monica Townson, a member of the government-appointed Canada Pension Plan Advisory Board.²¹ She noted that Canada's payroll taxes are quite low compared to other developed countries. Many European countries and even the United States now have social security premiums at the levels forecasted for the peak of the Canada Pension Plan rates. (Most also provide much more generous benefits.) In a booklet Our Aging Society, published by the Canadian Centre for Policy Alternatives, Townson cited the World Bank report which compared Canada's employer-employee payroll taxes for pensions against those of other industrialized countries. In 1991, Canada's rate was 4.6 per cent of insurable earnings, compared to 12.4

per cent in the United States and an average of between 16 per cent and 18 per cent in most other countries.²²

Halifax actuary Macdonald takes the comparison a step further in his study for the federal Department of Human Resources Development. He notes that Canada's premiums are calculated on a much smaller portion of earnings than is the case in the other leading industrialized countries.²³ As a result, the absolute amount paid in premiums is far less - though so too is the amount of the pension. In fact, Canada's public pension system is rather miserly by international standards. In 1991, according to the World Bank, Canada's spending on public pensions amounted to 4.2 per cent of its Gross Domestic Product, the annual measure of the economy. In the U.S., public pension costs represent 6.5 per cent of GDP, while the average for the leading industrialized countries that make up the Organization for Economic Co-operation and Development was 9.2 per cent.²⁴ Concludes Macdonald: ''It thus appears that, by themselves, the long-range CPP contribution rates should be acceptable and should be considered affordable.'' ²⁵ He rejects the notion that future Canadians will withdraw their support for the CPP as premiums rise - so long as they can be persuaded the plan will be there for them. ''It can

well be queried why Canadians would refuse to make contributions as levels comparable to, or lower than, those in other (industrialized) countries, including the U.S.A.,'' Macdonald says.

His conclusions were supported by another study produced for the Human Resources department, this one by McGill University economist Paul Dickinson. He calculated that, based on earnings growth of one per cent a year after inflation, the disposable income of someone earning the average industrial wage would grow by 32.4 per cent between 1995 and 2030, even after accounting for inflation and rising CPP premiums.²⁶ Dickinson concluded that ''the fears about the viability of the CPP are exaggerated.'' Senior officials in the department supported the findings of those two studies in a leaked memo produced by the Income Security Programs Branch. The Human Resources officials argued that the CPP ''is projected to be affordable according to a range of definitions of affordability.'' ²⁷ And they rejected finance ministers' contention the system is unfair to post-baby boom generations: ''The intergeneration transfers that inevitably accompany a pay-as-you-go plan are reasonable.'' What was needed to restore confidence, concluded the HRD officials, Macdonald, Dickinson and Townson, was not fundamental

reform but a communication strategy to dispel the 'myths' that had arisen concerning the soundness of the plan.

Clearly, however, the finance ministers chose to ignore that advice as politically naive and based on rosy forecasts. It would take more than a public relations exercise to persuade Canadians that their pensions were safe, they concluded. Coming out of their February, 1996 meeting, the finance ministers all agreed that a forecasted 14 per cent premium was unacceptable. Advisers to federal Finance Minister Paul Martin say the comparisons with other countries miss the point. The concern isn't so much the level of premium but the rate of increase and the impact that would have on job creation and generational fairness.²⁸ Business groups had been telling governments for the last several years that the quick runup in payroll taxes since the late 1980s had created a serious impediment to employment growth. Townson, however, notes there has been no clear link established between higher payroll taxes and unemployment. She points to a 1994 OECD jobs study which concluded that rising payroll taxes have only 'a limited effect of employment.'²⁹ However, that study found that the higher payroll taxes do result in lower wages over the longer term as business passes

along the cost. Quebec Finance Minister Bernard Landry said the issue was one of equity for the next generation; baby boomers should be expected to pick up a larger share of their own pension costs so as not to leave the younger generation holding the bag, he said.³⁰

In the July 1995 interview, Martin complained that the problems with the CPP should have been anticipated and dealt with years ago, so that the corrective measures could have been milder.³¹ 'This is a problem that successive governments should have dealt with a number of times over the last decade have not,' he said. In fact, during a major debate over public pensions in the early 1980s, the issue wasn't how much the CPP should be cut back but whether it should be expanded. While the demographic issues might well have been understood by then, some of the more serious economic problems - high real interest rates, a steep decline in productivity and the absence of growth in after-inflation incomes - had not yet become entrenched. In fact, throughout the 1980s and as late as 1987, governments improved the benefits.

The February 1996 federal-provincial discussion paper blamed four factors for the steep rise in projected contribution rates from the time the CPP was introduced. The commonly touted villains -

mis-management and poor investment results - were not among them. Rather, the key factors were:

- demographic changes;
- economic changes;
- benefit enrichments, and
- the growth in disability.

Together, they account for 8.7 percentage points of the 14.2 per cent contribution rate which will be need to fund the plan in 2030.³²

Yet, many Canadians cling to the belief that, if only it were managed better, the CPP would not face such problems. In hearings before a federal-provincial panel this spring, many witnesses argued the plan could be fixed by better management, or more astute investment. But there is no such easy solution to reduce the required premium rate. One of the most frequent criticisms involve the CPP's investment policy. Under the original 1965 deal which created the CPP, all surplus money collected is lent to the provinces at an attractive rate of interest. The provinces borrow from the CPP at the federal bond rate, and because Ottawa's credit rating is better, the interest rates were lower. However, Bernard Dussault, the chief actuary who oversees the financial soundness of the plan, says the investment policy had very little effect on the plan's viability.³³ That's

because the fund was never very large compared to future obligations; in early 1996, it had about \$40 billion, or two years worth of benefits. The fund is meant to cushion the plan from sharp changes in contribution rates due to sudden economic changes. Dussault says the fund earned on average about one percentage point less than private sector plans and, in fact, has been doing quite well since the mid-'80s when it invested in long-term provincial bonds at high interest rates. According to the federal-provincial discussion paper, the projected 14.2 per cent premium rate in 2030 would be lowered by less than a quarter percentage point if the fund had earned another percentage point rate of return.³⁴

Similarly, administration costs of the CPP are not out of line with private sector plans. In fact, the federal-provincial paper says administration costs of 1.3 per cent of the program's expenditures are lower than such costs in the private sector, thanks to economies of scale.³⁵ Ottawa is overhauling the CPP's administration with a view to reducing costs further, but such reforms would have a minimal impact on premiums.

The biggest factor in the rising costs have been the demographics, or the aging of the population. The simple fact is that more Canadians will be

retiring starting in 2011 (or 2012, according to demographer David Foot) and they can expect to live longer in retirement than their parents did. On average, Canadians are now living 3.1 years longer after age 65 than they did in 1966. And by 2030, 65-year-olds can expect to live 4.5 years longer than they would have expected when the CPP was introduced.³⁶ As a result, benefits are paid over a longer period of time. At the same time, the retirement of the baby boom generation will mean a steep increase in the number of retired Canadians, from 3.7 million now to an estimated 8.8 million in 2030.³⁷ That horde of retirees could be supported more easily if not for the baby bust which started just as the CPP was introduced. With relatively fewer Canadians entering the workforce since that post-baby boom group matured in the mid-1980s, there will be fewer people paying contributions than the architects of the CPP had anticipated.

Taken together, that change in demographics has added 2.6 percentage points to the forecasted 2030 contribution rate, according to the federal-provincial discussion paper.³⁸ Short of active euthanasia or a steep rise immigration, little can be done to offset that demographic trend. Given that the writer himself will hit 65 in 2020, we won't consider the first

option, though there may be growing societal resistance to expensive medical interventions to extend the lives of the elderly. Higher immigration levels could help offset the lower fertility levels, and may be acceptable if the retirement of the baby boomers causes a need for labor. But given the pressure to reduce rather than increase immigration, it is doubtful that retirees in 2025 can expect youthful immigrants or children of immigrants to support them.

Architects of the CPP also wrongly assumed the Canadian economy would continue its phenomenal record of post-war growth. The pension plan was introduced when the economy was booming, interest rates were low and after-inflation incomes were climbing at a stunning clip of five per cent a year. Given those conditions, the pay-as-you-go scheme made perfect sense and was long supported by the Canadian Institute of Actuaries. Many economists expected those conditions to continue into the future. That optimism was captured in an oft-quoted 1967 editorial for the U.S. magazine, *Newsweek*, by economist Paul Samuelson: "The beauty of social insurance is that it is actuarially unsound. Everyone who reaches retirement age is given benefit privileges that far exceed anything he has paid ... With real incomes growing at

some three per cent a year, the taxable base upon which benefits rest in any period are much greater than the taxes paid historically by the generation now retired. . . A growing nation is the greatest Ponzi scheme ever contrived.''³⁹ But income growth slowed to 2.1 per cent in the 1980s and has stalled completely in the 1990s. As a result, the base of earnings upon which the plan rests is no longer expanding, meaning the premium rates must increase. The stagnant income over the last 15 years has added an estimated 2.2 percentage points to 2030 contribution rate, the federal-provincial paper says.⁴⁰ However, it contains no discussion on what can be done to reverse that trend, suggesting instead that it would be ''imprudent to assume any change for the foreseeable future.''

The Canada Pension Plan has been improved and enriched in a number of ways since it was introduced. All told, benefit enrichments have added 2.4 percentage points to the 2030 cost, compared to what, in 1966, it was assumed it would be.⁴¹ The term ''enrichment'' might suggest that the governments added frills or bells and whistles to plan. However, Bob Baldwin, a pension expert with the Canadian Labor Congress, says those improvements came because they were needed, because the original design of the plan left some gaping holes.⁴² For example, in 1975, two

years after the first Arab oil embargo sent petroleum prices and inflation soaring, the then-Liberal government added full inflation protection to the CPP benefits. Previously, there had been a two-per-cent ceiling to the cost-of-living adjustment, a cap which would have dramatically reduced the value of CPP pensions through the high inflation years of the late '70s and 1980s. That same year, a little reverse sexism was corrected when men also became eligible to receive survivor benefits on the death of a spouse who had contributed to the plan. A few years later, governments took a small step to offset the more systemic sexual discrimination in the labor market, which had reduced women's CPP eligibility. In 1983, the CPP was amended to benefit mothers (or fathers) who have years of low or no earnings because they were caring for a child under age seven. Now, those years - retroactive to 1978 - can be excluded from the calculation of lifetime earnings, in order to bolster the size of the pension.⁴³

In his February 1995 report that set alarm bells ringing, government actuary Dussault noted higher-than-expected incidence of disability claims was dramatically driving up CPP costs.⁴⁴ He calculated that the unforeseen rise in disability would add 1.5 percentage points to the plan's contribution rate by

2025. Disability payments were expected to amount in 1996 to \$3.3 billion, or about 19 per cent of total expenditures. A decade before, those benefits represented only 13 per cent of CPP spending. Experts blame a number of factors, with a different stress depending on their point of view. Labor economists say the main culprit was the brutal recession of the early 1990s which resulted in widescale layoffs. Unhealthy workers who had been carried on payrolls were laid off and had to apply for disability benefits.⁴⁵ At the same time, the provinces and insurance companies were urging disabled workers who applied for benefits under their programs to look first to the CPP.⁴⁶ The federal-provincial discussion paper also highlighted a number of legislative changes that made it easier for people to receive disability cheques, and they noted that the administrative guidelines had already been tightened up.⁴⁷ Actuary Robert Brown, in a report for the Canadian Institute of Actuaries, said the jump in disability benefits resulted from an increasingly slack criteria for eligibility.⁴⁸

In February 1996, the finance ministers offered a menu of options for ``fixing'' the CPP. At the top of the list was an accelerated schedule of premium increases in order to offset the need for even higher rates when the baby boom generation retires.

While all the ministers agreed that premiums would have to rise, the more conservative of the bunch - in particular, Ontario's Ernie Eves and Alberta's Jim Dinning - insisted benefits would have to be pared back and administration tightened to limit as much as possible the need for payroll tax increases. In contrast, Quebec's Landry insisted there could be no cuts to benefits, that the premiums would simply have to increase as much as necessary to maintain the plan and have the current generation of workers shoulder more of the burden for their own retirement.

Although presented as an ``option paper,`` the ministers left no doubt about the preferred approach. ``The fairest way to equalize the costs of paying for the CPP across the generations would be to quickly raise the CPP contributions from today's 5.6 per cent to a higher level which can then be maintained without further increases,`` the discussion paper said.⁴⁹

``The contribution rate would cover the costs of each contributor's own benefits, plus a share of the burden that has built up because both current and past contributors have paid far less than their benefits are worth.`` The federal finance officials, who largely wrote the paper, calculate that premiums would have to more than double to 12.2 per cent within six to eight years to achieve that so-

called ``steady state`` rate. The existing schedule sees the premium rate climbing from today's 5.6 per cent to 7.1 per cent in six years and 7.6 per cent by 2004.⁵⁰ At a 12.2 per cent rate in 1996, Canadians who earn at least than the average wage would have paid more than \$1,000 a year in additional CPP premiums, or \$1,945.90 versus the actual \$893.20. (Individuals get a tax credit for CPP premiums paid, so some of that increase would be offset by a lower tax bill.)

However, the finance officials said the steady-state contribution rate could be reduced significantly by cutting benefits. A 7-per-cent reduction in the cost of the various benefits would lower that steady-state rate to 11.3 per cent. A 10- or 15-per-cent cut in expenditures would reduce the target rate to 10.9 per cent and 10.3 per cent respectively.⁵¹ If the rate was 10.3 per cent in 1996, employees and employers would have each faced a maximum premium level of \$1,642.85, nearly double its actual 1996 level. The impact on the self-employed is even greater, since they have to pay the full premium, which is normally divided equally between employers and employees.

Many Canadians blanché at the notion of governments having access to a super-fund of Canada Pension Plan contributions. Under the financing plan

suggested by the finance ministers, the CPP fund would grow to contain six years worth of benefits in roughly seven years. Canada's chief actuary forecasts total CPP expenditures of about \$30 billion in 2003, meaning a fund of about \$180 billion.⁵² One of the most common criticisms about the CPP now - though not really valid - is that its fund was used as slush money by spendthrift provinces. To be politically acceptable in today's anti-government climate, any increase in the fund would have to be transparently designed to maximize the return on the investment, and not used to subsidize the current public spending.

Finance Minister Paul Martin has argued that it would make sense for a large CPP fund to be invested in such a way as to maximize the return to it. In a question-and-answer session with a financial audience in New York City after his 1996 budget, the federal minister noted that returns to the CPP had been ``reasonably high'' over the past decade. ``But there is a pretty strong consensus that as we build up the CPP fund, as most of us think we should do, that we should be seeking out the highest return,'' Martin told the business people.⁵³ ``In other words, we should basically invest the bulk of it in capital markets.'' However, it is not clear the provinces want to give up their call on CPP funds, a right which was

a key incentive for having them agree to the plan - which was considered to be in their constitutional jurisdiction - in the first place. Liberal MP David Walker chaired a federal-provincial, cross-country series of hearings on CPP reform. He says the vast majority of people were adamant that the CPP had been mismanaged financially, a view he disputes. Still, Walker says the provinces may have to agree to give up their preferential call on the money in order to help sell other difficult reforms. The current investment strategy ``was almost universally rejected in the hearings,'' Walker says. ``People felt very strongly the money has been mis-used.''54

Many critics on the left worry the new investment strategy is merely a get-rich scheme by Bay Street. financiers and the country's big banks. The banks own the brokerage houses that could make massive profits by executing trades for the CPP Fund. At a CPP conference organized by the Caledon Institute on Social Policy, activists from seniors groups were scathing in their personal attacks on representatives of business, especially the C.D. Howe's Robson.⁵⁵ Walker also chaired a forum on CPP investment strategy in Toronto. The sessions were dominated by representatives from banks, investment dealers, insurance companies, and pension fund professionals.

Those business people were virtually unanimous in their view that any giant CPP fund should be invested according to strict market principles, with no preferences for provinces or political direction as to where the money be invested. The lone union representative at the morning or afternoon session was Hugh MacKenzie, director of research for the United Steel Workers Union. MacKenzie insisted the public savings of Canadians should be used for public good through preferential lending to the provinces and an absolute restriction on foreign investment.⁵⁶ 'There is a social interest in every pension fund investment,' MacKenzie told the meeting. 'I would argue the CPP beneficiaries have an interest in both the return and the social objectives.' He also noted he was the only participant who did not have a conflict of interest over the outcome.

The CPP discussion paper laid out two possible investment policies. One would see the money lent to the provinces at a range of maturities - rather than than 20-year term now used - and at market rates. 'These changes would help the provinces better meet their borrowing need, and could enhance the return on CPP investments,' the paper said.⁵⁷ If the fund exceeded the borrowing needs of the provinces, the excess would be invested on capital markets,

rather than being taken up by the federal government. The other option is to invest the bulk of the money in financial markets, which provide a mix of assets including government bonds. However, Ontario Finance Minister Eves has questioned whether the CPP fund should have the same 20-per-cent foreign investment rule as private plans. He argues it makes sense to have Canadians' pension money working in Canada.

The ministers' desire to shift more of the burden for paying for the CPP onto the boomers' shoulders means rapidly escalating premium costs. It seems incongruous that the finance ministers would find a 14-per-cent contribution rate in 2030 so objectionable, but contemplate driving it up to 12.2 per cent in a mere six to eight years. Based on work done by Finance Department economists, the discussion paper claims the move to fuller funding 'would have positive economic impacts in the longer term - increased national savings, more investment, higher capital stock, reduced foreign indebtedness - all leading to higher national income.'⁵⁸ Such benefits would provide a stronger economic base to sustain the CPP when far more seniors have retired, the paper claims. However, the departmental background paper, The Economics of Canada Pension Plan Reforms, suggests that those economic benefits will accrue over a much

longer period of time than the federal-provincial document implies. The Finance Department study says that by 2020, fuller funding of the CPP provides only modest gains in gross domestic product - the measure of goods and services produced - and consumption.⁵⁹ It's not until 2040 - when the post-baby boomers are retiring - that the economy would show big gains to GDP and consumption.

On the other hand, the Finance Department study also shows some significant drag on the economy over the next 15 years if governments move to fuller funding of the CPP. A steep rise in payroll taxes would be a brake on domestic demand because it could drive down disposable income and slow job creation. The federal-provincial discussion paper suggests that those negative effects could be offset by the Bank of Canada easing its monetary conditions, though it is questionable how much scope the central bank actually has to lower interest rates. The discussion paper also contends the higher CPP rates could be offset by lower unemployment insurance premiums, which would have been made possible through cuts to UI benefits.⁶⁰ Such a move has been touted by Ontario's Eves. In essence, this means the unemployed would help pay for CPP reform through reduced benefits, which surely raises questions of fairness. Even the issue of

equity gets murky when the adverse economic effects of driving up premiums are considered. Post-baby boomers already have a tough time in the job market; sharply higher payroll taxes wouldn't help that.

Lucie Bohac Konrad, of the Canadian Youth Foundation, worries the cure to the CPP's ills may be worse than the ailment. ``Any solution that adds to unemployment among youth is no solution at all,`` she says. ``There are certain presumptions in all this, and one of them is the constant infusion of working contributors who will support the plan.``⁶¹

Some provincial ministers are clearly uneasy over the proposed rapid hike in premiums and are looking for ways to reduce that. At a meeting in Fredericton in June, they agreed they would try to keep premiums at or below 10 per cent. Ontario's Eves suggests, for example, reducing what's called the year's basic exemption. Under the exemption, Canadians and their employers don't pay premiums on the first 10 per cent of covered earnings.⁶² The basic exemption is meant to ease the burden on low-income and part-time workers. Any move to reduce the benefit would be highly regressive. The federal-provincial paper calculates that cutting the basic exemption to five per cent of maximum insurable earnings would reduce the steady-state rate to 11.2 per cent from 12.2 per

cent.⁶³ But the savings are illusory since, while the premium rate would be lowered, the actual contributions paid by employers and employees would not. They'd just be paying a lower percentage on a larger portion of earnings.

It's clear that Ottawa and most provinces - excluding Quebec - are contemplating significant cuts to CPP benefits. The ministers' insistence on a ceiling of 10 per cent for premiums suggests they would have to cut benefits by 10 or 15 per cent. The federal-provincial discussion paper offers an unappetizing menu of possible cuts: slash seniors' pensions directly or let inflation gradually and insidiously erode their value; make it tougher to qualify for a full pension, or raise the age of entitlement; find various ways to reduce disability benefits, and even nibble away the widows' and orphans' benefits while fundamentally reviewing the survivors' benefits.⁶⁴ At the Fredericton meeting, the ministers indicated they wanted to protect the actual retirement benefit and were reluctant to raise the age of entitlement.⁶⁵ Still, critics complain the finance ministers seem more concerned about the cost and not the benefit of the various programs. ''To talk about the cost and not about the need for income is crazy,'' Baldwin, the pension expert with the Canadian Labor

Congress, says in an interview.⁶⁶

The most straightforward way to reduce the cost of the Canada Pension Plan is to lower the amount of benefits to new retirees. The federal-provincial paper suggests that, to recoup the costs of increased life expectancy, the pension could be reduced to 22.5 per cent of insured earnings, from 25 per cent. Applied to 1996 rates, the maximum CPP pension would be \$7,852 a year down from the actual \$8,748.⁶⁷ The 10-per-cent reduction would apply to new retirees only and would result in long-term savings of 8.8 per cent, lowering the needed premium by 1.25 percentage points. However, the calculation of savings assumes no phase-in to cushion those about to retire who would face a sudden drop in post-retirement income. Nor is there any discussion of the impact on private pension plans, which are built on the assumption of 25-per-cent earnings replacement from the CPP. And like most of the suggestions to reduce benefits, the impact would be felt far more seriously among low- to middle-income Canadians, who rely far more heavily on the Canada Pension Plan for retirement income than do the upper-middle class and the wealthy.

A more stealthy way of reducing costs is to let inflation do the work. Federal Finance Department bureaucrats calculate that indexing pensions of all

current and future recipients at the consumer price index minus one percentage point would reduce expenditures in 2030 by 9 per cent; future contribution rates would come down 1.28 percentage points.⁶⁸ A Canadian retiring at age 65 in 2015 will expect to live another 19.4 years on average, according the Canada's chief actuary. So with the proposed inflation-minus-one-percentage-point indexation, the purchasing power of the senior's CPP pension would decline by nearly 20 per cent by the time he or she died. And since women still can expect to live longer than men, the de-indexation would hit them disproportionately. The federal-provincial paper suggests the de-indexation could begin now for all beneficiaries and continue for 10 years, phasing in a 10-per-cent cut in the retirement pension. ``This would allow current seniors, and those about to retire, to make a contribution to lessening the burden which CPP will impose on younger generations,'' it suggests.⁶⁹

Ministers - who would have to face the angry seniors - are clearly unenthusiastic about such a proposal. De-indexation is a highly sensitive, political topic. When the Conservatives under former prime minister Brian Mulroney tried to remove inflation protection for seniors' benefits in 1985, a

vociferous gray power lobby forced them to back down and dealt the first serious blow to that government's credibility. The federal Liberals clearly remember that humiliating experience and pointedly promised full inflation protection for the new Seniors Benefit which was proposed in the 1996 budget to replace the Old Age Security, Guaranteed Income Supplement and tax credits for seniors.

The third big option to reduce the retirement costs of the Canada Pension Plan is the highly controversial proposal to delay the retirement age. After the February 1996 meeting, finance ministers almost uniformly distanced themselves from that option, calling it a ''last resort.'' Nonetheless, it was put forward in the discussion paper and many experts believe it is inevitable. To fully reflect the increased life expectancy since the CPP was introduced in 1966, the retirement age would have to be pushed back four years to age 69. That would leave 15 years of anticipated pension payout, on average. However, the federal-provincial discussion paper suggests a ''less drastic approach'' of phasing in a retirement age of 67, which would be in effect by the time the baby boomers begin to retire in 2011.⁷⁰ Raising the age of entitlement for a full pension would reduce the long-term costs by 4.2 per cent, or reduce premiums by

0.63 per cent. The finance paper suggests the savings would be much higher if the costs of disability benefits could be reined in. That's because the number of disability claimants would most likely rise dramatically as physically exhausted, older workers aged 65 and 66 sought benefits under that program. As well, more Canadians would likely seek partial pensions from early retirement, assuming fewer last in the job market to the later age.

The finance ministers insist that a later retirement age is a ''last resort'' as they look for ways to reduce CPP costs. But many experts insist that baby boomers will simply have to work longer, both to ease the burden on the pension system and to provide labor for an economy trying to cope with the baby bust that followed the boom. ''Clearly, the baby boomers will not be able to retire at the age that we now accept as normal,'' says actuary Robert Brown, of the University of Waterloo. ''This will be true both because they won't be able to retire as early as today's workers, and also because their employers will be presenting them with later-retirement incentives as we face the labour shortages that will arise if the baby-bust generation is the only provider of production.''⁷¹ Brown warns of serious repercussions if the huge baby boom generation begins retiring at

once and liquidating its savings. Asset values would fall, he suggests, while inflation would rise as baby-boomer consumers put strains on the supply of goods and services offered by baby-bust producers. A number of business groups also urged the ministers to bite the bullet and announce the phasing in of later retirement. The Metro Toronto Board of Trade says a key to holding down pension costs is to gradually delay the age for full pension to 67. A partial pension would still be available at 60. ``While raising the age of entitlement is the most politically challenging reform proposal, we believe it to be an essential component of any reform strategy,'' the Toronto business group said in a submission to Walker's federal-provincial task force.⁷²

The CLC's Bob Baldwin says there are no guarantees older boomers will be wanted in the labor force, especially with the technological revolution reducing the need for workers. ``It runs against the current trend of early retirement - either forced or voluntary - and people planning for early departure,'' Baldwin says. ``There is a very big appetite in the population currently to get out before 65.''⁷³ Grant Schellenberg, a sociologist with the Canadian Council on Social Development, says the push for later retirement would only make sense if governments were

also pushing a full employment agenda, but they're not. ''What happens to those people if the age is pushed back but their employer still pushes them out because he feels older workers are too high-cost,'' Schellenberg demands. ''Their labor isn't wanted, but they have no access to wages. Once they've depleted their savings, where do they end up until the CPP kicks in. On welfare? On the streets?''⁷⁴

Pop demographer David Foot offered another solution: gradual retirement. In his recent book, Boom Bust & Echo, Foot argues a flexible, gradual system of retirement makes sense as part of a 21st century workforce in which experience will be valuable and swelling ranks of seniors will burden the public pension system. ''Older workers should be able to ease their way out while retaining the dignity and sense of self-worth that comes with productive activity,'' Foot writes.⁷⁵ ''A good worker doesn't suddenly lose his skill and knowledge at the age of 65.'' He suggests older workers should be able to reduce their hours and collect a partial pensions, while still building CPP credits. Currently, a person must actually retire to collect CPP benefits, even at the age of 60. Foot's recommendation echoes an option contained in the federal/provincial discussion paper on the CPP. The paper notes that several European countries have

already allowed gradual retirement with a partial pension. ``This measure would recognize new realities in the labor force and could complement an increase in the age of entitlement,`` the paper says.⁷⁶ It adds, however, that such a system ``would have to be designed in such a way that would not add to the costs of the CPP.``

Still, the unpalatable menu of options doesn't go nearly far enough for some CPP critics. At a Queen's University conference on public pensions, C.D. Howe economist Robson held up pictures of his three young children, Maria, 7, Jim, 5, and Christine, 4. Those children, he told a skeptical audience, would be the big losers in what he called the ``Ponzi game`` represented by the Canada Pension Plan.⁷⁷ He argued his kids would be better off if the government moved now to wind up the CPP and replace it with a mandatory savings program. Talk of privatizing the CPP is fashionable among conservatives in Canada, and has been endorsed by the Reform Party, *The Globe and Mail* newspaper, the C.D. Howe Institute and the far-right Fraser Institute. Their model is Chile, which replaced a financially devastated public pension plan with a system of mandatory savings, in which payroll deductions equalling 10 per cent of earnings go into a privately managed, RRSP-like account. Robson injects a

smug air of inevitability to his argument. ``As time passes, the politics of the CPP will get more and more unpleasant,'' Robson writes in a C.D. Howe commentary.<sup>78</sup> CPP obligations are ``mounting faster than the ability to pay them, and at some point, those expected to foot the bill are going to balk,'' Robson adds. In an interview after the federal-provincial discussion paper was released, Robson said he wasn't bothered at all that the privatization option was ruled out by the finance ministers. ``If you are going to privatize it, you first have to prop it up and get it in better shape,'' he says.⁷⁹ The C.D. Howe economist undoubtedly realizes that confidence is key to the maintenance of the CPP, and the more experts like him can undermine Canadians' faith in the plan, the more likely his prophecy will become self-fulfilling.

Robson claims that anyone now entering the workforce and beginning to pay into the CPP would make a better return by taking that contribution and investing it in the marketplace. His argument was buttressed by Halifax economist Brian Crowley, of the Atlantic Provinces Economic Council, who predicted in a 1995 speech that an un-reformed CPP would mean ``disastrous consequences for future pensioners and taxpayers.'' ⁸⁰ Crowley said that someone born in 1920

would receive CPP benefits worth seven times the contributions made by them and their employers. Someone born in 1960 would receive 2.5 times their contributions, whereas someone born after 1980 will be net contributors. (In an interview, chief actuary Dussault disputed those figures; he had produced figures for MacDonald's report for Human Resources Development which showed that even Robson's children would get a positive return on their contributions, though much lower than their grandparents had received.)⁸¹ Like Robson, Crowley favored a privatized system that ``gives people more responsibility for planning their retirement (and) that removes from government the ability to use retirement savings to purchase votes.''

However, even many critics of the current CPP funding system argue the privatization approach just wouldn't work in Canada. The author of an influential 1994 World Bank report that touted private savings plans says there are huge hurdles to adopting such a plan in countries that have mature, pay-as-you-go systems. The transition costs would be tremendous, as people would be required to cover the existing obligations for current retirees and workers, as well as to devote a fairly substantial portion of their income to savings. ``This (private) scheme is ideally

suited for countries that are not starting out with a huge pension debt,' ' World Bank economist Estelle James told the Queen's University conference.⁸¹ ' 'It's obviously much easier to put (it) in place if you don't already have a large debt owed to people under the pay-as-you-go, defined benefit plan.' ' Even Robson concedes that Canadians would be looking at a payroll tax of about 4.5 per cent for the next three decades, just to pay out the existing obligations of the CPP.⁸² Any private savings would have to come on top of that. James said the World Bank was not recommending that developed countries adopt its proposed mandatory savings plan, but rather that they move to fuller funding of their plans. The primary targets for the World Bank warning are the developing countries which don't yet have broad public pension plans.

Monica Townson, in her report published by the left-wing Canadian Centre for Policy Alternatives, was scathing in her criticism of the mandatory RRSP plan put forward by the Reform Party and economists such as Robson and Crowley. Far from reducing payroll taxes, the plan would require workers to put aside even more of their income in mandatory plans, Townson writes.⁸³ She notes that, under the current system, employees' contributions are matched dollar-for-dollar by employers, while the brunt of the mandatory RRSP plan

would be borne entirely by the workers. Assuming that contributions would be tax deductible - as RRSP investments are - they would represent a massive drain on government treasuries. ``If everyone was forced to contribute, as they would under the Super-RRSP proposal, the cost to the government in lost tax revenues would be astronomical,'' Townson says. As well, the payout at the end depends entirely upon the the performance in the marketplace, with all the inflation, currency and general economic risk borne by the individual. (Critics insist the CPP benefit are no more secure, given that they can be changed at the whim of governments at any time.) Townson says the Super-RRSP plan would accentuate the increasing polarization in Canadian society. On the one hand would be the affluent who could afford to save for their retirement. But crowding the bottom of the spectrum would be those on modest incomes who would default on payments or withdraw the money before retirement, leaving them to rely on parsimonious safety net programs for seniors. Townson loathes the scheme for the same reason the conservative proponents love it: ``The risks of providing for retirement are borne entirely by the worker.''

Despite Robson's skepticism, the finance ministers insist the Canada Pension Plan will be there

for Canadians - including young ones - when they eventually retire. ``The CPP really does allow a solid block of retirement money for the vast majority of Canadians who really do not participate in RRSPs or don't participate very much,`` Paul Martin told the New York business audience after his 1996 budget.⁸⁴ ``And we don't believe we should deviate from that.``

One critical step in ensuring its survival will be to get Canadians' incomes growing and achieve as much as possible full employment of the workforce. At the same time, however, the government must ensure that it reduces the country's overall debt and tax burden. Otherwise, the post-baby boom generation could face the triple hit of low incomes, high government debt and taxes, and the need to provide healthcare and pensions to an aged population. Of course, all experts claim they want to promote jobs and growth while reducing debt, but there is fundamental disagreement on how to get there. The Liberal government is pursuing a risky path of deep spending cuts, an anti-inflationary monetary policy and some modest initiatives to boost Canada's productivity to make its businesses more competitive at home and abroad. That approach appears to be yielding results in terms of government debt and deficits,

and may offer some tax relief in the long term. Export-oriented industries are also doing well. But it is not clear that the gains in the economy are being spread broadly among the populace. Instead, the gap between haves and have-nots appears to be widening. And it may take decades for the country to replace the lost public sector jobs and repair the shattered social infrastructure.

Those on the left believe that cuts to government spending are counterproductive, slashing away at the very education, health and social programs the country will need to remain economically strong. Economists such as Townson and the CLC's Baldwin argue the government needs to maintain its spending on education and social services. Instead, it should reduce its deficit by having the Bank of Canada drive down interest rates and by increasing taxes on the wealthy and corporations. But that path is also risky. A move by Canada's central bank to force down interest rates would almost surely backfire, as those who lend money to Canadian governments and companies would demand higher rates to offset potential inflation and currency risks. A spike in interest rates is the last thing either a weakened Canadian economy or a debt-burdened government could afford. It's far beyond the scope of this effort to give a detailed economic

analysis of what it would take and whether it is possible to return Canada to the high-growth economy that could easily support an aging population. Clearly, however, some priorities in public spending are essential. Education, training, basic investments in innovation and information technology will all be critical to economic success in the next century. As governments rush to fix the fiscal problems - as critical as that is - they can't give up the crucial economic levers and rely on the marketplace to re-invigorate the Canadian economy.

While governments need to be constantly challenged on their economic and fiscal policy, it would not be prudent to assume the Canada Pension Plan can be ``fixed'' by relying on macroeconomic policy. A balanced economic policy must be complemented with some sweeping changes to the way the Canada Pension Plan is managed. It simply is not fair - nor politically wise - to assume that our children would be willing or able to pay 14-per-cent CPP premiums when we were not. Fuller funding not only helps relieve the burden on future generations, it also makes sense given current economic conditions in which interest rates are higher than the rate of growth in the economy. As well, such a system no longer lets the current workforce ignore the stark

trade-off between benefits and premium rates. To keep the current level of benefits for future retirees, premiums simply have to increase dramatically. If you want to keep a lid on premium increases, benefits have to be cut. It's that simple. Under the pay-as-you go approach, it's the next generation who will pay for baby boomers' benefits; under the fuller funding, the boomers themselves have a stake in the cost.

While the federal-provincial paper worked on the assumption of a six-year schedule of premium increases, it also laid out a nine-year schedule that would see rates climb to 11.1 per cent of insurable earnings by 2005, with a 10-per-cent cut in benefits.⁸⁵ The more gradual rise would give employees and employers more time to adjust and government more opportunity to find savings in other payroll taxes - from unemployment insurance to Workers' Compensation, to provincial health taxes - to offset the CPP increase. At the same time, ministers could consider proposals to lighten the impact of rate increase for those on the lower end of the income scale. (Not increase the burden, as Ontario's Eves suggests, by reducing or eliminating the basic exemption.) Townson suggests premiums be assessed on a higher maximum - thereby making the funding more progressive - while maintaining the benefits based on the average wage.

Critics of such a plan worry it would undermine the ``insurance'' aspect of the plan and weaken support for it. Townson counters Canadians with above-average incomes tend to benefit far more than lower-income Canadians from the generous tax assistance for pension plans and RRSPs.⁸⁶

Economist David Slater, writing in the journal, *Canadian Business Economics*, suggests another approach: have premiums rise with age.⁸⁷ Since the younger workers tend to have lower incomes than those who have been in the labor market for decades, Slater's approach would add some progressivity to the plan. Such a progression would also ``reflect the normal life-cycle of accumulation and use of savings and could improve intergenerational equity,'' says Slater, a former chair of the Economic Council of Canada.

Despite statements from Quebec finance minister Landry that benefits should not be cut, it is unlikely the CPP will escape the knife entirely. But it is critical to maintain the integrity of the plan and ensure the cuts don't fall on the modest income pensioners, who rely on the plan for a larger portion of their income. A straight reduction in benefits or the de-indexation option would hit those lower-income seniors hardest. Chances are, ministers will take a

more devious route and reduce the number of low-income years that a person can drop out of his pension calculation. The impact of such a move is less obvioud to the public and therefore, less politically troublesome. But it would hurt people who are in and out of the work due to unemployment or lengthy schooling. And those are the very people who will rely most on the CPP because their opportunity to save has been limited.

The threat to the CPP comes as the government has already decided to reduce old age security benefits to seniors with above average incomes in its new Seniors Benefit. As a result, working age Canadians are going to have to save more to make up for the loss of anticipated income from public pensions. Governments provide tax assistance to help people save through RRSPs and company pensions. But many working people are finding it difficult to build retirement fund unemployment, stagnant incomes and the rising costs of raising children. The admonition from conservatives that Canadians should be given more responsibility for funding their own retirement comes as fewer are able to.

CHAPTER FIVE

Hitting 'Em Where It Hurts:

Reforming CPP Disability

Disabled pensioner Dianne Albers scraped together bus fare to get her from North Bay, Ont. to Toronto for the start of the federal-provincial hearings on the Canada Pension Plan. As Albers sat quietly, business groups at the round table discussion in an Ontario government hearing room called for steep cuts to CPP disability and survivor benefits to avoid steep premium increases. When it was her turn, the 50-year-old widow unleashed a torrent of fearful and emotional pleading. ``You hold a sacred trust in your hands,'' she told the federal and provincial politicians running the session. ``Without the CPP, my sons would be in foster homes and I wouldn't be alive today. Without my CPP, I wouldn't be here today.'' ¹

Albers told the hearing she would never have survived without CPP survivor benefits - and later the disability pension - after her husband died nearly 15 years ago leaving her with two young sons. The benefit certainly didn't afford a luxurious lifestyle, she said. Her family was often forced to eat macaroni and bread at the end of the month, while waiting for the next cheque. But it was critical for maintaining her family. ``I'm here to ask those of you with vision and empathy to look beyond the question of cost,'' Albers said. ``The Canada Pension Plan is part of the glue that holds our social safety net together.'' ²

Albers is right to be concerned. As they search for ways to control rising costs of the Canada Pension Plan, the country's finance ministers have focussed on the disability benefits as a key target for cuts. Survivors' benefits may also be cutback. Canada's chief actuary - who oversees the financial soundness of the pension plan - warned in February 1995 that ``higher than expected'' disability benefits were undermining the viability of the plan.³ Claims for disability have more than tripled in the past 15 years while the value of disability pensions paid out doubled between 1989 and 1995.⁴ Finance ministers are faced with an unpopular array of options: let premiums rise slowly from today's 5.6 per cent of insurable earnings to 14.2 per cent in 2030; raise premium rates more quickly and cap them at 12 per cent in six years; or use a combination of faster premium increases and benefit cuts. The ministers have indicated they will raise premiums faster than now scheduled, but also cut benefits to minimize that increase. Emerging from a meeting in Fredericton, N.B. in June 1996, the federal and provincial ministers agreed the retirement pension needed to be protected, while cuts could be found elsewhere.⁵ ``We have to look at everything from eliminating the death benefit (a one-time payment of \$3,540) to how we define and treat disability

pensions,’’ said Ontario Finance Minister Ernie Eves on the eve of the Fredericton meeting. ‘‘We’ve lost sight of what (the CPP) is supposed to be, which is a basic pension plan.’’⁶

Pension expert Robert Brown, of the University of Waterloo, says that rising disability costs have to be reversed if the CPP is to be put on a sustainable footing. Claims for CPP disability rose steadily through the 1980s and exploded after 1992.⁷ In 1980-81, the federal government received 32,200 applications for CPP disability; by 1990-91, that had more than doubled to 64,900 claims. Four years later, the count had soared 109,000 and has since levelled off at about 95,000. In 1996, the CPP is expected to pay out \$3.6 billion to disabled workers and their dependents, representing 20 per cent of the total benefits paid out. Only 10 years ago, disability benefits represented less than 13 per cent of total CPP expenditures.⁸ Bernard Dussault, the chief actuary, forecasted that the unexpected surge in beneficiaries would add 1.5 percentage points to the premium rate in 2030. Says Brown: ‘‘We have got to get back to the 13 per cent (of total benefits) where it used to be.’’ He said the criteria for receiving benefits has become simply too permissive. ‘‘Where historically, a disability had to be physical in

nature and was expected to be permanent, now we're seeing people receiving benefits for stress-related problems or physical problems that would allow them to do another job.''⁹

There are a number of explanations for the sudden jump in claims. The deep recession of the early 1990s forced more older workers out of a job, leading them to make claims under disability if they had any physical problems. Provinces and insurance companies urged claimants under their programs to seek a CPP pension first. But Brown traces the explosion in caseload to 1989, when the government changed the administrative guidelines to allow non-medical factors to be taken into account when determining whether a person qualified for a disability benefit. Under the Canada Pension Plan Act, a person receives a benefit if they are qualified as ''suffering from a severe mental or physical disability'' which renders him or her ''incapable of regularly pursuing any substantially gainful employment.''¹⁰ Since the disability was defined as being permanent, successful claimants never had to prove themselves again. That made the need for rehabilitation somewhat redundant - by definition, someone on CPP disability would not work again. Some of those non-medical factors included the unemployment rate in the region and a person's age

or skills. As well, adjudicators have usually interpreted ``substantially gainful employment'' in relative terms, both in regards to the economy of the region and to the claimant's past work record. Union economist Louis Erlichman, a former chair of the Canada Pension Plan Advisory Board, insists ``non-medical'' factors are highly relevant to determining whether a person is incapable of substantially gainful employment. ``Theoretically, anyone is capable of doing some job,'' Erlichman said in an interview.<sup>11</sup> ``Practically you are always going to have to look at socio-economic factors.''

Federal officials and union economists give other reasons for the huge growth in disability claims. They say the provinces - particularly Ontario - and private insurers began an aggressive campaign of forcing people claiming for disability under their programs to go to CPP first, even if the Canada Pension Plan claim would result in a more meagre cheque. Federal officials call the practice ``up-loading'' and many believe it is a tit-for-tat response to declining federal support for welfare, especially in provinces where there has been a cap of five-per-cent a year on the growth of federal payments in support of social assistance. In British Columbia, for example, the government has moved to ensure all

social assistance claimants apply for CPP disability before they get welfare. But one B.C. health department official, Colleen Wilkins, told the federal-provincial CPP hearings that such pressure can be very damaging because many of the applicants are vulnerable, some terminally ill.¹² One Kingston, Ont. family doctor, Samuel Shortt, complained in *The Globe and Mail* that he is constantly filling out forms for CPP disability claimants, even when there is no medical evidence of disability. He blamed private insurers, social workers and the unemployed for clogging up the system with ''frivolous'' complaints.¹³ ''Why would a patient insist on submitting an application that his family physician has already said has no chance of succeeding? One common reason is the desperation of the economically marginal in recessionary times,'' Shortt wrote. Another reason is that ''unscrupulous insurers'' force their clients to apply for CPP benefits, even when there is little chance the application will be approved.

CLC economist Baldwin suggests that the steep rise in disability claims is a natural reaction to hard times, when companies are no longer willing or able to provide lighter duties to long-time employees who can no longer cope with physical labor or high-

stress jobs.¹⁴

In their option paper, the federal and provincial ministers noted that Human Resources Development - which administers the CPP - has made some progress in reversing the sharp increase in new beneficiaries seen in the early 1990s. The changes and their impact on caseload are described in a Human Resources report with the daunting title: Canada Pension Plan - Disability Benefits Caseload Growth Analysis.¹⁵ In August 1995, the department issued new guidelines to stress the medical factors in granting disability and rule out reference to the socio-economic conditions. The chief actuary projects that measure alone will reduce the needed 14.2 per cent premium in 2030 by 0.22 percentage points. The department also began in 1994 re-assessing people on disability to determine whether their medical problem had improved to the point where they could return to work. As of mid-January 1996, some 12,000 re-assessments had been done, resulting in nearly 5,000 disability claims being terminated. (The departmental assessment provides no evidence how those former claimants survived the blow, nor what they did to replace the income.) As well, the government is trying to encourage people on disability to get back into the workforce. Full-time volunteer work or attendance in

school will no longer result in benefits being ended. And a trial employment period of three months is allowed so that people on disability can attempt to work but not lose their benefits if they find it too onerous.

The department has also tightened up the appeals process, which had been overturning the majority of initial decisions to deny benefits.¹⁶ In 1992, a CPP Review Tribunal, made up of members with medical and legal expertise, replaced a less formal second-tier appeal. More money is being spent hiring and training the appeal adjudicators. The result has been an overall decline in the rate of appeals being granted to claimants from more than 50 per cent to about 35 per cent, according to the internal review. And it projects that as many as 80 per cent of appeals will be turned down in the future. All this has resulted in a steep drop in the number of new CPP disability pensioners. The department said the number of new pensions being approved and ``put into pay'' has fallen to levels not seen since the late 1980s. ``The ultimate result and primary effect will be a CPP disability caseload that will begin to shrink after years of constant growth.''¹⁷

That reversal is clearly not enough for the finance ministers. The federal-provincial option paper

suggested a number of measures that, taken together with the administrative changes, would be projected to cut disability costs by more than half in 2030 and reduce total CPP expenditures by seven per cent.¹⁸ However, the ministers may be disappointed if they think they're going to solve the CPP's problems by hacking away at disability. Even such deep cuts to the program would only lower the projected 14.2 premium rate in 2030 by one percentage point.

One change would see the disabled pensioners have their benefits reduced dramatically when they turn 65.¹⁹ Now people on disability switch to a full retirement pension at 65. The finance officials suggest it could be reduced to the equivalent of an early retirement pension. That's worth about 30 per cent less than one provided at 65. The ministers' option paper also suggested tightening the eligibility for CPP disability by requiring a longer period of employment. Prior to 1987, claimants were required to have worked for at least five years before they would be eligible. In 1987, that eligibility period was changed so that someone had to work two of the last three years or five of the last 10 before they could receive a disability pension. The option paper suggests the eligibility test require a person to have worked at least four of the previous six years. That

change would be especially onerous for young people having a hard time getting established in the workforce, parents who take time off to be with young children, and people in areas of high unemployment and/or seasonal work, where the jobs that are available can be physically demanding and dangerous.

Once again, the finance ministers have been long on cost-saving ideas but short on the analysis of their impact. For one thing, provincial ministers will be keenly aware that people who can't qualify for CPP disability may well end up on their welfare rolls. But then, many of them - led by Alberta and Ontario - have tightened their own welfare disability rules or are in the process of doing so. Erlichman argues the disabled will end up being scapegoated, much as the unemployed and people on welfare have been demonized when governments were looking to cut costs in those programs. Look for stories of disability cheats to start appearing in your local paper, he suggests. "People can't cheat on old age pensions but you can start talking about people cheating on disability," he said in an interview.²⁰ "It's the same as welfare bashing."

Community lawyer Harry Beatty says the world is already getting a lot tougher for people with disabilities trying to win benefits from Workers'

Compensation, welfare or the Canada Pension Plan.²¹

Beatty works at the Toronto-based Advocacy Resource Centre for the Handicapped. He says the federal government's tightening of its rules has already had a devastating effect on some of his clients and things may get worse if the finance ministers target disability for further savings. "Many of these people don't have another program to fall back on," Beatty says. "They'll just have to go on welfare - with or without disability - once their assets are exhausted."

Frank Vidovic knows about the thin line between hope and despair, between the dignity of being recognized as a disabled worker and the shame of the welfare line.²² The Croatian immigrant worked for 20 years in the construction industry after arriving in Canada in 1970. But that career came to a painful end in 1991 when he wrenched his arm mixing mud for concrete. After a year of unsuccessful physiotherapy, Vidovic had surgery that left his arm progressively more useless. Then, he developed repetitive stress injury while taking keyboard training through the Workers' Compensation Board. In 1995, the father of three was turned down on his initial CPP disability claim. He appealed that summer. "I told the commissioner: I hope you understand that it hurts

my pride to ask what I'm asking for but I have to," Vidovic said in an interview just after the appeal hearing. "I gave everything I had to Canada. I worked from 8 a.m. to 9 p.m. and was never unemployed." Vidovic was one of the lucky minority who had his appeal accepted. But with the tougher attitude toward CPP disability, there is always the lingering doubt that he'll lose his benefits on a re-assessment.

Former senior mandarin Tom Kent has a more radical solution than the finance ministers appear willing to contemplate: take disability right out of the CPP and establish a national income program for disabled Canadians to replace the CPP, Workers' Compensation and welfare.²³ "I think that in retrospect, the mistake that was made was the addition of disability to the plan," says Kent, a key figure in the introduction of the pension plan. "It should never have been part of the CPP." He says it makes no sense to have a myriad of overlapping programs to look after the disabled, depending on whether they were hurt on the job, were contributors to the CPP, or landed on welfare. The chief actuary calculates that the needed premium rate in 2030 could be reduced by two percentage points to 12.2 per cent if the disability component was stripped out.²⁴ Economist Bill Robson, of the C.D. Howe Institute, also suggests

the disability benefits be removed from the CPP though he is short on specifics for how the disabled would be looked after.²⁵ Liberal MP David Walker chaired the federal-provincial hearings on the CPP in the spring of 1996. He noted in his report that many advocates for the disabled liked the idea of a single national plan that would focus on income support and rehabilitation.²⁶ Other witnesses argued it never should have been included in the pension plan in the first place. ``Most of us thought the CPP was a pension plan,`` George Lawrence told the session in Thunder Bay, Ont. ``We should deal with the CPP and then come back and we can talk about how we want social programs funded.``²⁷

Still, some experts insist it doesn't make sense to talk about removing disability from the Canada Pension Plan without a clear idea of what will replace it. Walker says there is a danger that disability could become an orphaned program if it is moved out of the CPP. ``I want to make sure that any changes suggesting a more broad-based disability plan don't happen without something else to go to,`` Walker told a forum on disability. ``We don't want to pass it off in mid-air and have no one there to pick it up.``²⁸ Other advocates, such as Beatty, worry about handing management of the disability program to the

provinces, even as Ontario is slashing spending on welfare and Workers' Compensation. They suggest a national program could bring benefits down to the lowest common denominator. And they argue that a disabled worker who contributed to the CPP should have as much right to a pension as a retired worker. On a more pragmatic, political level, the hurdles in getting the provinces to agree to such a program and negotiating a breakdown on who should pay, make it unlikely that such a proposal would ever see the light of day. Besides, removing disability from the Canada Pension Plan would merely shift the financial burden from one set of public books to another. As politicians now like to say: There is only one taxpayer.

While the disabled are clearly targeted, ``widows and orphans`` will be largely spared in this round of cuts, though the federal-provincial paper calls for a fundamental review of those benefits over the next two years. The survivor benefits were initially aimed at women, who typically had not worked outside the home when the plan was introduced in the mid-60s. Those benefits were only paid to men if they were disabled and dependent on a woman who was a CPP contributor. In 1975, men become eligible for a surviving spouse's pension. In 1996, a widow or

widower who qualified for the maximum survivor's benefit and had two children receiving orphan's benefits would get monthly cheques worth \$728.²⁹ The surviving spouse's benefit will cost an estimated \$2.3 billion in 1996, or 13 per cent of total CPP expenditure. On top of that, the orphans' benefit is expected to cost \$203 million.³⁰ The federal-provincial paper suggests the surviving spouse's allowance was designed for a different era. ``Today, when 68 per cent of working-age women are in the work force, consideration could be given to redesigning CPP survivor benefits so that they reflect the changing realities and needs of today's families.''³¹

Some experts suggest the survivor's benefits be replaced by a lump-sum payout, reflecting the deceased's contributions. Others argue the survivors should get a benefit for set period, long enough for them to get on their feet economically, and then it should be eliminated. Another idea is to end survivors' benefits upon re-marriage as was the case until 1987.

However, Leigh Phillips doesn't feel the survivor's benefit has out-lived its usefulness or is inappropriate in the modern society.³² Phillips' husband, Paul, valiantly battled cancer for more than two years before dying in January 1995 at the age of

38. Paul's exhausting search for a cure led him to make frequent trips to Toronto and New York, eating into the family's savings. In the emotional turmoil of Paul's illness and dealing with two young daughters in the aftermath, Phillips missed a lot of work and was eventually laid off from her job as an accountant at a subsidiary of AECL Ltd. Months later, she landed a less demanding, and lower paying, bookkeeping job.

Phillips says the CPP benefit - about \$680 a month for her and her daughters - has provided a critical sense of security for her since her husband died. ``It wasn't the most important thing in the world until I realized my (accounting) job wasn't secure,'' she says. Now, the CPP benefit has allowed her to take the lower-stress job, which doesn't require her to work nights and weekends as her previous one did. Her husband Paul, a commercial banker, had a reasonable amount of insurance for a young man, but his death has been a huge financial - as well as emotional - blow for Phillips. She concedes she sometimes thinks she doesn't deserve the CPP cheque, but then concludes that Paul paid into what is essentially an insurance plan for the 12 years that he worked. The CPP ``will make a difference which will enable me to maintain a reasonable lifestyle,'' she says, though adds that she is still adjusting

downward.

Canadians have an emotional attachment to the Canada Pension Plan and want to see it fixed. But, ministers are resisting any plan to drive premiums much above 10 per cent, meaning cuts to benefits will be required. Given the difficult choices involved in making such cuts, the politicians can be expected to focus on the areas of least resistance, and that include the disability benefit. Canadians are already worried about their retirement and would like to see some assurances that their CPP benefit is safe. Taking the knife to benefits for widows and orphans invites lurid headlines that could turn into a public relations disaster. However, the public mood would seem to allow for at least some cuts to disability programs. After all, the federal Liberals have slashed spending on unemployment insurance and the several provincial governments have cut welfare, with little apparent impact on their popularity. Officials at Human Resources Development insist they've already stemmed and even reversed the growth in disability claims. But so far, those actions have not had a significant impact on the forecasts of future CPP costs provided by Ottawa's chief actuary. Ministers are clearly looking for further cuts to allow them to proclaim that the Canada Pension Plan has been saved.

David Pollock, of the Canadian Council on Rehabilitation and Work, explained why many Canadians might countenance a further tightening of the disability rules. "People have difficulty accepting that they may become disabled," he told Walker's forum on disability. "There is denial at play here - (People think) another group is ripping us off and I am not part of it."³³ But in their attempt at restoring faith in the CPP, the finance ministers are in danger of doing serious damage to some of the most vulnerable people in Canadian society. And calls for Canadians to save more to offset the cuts to their public pensions will be especially bitter for those who count on those benefits just to put food on the table.

CHAPTER SIX

Tax Breaks for Savings:

A Critical Incentive or Too Rich?

Journalist Ian Austen had worked seven years for the Southam newspaper group - including a stint in its prestigious Washington bureau - when he was unceremoniously fired in the winter of 1996. In the following months, Austen joined the new army of the self-employed, making a decent if uncertain living writing freelance articles. In addition to everything else he lost when Southam decided he no longer fit their plans, the 40-year-old father of two young children had to walk away from the company pension plan. Austen received a lump sum reflecting the years of contributions he and his employer had made. That sum can be rolled into an RRSP or into another company plan if Austen lands a job with an employer who offers such a flexible benefit. Meanwhile, his retirement planning is on hold. Austen says he's already struggling just to replenish his RRSPs after pulling \$16,000 out for a downpayment on a home three years ago. Under that program, a homeowner must pay back a set portion each year; in Austen's case, the minimum is \$1,000. Though his wife has a job with a pension, any further feathering of his own retirement nest will have to wait. ''I'm probably going to have to skip this year - my income is so erratic,'' he says.¹

Still, Austen figures he and his wife will somehow fashion a comfortable, if not lavish, retirement from

their savings and pensions together with some minimal public retirement benefit. ``I can't say I fret about it. But like a lot of people, I think I won't have a retirement like my parents.''

With the aging of the baby boom generation and the inevitable stress that will place on public pensions, many experts are warning that Canadians will have to save more than they currently do if they expect to live the same retirement lifestyle that their parents have had. Thrift, that Victorian virtue that was feared to be lost when the state began looking after us in our sunset years, is back in vogue. A grim study by pension experts at the Canadian Institute of Actuaries suggests that Canada's social security programs will almost certainly have to be cut to cope with the heavy load of retired baby boomers. ``Benefits may be cut; retirement ages deferred; universality curtailed,' ' the private-sector pension specialists warn in their 1995 report, Troubled Tomorrows.<sup>2</sup> ``Those who can afford to save more for retirement should be encouraged to do so, and to rely less on government programs.' ' Even Finance Minister Paul Martin has expressed some surprise that, given the low level of confidence in the public system, Canadians are not saving more. ``That people would say the CPP is not going to be there and yet, as

a population not do anything about it, it really makes you wonder," Martin said in an interview.³

But there are serious concerns about the ability of many working-age people to boost their savings in order to offset cuts to public pensions. And there are questions about whether the tax benefits that support those so-called private savings are too rich. Most Canadians will rely on two retirement programs, either separately or in combination, to supplement their public pensions: registered pension plans from work, and registered retirement savings plans. But the scope of those tax-sheltered savings plans is limited: it is Canadians with above average incomes who benefit the most from them. The number of Canadians in workplace pensions has stabilized at less than 50 per cent of paid workers, and may even decline as governments at all levels lay off workers who enjoy full benefit packages. The nature of the job market itself is not re-assuring as more Canadians work on contract or other non-standard jobs that offer few pension benefits and even less security. Meanwhile, only about 30 per cent of Canadians contribute to an RRSP in any given year, though a much larger number have some such savings. The pattern "certainly doesn't give any great hope that RRSPs are going to save the majority of Canadians in their retirement,"

says Ken Battle, director of the Caledon Institute of Social Policy.⁴ ``We do have to exhort people to save more, but I'm afraid a lot of people will be retiring with nothing to fall back on but the public pension system.''

Canada seems to be headed towards a two-tiered retirement system - just as it now has a two-tiered job market. On the one hand are the well-educated professionals, the successful business people or union members lucky enough or with enough seniority to avoid layoffs. Those Canadians are not only affluent today; they can look forward to a comfortable, perhaps even early, retirement thanks to tax-subsidized savings. They are the ones who are maximizing their RRSP contributions, or are members of a decent workplace pension plan, or both. If they are middle class, they likely work in the broad public sector - as teachers, cops, or civil servants - or for large corporations. The not-so-lucky have little or no pension plan. They may work for small business, be unemployed, or work from contract to contract for firms or governments that are moving increasingly to a ``just-in-time,''

flexible workforce, in part to avoid costly benefits including pensions. Many of these people struggle to meet current needs and just can't find the extra money to contribute to RRSPs. Take Helen Issenberg. The

43-year-old mother of two works as a secretary at a North York seniors' centre. Issenberg sees the financial hardship that can accompany old age and has a daily reminder of the need to save for retirement. But with her husband's contracting business struggling and two children headed for university, Issenberg says she doesn't have much left over to squirrel away. "There are always other priorities, it seems," Issenberg says.⁵

Economist Judith Maxwell was chair of the Economic Council of Canada when it produced a seminal report outlining the increasing polarization in the workforce, Good Jobs, Bad Jobs. She says current estimates are that 30 per cent of jobs are "non-standard," meaning people working for themselves, on contract, or part-time. Concludes Maxwell: "All of these things tell us we will end up with a very polarized cohort of older people when the baby boom hits retirement age."⁶

Pensions and RRSPs represent the third leg of the retirement income system, complementing the Canada Pension Plan and Old Age Security/Guaranteed Income Supplement. In fact, the public system was deliberately kept modest to allow for the expansion of the private side, though the promised growth never really materialized. While generally thought of as

``private'' income, pensions and RRSPs come with a very real, though disputed, public price tag. Deductions for contributions to RRSPs and workplace pension plans result in billions of dollars a year in foregone income tax revenue, while the savings are allowed to earn tax-free returns. Taxpayers can contribute 18 per cent of their earned income, or \$13,500, whichever is less. Those with pensions have their RRSP room reduced according to the value of their workplace plan.

For an individual, the tax savings are enormous. An Ontario taxpayer in the top bracket who contributed \$5,000 to an RRSP in 1995 deducted that from his income and shaved about \$2,500 off his total tax bill. If that same person had already accumulated \$30,000 in the tax-sheltered plan and earned a 10-per-cent return, he saved approximately an additional \$1,500 by not having to pay tax on the earnings. The Department of Finance has estimated that those tax incentives cost the federal treasury alone \$14.9 billion in 1991;⁷ the impact on provincial tax revenue was not calculated. Some pension experts dispute that figure, saying it is wildly inflated. Still, there is no doubt the tax breaks represent the most popular way for Canadians with above average incomes to lower their effective tax rates. And there

is also no doubt that poorer taxpayers have little chance to make use of them.

Defenders argue there are good reasons for such lucrative tax benefits, that they help prevent a steep drop in living standards for higher income earners, boost national savings and offset some unfair treatment of savings by the tax system. However, critics - often those on the left - argue the so-called tax expenditures should be cut back and the resulting additional revenue plowed into public pensions, which are available for everyone. Pension expert Monica Townson, former chair of Ontario's Fair Tax Commission, says the tax-sheltered plans are simply fat, sacred cows. In her recent commentary, Our Aging Society,⁸ Townson says that, in the ongoing debate over the future of public pensions, "there has been almost no discussion of the need to restore some balance between the amount of public funding going to the private system from which so few people benefit, and financial support for the public system which goes to virtually all Canadians."

However, poll after poll suggests there is a lack of confidence in public systems. The concerns spring in part from real demographic and economic concerns and in part from fearmongering by RRSP-selling financial industry. But given the public's

skepticism about long-term viability of public pensions and the fierce lobbying by the financial industry, Ottawa would be hard pressed to cut back dramatically on the incentives for retirement savings. Liberal MP Jim Peterson, the chair of the Commons finance committee, raised the question of whether the RRSP system was too generous during pre-budget hearings in 1994. He says he was deluged with reaction from the financial industry and individual Canadians. The financial industry formed committees with high sounding names and hired expensive lobbyists to press their case. But it wasn't just the financial industry that persuaded Ottawa to back off any serious reductions in tax support for private savings. Upper-middle class Canadians, who have been pouring billions into RRSPs each year and dramatically reducing their annual tax load, threatened a revolt. 'It took on very emotional overtones,' Peterson recalls.⁹

'People were saying, 'How dare you touch our RRSPs!'.'

Still, Ottawa has stealthily cut its tax breaks for retirement savings. In his 1996 budget, Martin delayed increases in maximum contribution limits, thereby allowing inflation to erode their value. RRSP limits for those earning more than \$75,000 will stay at \$13,500 until 2004, when they will

increase by \$1,000.¹⁰ Those earning less than \$75,000 can save 18 per cent of their income in the tax-free shelter; so someone who earns \$50,000 could contribute \$9,000. When the Conservatives overhauled the legislation in 1989, the maximum was set at \$11,500. It was slated to hit \$14,500 in 1994 and then rise with inflation, but that increase was delayed several times. Under the 1990 Tory plan, people earning up to 2.5 times the average wage - or \$87,500 in 1996 - would have been able to shelter the full 18 per cent of income. When the Liberals' 1996 changes are fully phased in by 2003, the government will allow people earning up to twice the average wage - or \$70,000 in today's dollars - to shelter the full 18 per cent of their income.¹¹

Martin also eliminated the seven-year limit for allowing people to make up for RRSP contributions that they were unable to afford in previous years. According to the budget documents, the changes ``will limit the cost of the tax deferral associated with retirement savings while ensuring that tax assistance is targeted at modest- and middle-income Canadians.'' ¹² Martin's executive assistant, Terri O'Leary, says the finance minister considered actually reducing the limits in the 1996 budget. But given the cuts that Canadians with above-average incomes can

expect under the new Seniors Benefit (see chapter three), he concluded it would be unfair to reduce their ability to make up the loss through RRSPs, O'Leary says. Departmental advisers ran various proposals for cuts to RRSP limits past focus groups and got a frosty response. ``I think touching the RRSPs (beyond the freeze in limits) would have been a recipe for disaster,`` O'Leary says. ``Absolute disaster.``¹³ But as Ottawa takes aim at the public pensions, it could - and should - publicly re-assess the limits to ensure that the incentives do not fall disproportionately to the rich.

Even before the current threats to public pensions, retirees had to rely on company pension plans and/or their own savings to maintain a comfortable standard of living. In fact, access to such savings determined whether a retired Canadian would live in relative poverty or not. Together, the Old Age Security and Canada Pension Plan provide a retiree with only about 40 per cent of the average industrial wage, barely enough to meet the low-income threshold. They provide an important foundation for the affluent retirement many current seniors enjoy, but are certainly not sufficient. Statistics Canada reports that in 1993, senior men received 56 per cent of their income from private pensions and other

private sources such as savings. Even senior women - from a generation with far less work experience than today's middle-aged women - received 42 per cent of their income from pensions and other private sources.¹⁴

On average, working age Canadians who have steady jobs aren't doing too badly in saving for retirement. According to the Canadian Institute of Actuaries, those Canadians need to save 8.9 per cent of their income each year to have an adequate income at 65, based on the common assumption that individuals need to replace 70 per cent of their pre-retirement income to maintain their standard of living. In 1992, working Canadians saved 10.1 per cent of their income through RRSPs and employee and employer contributions to pensions and profit-sharing plans, the institute said in a 1996 study. ``Canadians are, in the aggregate, saving at a reasonable rate,'' the actuaries conclude.<sup>15</sup> However, the overall picture masks ``significant deficiencies,'' they add. For one thing, many Canadians expect to retire before age 65 or will be forced to retire early and that means they'll require even more savings from their working years to support themselves over a longer period of retirement. For another, there is a wide discrepancy between public sector and private sector workers, and

between those in the private sector with and without pension plans. Outside the public sector, Canadians are not saving enough to maintain their pre-retirement living standards if they retire at age 65. Within the private sector, members of pension plans are in decent shape, while non-members and the self-employed fall well below savings rates needed to keep up their living standards. Meanwhile, the actuaries merely assume away the 1.5 million adult Canadians who were either unemployed or not participating in the labor market in 1992. Those marginalized Canadians were saving little or nothing toward their retirement.

In the annual advertising blitz before the Feb. 28 deadline for RRSP contribution, the financial industry inevitably hypes the savings plan as the key to a comfortable retirement. While the claim is true to an extent, the forced savings of a decent pension plan are even more critical for middle-class Canadians who have trouble saving, even on a tax-assisted basis. And the trend there is not comforting. The number of Canadians covered by registered pensions outpaced the growth in the workforce between 1960 and 1980. However, since 1980, 'pension coverage growth has slowed and has not kept pace with the growth of the labour force,' says a 1996 report on pension plans for the Canadian Institute of Actuaries.¹⁶ On January 1, 1995,

some 5.2 million Canadians were covered by a workplace pension, representing 43 per cent of paid workers and 36 per cent of the total labor force.¹⁷

Despite some hard economic times, the percentage of working Canadians covered by some pension plan has dropped only slightly in the past few years.¹⁸ But that number masks some disturbing trends. A greater number of Canadians are either officially unemployed or dropped out of the workforce and they, of course, are not covered by a workplace pensions. Much of the increase in pension plan membership occurred around 1990 and was due to changes in provincial legislation that mandated the inclusion of part-time workers under a firm's pension plan, even if they can expect only meagre benefits. But since the recession of 1990-92, pension plans have been wound up at an unprecedented rate. 'The numbers we're looking at continue to indicate a decline,' says Ross Peebles, superintendent of the Ontario Pension Commission.¹⁹ The number of registered plans in Ontario has dropped to just under 7,300 in mid-1996 from a peak of 10,500 in 1989. Much of that decline came in so-called 'top hat' plans that each covered just a few senior executives. Changes to tax rules and increased regulations made such plans no longer viable. In a statistical review of the country's

retirement system, Statistics Canada noted that the number of plans with fewer than 10 members peaked at more than 10,000 in 1986-88, and then declined precipitously.²⁰ By 1994, their number had declined by half. But the small plans represented relatively few people. More significantly, there has been a decline of coverage for people working in the manufacturing and construction industries. The federal agency added, however, that overall plan membership dropped by nearly two per cent between 1992 and 1994. "Men in private sector, non-contributory (plans), particularly in the manufacturing, construction and transportation industries, were most affected." Not coincidentally, those industries also experienced record bankruptcies through the first half of the 1990s, succumbing to the strain of free trade, recession and a bust in the housing market. "The recession took its toll and a lot (of the plans) wound up because the business was in financial difficulty or went under," Peebles says.²¹

Another reason for the decline in the number of plans may be the weakening of Canadian labor unions. A 1989 Statscan analysis found that 67 per cent of union members in the private sector were covered by a pension plan, while only 29 per cent of non-union workers were.²² However, union membership

has stagnated as a percentage of work force in Canada at around 32 per cent. It has declined in the goods producing sector - the traditional source of high-paying manufacturing and construction jobs - as companies fight to keep costs to a minimum and keep production flexible by contracting out work. From 1976 to 1992, there was a relative decline in employment in the goods producing sector, with its proportion of paid workers falling to 24 per cent of the total from 32 per cent. Unionization in the sector fell to 38 per cent from 43 per cent, according to Statscan analyst Diane Galarneau.²³ Both employment and unionization grew in the service sector, though labor's advances were mostly in the public sector, where it was already well-represented. Private-sector service companies accounted for 62 per cent of jobs created 1976 and 1992. However, unions represented less than 10 per cent of the work force in the private service sector. ''Unions are perhaps less suited to the businesses experiencing the greatest job growth, namedly small companies with relatively few employees, consisting largely of women and offering forms of employment that are often part-time or temporary,'' Galarneau writes.²⁴

Union members are more likely to have pensions, in part, because they are more apt to be

working for larger companies. Some 65 per cent of corporations with more than 500 employees had plans while only 27 per cent of those with between 20 and 100 employees did.²⁵ Since it has been the smaller companies that have created the most jobs through the last decade, it may be surprising that pension coverage hasn't fallen faster. To an extent, the decline in union representation is simply a symptom of the same labour market ills that are depriving many Canadians of secure jobs with decent benefits. In a fiercely competitive global economy, many companies go to great lengths to avoid unionization, including contracting out work that was formerly done by unionized employees.

Now, some labor leaders fear that public sector unions are also under assault as governments turn to downsizing, privatization and contracting out in order to reduce their spending. In 1995, the federal government announced it would reduce its civil service - through buyouts, attrition and layoffs - by 45,000 jobs over three years. All those workers are leaving unionized jobs that have generous pensions. And those cuts don't include the downsizing at crown corporations and agencies such as the Canadian Broadcasting Corp., the post office and AECL Ltd. The federal cuts are mirrored in the provinces. In

Ontario, the provincial government is chopping its public service and forcing restraint on hospitals, school boards and municipalities by reducing their transfer payments. Many of their services are being contracted out to private companies, which offer their workers fewer benefits including pensions, says Darcie Beggs, head of pension and benefit services for the Canadian Union of Public Employees.²⁶ 'The private contractors are there to make as much money as they can and they can't make as much as they would like if they pay an added six per cent of salaries in benefits,' Beggs says.

The drop in pension coverage is a bitter pill for those who fought for - and to a degree, won - pension reform in the mid-1980s. The decline has mainly come in the category of defined benefit plans - those which offer a set, annual benefit based on lifetime earnings. Increasingly popular are the defined contribution plans, in which an employee is entitled to his own and his employer's contributions and whatever those investments earn. Employers often prefer the defined contribution plan because they do not have to make additional payments to the plan if financial markets don't perform as expected. (They do have to make such payments to ensure defined benefits can be paid for.) A growing number of companies are

offering group RRSPs, which are unregulated and don't have to be locked in after two years, as the pension plans do. Under a defined benefit plan, an employee knows how much of a pension he will receive at the end of his career, assuming he stays with the same company until he is 65. Under a defined contribution plan and the group RRSP, he knows how much has been contributed but can only guess at his final payout. The risk is borne entirely by the employee. If the markets collapse, the value of the person's benefits are eroded. ``We're fighting like crazy to preserve our defined benefit plans,'' says CUPE's Beggs. ``A good workplace pension is the key to a decent retirement.''27

The reforms of the mid-1980s meant employers had to vest - or lock in - contributions after two years, cover part-time employees and provide some portability. The additional red tape involved in administering a pension plan has discouraged their use, concedes Louis Erlichman, a pension expert with the International Association of Machinists and Aerospace Workers.²⁸ ``It makes the system fairer but it also makes it more complicated and expensive to administer,'' Erlichman says. ``For small plans, the administration costs are so high that you end up paying more in overhead than you get in benefits.''

So how could governments encourage employers to provide for their workers in retirement and take some of the pressure off the public system? Shiraz Bharmal, a pension consultant with Towers Perrin and chair of a Canadian Institute of Actuaries task force on pension coverage, says the provinces must implement an agreement to end regulatory overlap which the various provincial pension superintendents concluded in 1995.²⁹ Under the deal, employers who operate in more than one province would follow one set of rules - those of the province in which the greatest number of their employees live. ``I'm hoping common sense will prevail and we will remove the barriers from pension coverage,'' Bharmal says. But he says the pension commissioners' agreement is just a start. The institute's pension task force concluded that ``reduced and simplified regulation is a vital necessity not only to encourage growth of registered pension plans but to avoid (their) further erosion.'' ³⁰ Bharmal says government rules have made it very difficult for people to sponsor defined benefit plans. Erlichman agrees the interprovincial deal would help, but he rejects the notion that the regulatory rules that ensure fairness and protect workers should be sacrificed for efficiency. Rather, he urges more effort to encourage multi-employer plans

for small business, so that the risk and overhead can be spread among more people. He adds the defined contribution plans and group RRSPs are acceptable - though not entirely satisfactory - substitutes for defined benefit plans where the economics simply can't justify the latter. Bharmal also urges employers to provide comprehensive information and counselling about retirement planning for their workers and, where there is no pension plan, promote savings through payroll deductions. Though all these proposals make some sense, the trend of declining pension coverage won't be reversed until labour markets tighten and employers once again feel some need to encourage loyalty among employees.

In 1991, Conservative finance minister Michael Wilson implemented changes to the tax support for retirement plans that supposedly level the playing field between RRSPs and workplace pensions. The reforms also resulted in a big jump in RRSP contributions. The legislation raised contribution limits and those who did not, and allowed Canadians to carry unused RRSP room for seven years in order to make up for a previous inability to save. An upper-income earner without a pension plan was able to contribute a maximum of \$11,500 in 1991, up from just \$7,500 the year before. Those in pension plans also

got several thousands of dollars of added RRSP room, with the exact amount depending on their income and other deductions. In effect, the changes amounted to a huge tax break for the upper middle class and the rich, though it was not broadly recognized as such. Between 1990 and 1994, the annual amount contributed to RRSPs rose by 86 per cent to \$20.9 billion while income grew by less than 15 per cent.³¹ By all accounts, that stunning growth continued in 1995. Certainly more Canadians were taking advantage of RRSPs, including some with pension plans who had not been able to contribute previously. Only 15 per cent of all taxfilers participated in RRSPs in 1983, when members of the vast baby boom generation were starting families and buying their first houses, with all the big-ticket purchases that implies.³² By 1990, 22 per cent of Canadian taxpayers contributed, and by 1994, that had climbed to 27 per cent. That 27-per-cent figure is often used by those on the left to indicate that relatively few people can take advantage of RRSPs. However, that number is drawn from a base of all taxfilers, including those over 65 who no longer can contribute and those under 25 who have little interest in savings for retirement. More tellingly, some 60 per cent of working-age adults contributed either to an RRSP or pension in one of the three years

from 1991 to 1993, while 80 per cent of those earning more than \$10,000 did.³³ More than 5 million Canadians earning less than \$40,000 contributed in at least one of those three years. Still, Stastcan analysts Hubert Frenken and Karen Maser suggest that much of the increase in contributions since 1990 has come from higher-income earners, who were able to top up their tax-sheltered savings thanks to the higher limits. In 1991, ``many high-income taxfilers, who have traditionally had the highest rates of participation and have maximized their contributions, could secure additional tax-assisted savings,'' the authors said in a 1993 review of the impact of the new rules.³⁴

But while contributions are climbing steadily, nearly 75 per cent of all Canadian taxpayers didn't take advantage of the lucrative tax shelter in 1994. And a large minority of working-age Canadians are putting nothing away for their so-called golden years. According to Statistics Canada, some 5.4 million working-age Canadians did not contribute to either a pension or an RRSP in any of three years from 1991 to 1993. Some 86 per cent of this age group had earned income and so were eligible to contribute to the savings plan, noted Statscan's Karen Maser in a recent article in the agency's Perspectives on Labour and Income. ``But their income may have been too low for

this to be possible," she added.³⁵ And some groups tended not to have any earned income, meaning they couldn't contribute to an RRSP, though a spouse could on their behalf. Older women were particularly disadvantaged. Some 38 per cent of women between 55 and 64 had no earned income; they were either unemployed or not in the workforce. Not surprisingly, the younger and poorer a person is, the less likely he is to contribute to an RRSP or belong to a pension plan. And if a young or poor person does contribute, it likely won't be much. In 1993, the 1.68 million taxpayers earning between \$30,000 and \$40,000 contributed on average \$3,579 to an RRSP or company pension plan, including the employers' share. That same year, the 652,000 taxfilers earning between \$60,000 and \$80,000 had average contributions of \$9,128.³⁶ Age is also a key factor. More than half of RRSP contributors between the ages of 25 and 34 used less than a quarter of their limit, while more than half of those between 55 and 64 contributed the maximum.³⁷ Given the trend of greater participation the older a person gets, Frenken predicts a coming boom in use of the shelters. And this will have tremendous consequences for tax revenues, given that the Department of Finance has calculated the tax benefit cost \$14.9 billion in foregone revenues in

1991 alone. ``In 1996, as baby boomers begin turning 50, participation rates and contributions are likely to surge,'' he forecasts.³⁸ That assumes, of course, the continuation of the traditional pattern of rising incomes and savings as workers age. Given today's tougher economic times compared to most of the post-war history, that assumption may not be borne out.

While many people find it difficult to contribute to RRSPs, an increasing number have also had to tap what retirement savings they have to cope with hard times. According to Statscan, some 700,000 Canadians under the age of 65 withdrew a total of \$3.88 billion from their RRSPs in 1994, up from 650,000 pulling out a total of \$3.5 billion the year before.³⁹ Frenken says he was somewhat surprised by the continuing increase of early withdrawals. ``With the improvement in the job situation (in 1994), I was expecting that the number of withdrawals would decline,'' he says in an interview. While the RRSP system is meant to provide for retirement, Frenken argues it would be wrong to penalize people for early withdrawals or require the savings to be locked in, as some suggest. Under the current system, people pay tax on the RRSP money when they take it out, generally offsetting the deduction they received when they put it in. But the tax paid may be less than the deduction

was worth if the person has reduced his or her effective tax rate because of lower income. As well, the money was allowed to earn tax-free returns while it was kept in an RRSP. Those advantages can make it attractive for someone to save in an RRSP and withdraw the savings when they want to make a major purchase.

Still, Frenken argues the bulk of people who draw down their retirement savings have good reasons to do so. "These people are not being frivolous; they aren't using the money to buy a boat or go to Hawaii," he says.⁴⁰ "Many of these people have lost their jobs and exhausted their UI; they've really got their backs to the wall." The 1996 Canadian Institute of Actuaries' study on pension coverage suggests government should discourage that "leakage" and ensure RRSP savings are used only for retirement.⁴¹ The actuaries argue the government could require the savings to be locked in or impose a penalty on early withdrawals, though in both cases they would make exemptions for undefined "hardships." Bob Baldwin, a pension expert with the Canadian Labour Congress, also argues there should be some penalty for taking the funds out before retirement. "The tax shelter should be offered to achieve a specific purpose, which is to build retirement income," Baldwin says.⁴²

"Otherwise, we're getting into a generalized tax

preference for any kind of saving.' ' However, Malcolm Hamilton, an actuary with William M. Mercer Consultants, questions that approach. For many people, the attraction of the RRSP system is its flexibility, along with the superb tax benefits. ' 'People with the least security will say, 'I can't afford to lock away a certain portion of my income where it can't be touched', ' ' Hamilton says.⁴³ ' 'You'll take all the marginal people and push them right out of the tax shelter.' '

The early withdrawal figures do not include those Canadians who pull money out of their RRSPs and use it for a down payment on a house. In 1992, with the economy on its back and home sales in a deep slump, the Conservatives introduced a plan to allow Canadians with RRSPs to withdraw the money to purchase a home without paying tax on it. However, the homeowner must pay back into the RRSP over time the money that was withdrawn. If the money is not paid on schedule, Revenue Canada automatically considers a minimum payment to be income and assesses tax on it.

Frenken reports that, between February 1992 and December 31, 1995, some 399,000 Canadians withdrew \$3.758 billion from their RRSPs under the home ownership plans.⁴⁴ Experts are divided over the wisdom of that program. Home ownership - particularly

mortgage-free ownership - has been a traditional way for middle-class Canadians to save for their retirement. Even if the stunning inflation in house prices of the 1980s is over for good, a couple can reduce their future cost of living by working towards a mortgage-free, rent-free retirement, or can sell the family home and find cheaper, perhaps smaller accommodation while banking the proceeds. The downside to using RRSPs for the downpayment is that the person has lost all the tax-free earnings that the savings would have generated, even if the principal is repaid over time. Austen says he and his wife were aware of the pitfalls when they decided to pull \$16,000 out of his RRSPs for a downpayment on their south Ottawa home. ``We weighed it all out and it seemed to make sense to have the house,`` he says.⁴⁵ Austen's choice looks even better with the new Seniors Benefit that was announced in the 1996 budget. That's because he will not only be taxed on every dollar he pulls out of an RRSP when he retires, he will also lose 20 cents in old age benefits for every dollar he and his wife earn above \$26,000. Malcolm Hamilton, of William M. Mercer Consultants, says that, for people with above average incomes, it may make more sense to reduce anticipated living costs in retirement, including housing costs, rather than add income.⁴⁶ Some pension experts argue

the retirement system is being undermined when tax assistance is provided for savings that can then be used for other purposes. Concludes the 1996 Canadian Institute of Actuaries' report: ``The government should stop using RRSPs as an omnibus vehicle for varying government policies, such as home buying.''⁴⁷

The 1990 reform was supposed to equalize treatment between RRSPs and pensions, but a last-minute change tilted the field in favor of RRSPs, and may explain, to an extent, the popularity of group RRSPs. Each year, a person who belongs to a pension plan gets a notice from Revenue Canada informing them of their PA - or pension adjustment. The figure is based on the previous year's tax return. A person establishes his contribution limit for RRSPs in the current year by subtracting the amount of the pension adjustment from the RRSP benchmark of 18 per cent of earned income. So someone earning \$70,000 with a pension adjustment of \$9,500 would be able to contribute \$3,100 into an RRSP. But critics say the pension adjustment may over-value the real pension benefit and unfairly reduce RRSP room. For one thing, the pension adjustment assumes a high quality pension, while many fall short of those standards. As well, the adjustment assumes the person will stay in the job until retirement and is calculated on an assumed rate

of wage growth. But when a person leaves a job years before retirement, the lump-sum benefit payout is worth far less than the pension adjustment assumed. One senior Finance Department official says the further a person is from retirement age, the larger the loss of pension benefit.⁴⁸ (As usual with officials from the department, this one spoke on the condition he not be named.) Though it is impossible to generalize on the extent of the loss, the official says it can be as much as half the assumed benefit. In other words, a pension adjustment of \$6,000 might have been worth only \$3,000, meaning the person lost out on \$3,000 in RRSP contribution room. The original legislation implementing the 1991 changes contained a so-called pension adjustment reversal, which would have allowed a person who left a job to gain back RRSP room reflecting the loss of pension benefits. However, that was dropped after employers persuaded the Commons Finance Committee and the government that it would be too cumbersome and expensive to administer. The department is now reviewing the issue to determine whether it would be feasible to allow people to recoup lost RRSP room. It has retained KPMG Consultants Ltd. to survey employers to determine whether an efficient method of administration can be found. The 1995 actuaries' report, Troubled Tomorrows, argued that

loss of RRSP room is serious for Canadians who move from job to job throughout their career. ``The loss is particularly severe if the employee is forced to leave after many years of participation (in a pension plan), as there is much to be made up, little time to do it, and no tax-effective option for replacing the forfeited savings,'' the actuaries say.⁴⁹

Though some of his own union members could lose under the pension adjustment, Louis Erlichman of the Machinists' Union isn't losing any sleep over the issue. He is in the chorus of critics who believe the tax assistance for retirement savings is already too rich and should be pared back, rather than expanded. ``The expansion of the contribution room was a bad, regressive thing,'' Erlichman says.<sup>50</sup> ``If we can't afford our public pensions, then we sure as hell can't afford to expand further the tax subsidies for upper income people.'' Erlichman, like many other experts on the left, argues the tax assistance should be geared to no more than 1.5 times average earnings, which would be \$52,500 in 1996. At 18 per cent of earnings, the contribution limit would be \$9,450.

The CLC's Baldwin goes a step further. He suggests middle-income earners don't need to save 18 per cent of their income each year in order to maintain their standard of living in retirement. The

Canada Pension Plan and Old Age Security already replace 40 per cent of the average wage, and it won't be much lower under the new Seniors' Benefit. Baldwin suggests tax breaks should cover only 10 per cent of a person's income, up to 1.5 times the average earnings.⁵¹ (Malcolm Hamilton concurs that Canadians with more modest incomes don't need to save 18 per cent of their income to maintain their living standards in retirement, though that's about all that he and Baldwin agree on.⁵²)

Monica Townson argues the whole structure of the tax assistance is designed to be regressive, conferring the largest benefit on the higher income earners. There are three reasons for that: the contribution limits increase with income up to \$75,000 and only 2.5 per cent of the population had higher incomes than that in 1993; the affluent can afford to save more and so use a higher percentage of their RRSP room; and the deduction is worth more to higher earner because they pay higher marginal tax rates. Meanwhile, modest-income Canadians typically spend everything they earn so they have little chance to enjoy the tax break afforded to savings. "We need to look at this as part of the whole retirement system," Townson says. "Look at who is getting the benefit and why we're giving such large tax breaks to the rich."⁵³

Defenders of the tax assistance insist it is a crucial component of the retirement system. Without the incentives, workplace pensions and private retirement savings would truly be the reserve of the rich. Cost pressures are already forcing companies to re-evaluate their pension commitments; it's hard to believe many would offer their non-management staff such a perk without tax concessions. Nor are middle-class Canadians saving much outside the system. Doubtless, people would try to build some retirement savings, especially given the anxiety over the public pension system. But for most middle-class Canadians - even the affluent middle-class - it is the tax incentive that encourages the saving. Anyone who has done their tax return without an RRSP contribution, and then figures out the same return with one, knows how great the incentive is. It is now very common for people to borrow in February for an RRSP and pay off the loan with their tax refund.

It could be difficult to justify savings for retirement if the income generated from the savings was fully taxed, some economists argue. With the twin ravages of inflation and taxes, a person would find it difficult to make his retirement kitty grow. A saver needs a certain return just to compensate for inflation, so that his original investment does not

lose its purchasing power. Although inflation is now subdued, it has averaged six per cent over the last 25 years. If a person earns 10 per cent on his savings when inflation is running at six per cent - which was a typical scenario - virtually all of his after-inflation return would be taxed away, given an average marginal tax rate of 41 per cent. ``By taxing nominal returns instead of real returns, the tax system (would) gradually confiscate the saver's wealth,' ' says the actuaries' report, Troubled Tomorrows.⁵⁴

``Retirement savings become profitable for government and unprofitable for savers.`` (The actuaries fail to note the double taxation on income used for consumption: such earnings are hit once under the income tax and again by the federal and provincial sale taxes.) Still, without the incentives, far more people would be reliant on the public pensions than now will be the case, though that might ensure the maintenance or, even, expansion of these programs.

The actuaries also argue that the Department of Finance grossly inflates the actual cost of the tax assistance, estimated at \$14.9 billion in 1991. For one thing, the incentives amount to a deferral rather than an outright avoidance: the income is taxed when it is removed from the plan, albeit often at a lower marginal rate if one's retirement income is

significantly lower than the working-age earnings. Today's seniors like to remind carping critics that they also pay taxes; with a huge generation heading into retirement, it will be important that future retirees be able to generate tax revenues to help support government programs. The actuaries also question the Finance Department's ``benchmark tax system'' which was used to calculate the cost of the retirement savings assistance. The department measured the cost of the tax benefits against what would have been raised had they not existed. But, in Troubled Tomorrows, the actuaries insist the benchmark system is based on unrealistic expectations about how people would behave if there were no incentives to save. Essentially, the bureaucrats assume people would save anyway. However, if the absence of the tax breaks meant a person did not invest in RRSP, there would be no investment income to tax. So one should not - as Finance did - assume that the non-taxation of RRSP investment income represents a loss of all that tax revenue, the actuaries argue.⁵⁵ They calculate that - given a more reasonable benchmark system and the expected behavioural response to any higher taxation - the retirement system costs Ottawa in the range of \$4 billion to \$5.3 billion annually.

Most critics don't demand the elimination of

the tax preferences; they want to see them scaled back from what is now one of the most generous systems in the industrialized world. Townson suggests one way of doing that would be to replace the deduction, which favors high income earners, with a credit, which is of equal value to everyone.⁵⁶ That proposal, put forward by the NDP-appointed Ontario Fair Tax Commission, has received an endorsement from conservative commentator Thomas Courchene, a Queen's University economist. In his book, Social Canada in the Millenium, Courchene argues the CPP contributions and most other former deduction have been translated into credits to ensure better equity in the tax system. Given those changes, he writes, ``it becomes much harder to defend the existence of a full deduction for (pensions) and RRSPs, especially since the amounts that one can contribute, at least for RRSPs, also increase with the level of income.''⁵⁷

However, opponents of that approach argue it would, again, be a disincentive to save, especially for people who don't expect to be taxed at the lowest marginal tax rate when they withdraw their funds. In effect, they could face double taxation on some portion of that original investment income. Take someone who plunks \$1,000 into an RRSP. Currently, she is taxed at a 50-per-cent, combined federal-provincial

rate, meaning the deduction is worth \$500 in deferred taxes. When she retires, her marginal rate falls to 33 per cent. So when she withdraws the \$1,000, she pay \$330 in tax, plus a levy on whatever her savings had earned. She wins in the deferral, saving \$170 in taxes. Now, say that same person invested \$1,000 and received a 25 per cent federal-provincial credit. At the 50-per-cent tax bracket, she pays \$500 minus the \$250 credit, or \$250 net tax. But when she withdraws the money, she would again have to pay tax on the \$1,000, according to Townson. If she was in the 33 per cent bracket, she'd pay \$330 in taxes for a total levy of \$580, \$80 more than if she had simply paid the tax in the first place. And the higher the expected income - and therefore tax bracket - in retirement, the less attractive the system would be. Only if the retiree drops to the lowest marginal tax rate - a combined 25 per cent - would she break even and pay the same \$500 in tax that she would have outside the system. Despite that, Courchene insists the ``overall tax advantage would still be substantial`` because the investor has the opportunity to compound her gain tax-free inside the system.⁵⁸ Townson adds that the credit proposal may have some ``design`` problems, but they could be overcome to instill more fairness into the system.

Since the income tax system was first

introduced in the First World War, governments have used it to achieve certain policy aims. Recently, those have included breaks for retirement savings, incentives to invest in the domestic film industry, deductions for child care expenses or credits to invest in union-sponsored venture capital pools. By their very nature, these tax breaks are regressive since lower and modest-income Canadians simply don't have the means to take advantage of them. By the mid-1980s, those deductions and credits had become so numerous that upper income Canadians had a plethora of legal means to avoid paying taxes. Since then, the Liberal government - and the Conservative governments before them - have reduced the number of loopholes and transformed many deductions into credits. By far, the richest incentive left is the one for retirement savings. Most pension experts agree the goal is laudable: Canadians have to save for retirement to maintain a decent lifestyle and take pressure off the public system. What is questionable, however, is whether governments need to give affluent Canadians such a large tax break to encourage that. The experts at the Canadian Institute of Actuaries suggest the limits on RRSP and pension contribution ''prevent'' upper income people from saving as much as they should.⁵⁹ That assumes the tax burden is

insurmountable, that without tax assistance, people won't save. But upper-income people certainly do invest outside the RRSP system. For well-educated people with disposable income, there is an even greater incentive to save than the tax system provides: the desire to have comfortable retirement. Fear - in this case, fear of poverty in old age - can be a great motivator.

That is not to suggest some tax incentives are not needed; they are. Most middle-class Canadians simply wouldn't find the disposable income required to build a decent retirement fund without some encouragement. Still, the Liberal government has missed an important opportunity for a public debate on the tax treatment of retirement savings. In 1995, the Liberals had promised a sweeping paper on aging that would set the tone for a broad review of the public pension system, including the tax side. Instead, they opted for more focussed reviews of the Canada Pension Plan and the Old Age Security system. What is needed is a thorough review and public debate on how much Canadians are prepared to sacrifice in current tax revenue from the affluent to help them finance their own retirements. Short of that broad review, the Liberals should ensure the limits are more reasonable, perhaps by speeding up the budget decision to reduce

to full tax deductions to one that covers two times average earnings rather than 2.5 times as was originally envisaged. The government should also take some concrete steps to ensure that today's mobile employees aren't the big losers when they switch jobs - for whatever reason - and lose pension benefits. And finally, it should recognize that middle-class Canadians face enormous financial pressures, including rising fees for things such as university tuition for their children as governments cut back. It simply can't be assumed that the majority of Canadians will be able to make up the ground lost as public pensions are cut back.

CHAPTER SEVEN

CONCLUSION

Canada's post-war public pension system was built on a growing economy and rising incomes. Perhaps even more crucial, it was built on a set of beliefs and values: That the state was, in essence, an expression of community. That the individual was stronger and more secure when he participated with that community for common aims. And that, through the state, the increasingly affluent community had a duty to look after the most vulnerable in society, including the elderly. Those values were forged in the blast furnace of the Depression and the Second World War. The state had been forced to take an activist role to salvage its citizens from the ash-heap of market failure, and to marshal their collective strength to defeat an even greater evil. It was natural, then, that Canadians should decide they could rescue the elderly from poverty and provide everyone with a basic pension. The foundation for that public pension system was a commitment to social welfare and unshakeable optimism that a growing economy would foot the bill.

As much as the economic underpinning, it is that social ideal that is being challenged in the latest round of pension reform. Many Canadians have simply lost that firm commitment to their society. Economist Bill Robson, of the conservative C.D. Howe

Institute, pulls pictures of his three children out of his wallet and informs an audience that those children could do better on their own by investing the money that will be taxed away from them to support the Canada Pension Plan. Not a lot of room in Robson's wallet for pictures of poor kids, who will be lucky to find work when they grow up and have little chance of becoming savvy investors. The last decade of the 20th century is a virtual mirror image of the 1950s: government is retrenching, not expanding; the economy is stagnant rather than buoyant, and interest rates and unemployment are high, not low. Cynicism has increasingly replaced faith in government as an effective agent for the social action. More Canadians are adopting an American-style individualism. Even when Canadians recognize that they'll have to rely on a public pension, many doubt the government's ability to deliver.

The Liberals missed an important opportunity to promote that shared commitment when they shelved their long-promised paper on aging in late 1995. The government had planned a thorough review of the challenges posed by an aging populace. Instead, Finance Minister Paul Martin opted for a pragmatic approach: announce the reform of the Old Age Security system, though it won't take effect for five years;

narrow the scope of the debate over the Canada Pension Plan by providing a limited set of options; and tinker with the RRSP system. What is missing is any sense of overall plan. Martin was left to act as repairman when an architect was called for. Critical questions were unasked, let alone unanswered. What is the proper role of the state in subsidizing comfortable retirements, or paying people not to work? How has that role changed in the 1990s when governments are trying to cope with economic stagnation and large debt loads? How does the pension promise fit with the broader legacy that will be left to the generation of workers in 2025? What will their debt load be? Their job prospects? And how will they pay for the strain the elderly baby boomers will place on Medicare? How will future retirees make up income lost from cutbacks in the public sector benefits? And to what degree should Ottawa subsidize private savings when it is cutting back public pensions? Prime Minister Jean Chretien has been virtually silent on the issue except to issue his guarantee to current seniors during the Quebec referendum and to suggest broadly that changes would be needed to sustain baby boomers' pensions. Finance Minister Martin laid down principles on individual programs, but has avoided the broader debate.

Martin did have some good reasons - aside from

his impatient nature - to skip the philosophizing and get down to business. The last ``Great Pension Debate`` of the early 1980s produced little consensus and few results. The same groups who have defended the public system in this round were calling for its expansion in the early 1980s, while those looking for cuts were urging government to hold the line. If anything, the gulf between right and left has widened. While the left has clung to its hoary social welfare model, Canadian conservatism has adopted an increasingly libertarian approach to government. (This is best exemplified by neo-con wunderkind David Frum's obnoxious, 'I'm ok, screw you,' attitude.) At the same time, Martin faced some real political constraints. Not the least was a separatist government in Quebec City. The Parti Quebecois and their Ottawa allies, the Bloc Quebecois, made it clear they would use any pension debate to instill fear among Quebecers that Ottawa was about to chop their benefits. It was an ironic turn-about from the 1980 referendum when federalists warned Quebecers they'd lose their pensions if they voted Oui to separation. The Liberals also wanted their provincial colleagues to buy into a separate CPP information paper because they need the provinces to agree to any changes in the Canada Pension Plan. A broad consultation paper on aging

would have had little chance of provincial support. Finally, the Liberals felt they had to give aging baby boomers ample warning of changes in the public retirement system. And with the oldest boomer now turning 50, each year of debate represents a year lost to those who need to adjust their plans and expectations. Still, the Liberals' piecemeal approach has left many Canadians wondering how the puzzle is supposed to fit together.

The most fundamental attack on the pension system has targeted the very notion of the public pension itself. U.S. businessman Peter G. Peterson, a vocal critic of America's ``entitlement'' programs, complains that Americans suffer from ``the illusion that they have some sort of inalienable right to live the last third of their adult lives in subsidized leisure.'' ¹ Writing in Saturday night, author Peter Shawn Taylor pens an epitaph for retirement, which he describes as ``10 or 20 years of fun, partly at public expense, as a reward for showing up at work during our adult lives.'' ² Many commentators argue the government should provide only income-tested, anti-poverty pensions. Middle-class Canadians would simply have to keep working until death or disability, or save more if they want a decent retirement. Some suggest a mandatory savings program to take the pressure off the

means-tested pension.

Those critics ignore two realities: there simply isn't the demand for people to continue in the work force beyond 65, and ''the public'' is us. As recently as 1961, before the Canada Pension Plan helped provide a decent retirement income, only 30 per cent of men and a mere six per cent of women worked past 65.³ The majority of those who were no longer working were poor. In Canada at least, the public pension system grew out of a demonstrable need. And that need has not diminished. Many Canadians are being forced out of the work force well before 65. That trend may ease as the baby boomers start to retire, but it is doubtful that society will be encouraging the vast majority of elderly boomers to continue working full-time, hanging on to the best jobs.

As well, there seems to be some confusion as to how the pension system works. The complaint about public subsidies completely ignores the fact that recipients will have paid taxes - both to general revenues and through CPP premiums - all their working lives in order to support the elderly of their generation. They receive a pension in return for supporting the pensions of their elders. And post-boomers need to be assured that same promise will hold true for them. True, today's seniors got a better deal

as part of the start-up cost. And the funding arrangements can be reviewed to even out the cost and benefits between the boomers and those that follow. It's also true, as Martin suggests, that governments should have moved more quickly to address the funding problem. But those are design problems. The Liberals have recognized the fact that many Canadians will rely on government to pool their resources - that's called taxation - and provide some public pension for their retirement.

However, the defence of the fundamental goals of the public pensions system should not be read as an endorsement of the status quo. While the pay-as-you-go plans made sense when economies were booming and incomes growing, they would place an unacceptable burden on future generations if current economic conditions persist. And there are no easy fixes to the problem; we cannot simply hope that growth returns, though certain policies can help in that regard. Middle-class Canadians will have to adjust their expectations: they simply can't consume all their income now and expect the state to care for them in their twilight years. Government benefits from general revenues will be targeted more to lower- and modest-income Canadians, with a smaller benefit for those with RRSPs and pensions. The Canada Pension Plan

should remain the foundation of a middle-class retirement. Baby boomers from a generation known for its penchant for instant gratification on credit have to take a longer view. Savings must increase. There are three ways to do that: get a handle on public debts and deficits, which represent borrowing rather than saving; increase CPP premiums more quickly than planned to build a larger fund, and encourage private savings in RRSPs and workplace pensions, especially among the middle-class who otherwise may not save. Unless boomers are willing to make some sacrifices now to fund their own retirement, it will be extremely difficult to persuade following generations to provide a cushion for them.

The push for increased savings comes with a cost, however, that must be kept in mind as Canadians look to pre-fund their retirement. Weak consumer spending has been a serious drag on the economy since the beginning of the 1990s and it isn't likely going to pick up much in the coming years. Governments at all levels are slashing spending and jobs, with no signs of let-up for the next several years. At the same time, Canadians will face higher CPP premiums and be encouraged to save rather than spend more of their income. Both will reduce income available for consumption. All that does not bode well for short-

term growth rates. However, the impact of these forces could be mitigated somewhat. Higher savings and reduced deficits should mean lower interest rates, which would spur investment and free up some disposable income that would otherwise go to debt payments. Governments would also find it far easier to escape their debt traps with lower borrowing costs, meaning a quicker end to austerity. Still, Canadians are going to have to build on their recent successes in foreign markets, which have pushed exports to record levels. The Chretien government's almost obsessive push for greater exports is a tacit recognition that aging, indebted Canadians need to find markets among younger, growing populations.

The fuller-funding strategy works so long as real interest rates remain above the rate of income growth - just as pay-as-you-go was eminently sensible when incomes were rising rapidly. But it's conceivable that real interest rates will fall - just as income growth did in the 1980s. (Critics like to blame government short-sightedness for implementing a pay-as-you-go scheme. However, the Canadian Institute of Actuaries - the private-sector association of pension experts - long supported that funding scheme.) Now, experts such as actuary Malcolm Hamilton, of William M. Mercer Ltd., are advising the government to hedge

its bets with a conditional plan that would build a larger fund when interest rates are high, and follow a pay-as-you-go schedule if rates drop.⁴ Hamilton's hedge should serve as a warning to both governments and individual Canadians who feel they could do better investing their money themselves: markets don't always go up, and have even been known to crash.

While the funding side of the retirement system needs attention, the benefit side can't escape unscathed. Finance Minister Martin's reformed Seniors Benefit represents a reasonable attempt to reduce costs and provide some increased support for those on modest incomes while maintaining some income replacement for the middle-class. While there are some persuasive arguments in favor of universality, government would be hard pressed to continue delivering benefits to wealthy seniors when every other area of spending is being cut back. The Liberals simply replaced a stealthy clawback with a straightforward and progressive reduction in benefits for those with above average incomes. And they made sure the benefits would not erode with inflation - a major improvement after Tory cuts to the Old Age Security system. However, like the OAS, the Seniors Benefit will diminish in importance for retiring Canadians as they try to replace pre-retirement income. The benefit

is adjusted to prices not wages. Over time, it will decline as a percentage of average income, assuming real wage growth. If wage growth does pick up, future governments may have to adjust the level of the Seniors Benefit.

Despite objections from seniors' groups, the government's decision to provide those benefits on the basis of family income seems fair. Given the higher participation of women in the labor market, there will be far fewer who have no income of their own when baby boomers retire. As well, the tax system already recognizes the family unit in a number of ways, from the calculation of the child tax credit, to requiring the lower-income spouse to claim daycare expenses. As Ken Battle of the Caledon Institute notes, basing benefits on family income ensures couples with similar incomes are treated the same, regardless of the income split. Surely, Battle suggests, it is not the responsibility of the taxpayers to ensure the financial ``autonomy'' of a woman who had the luxury of staying out of the work force because her husband earned a high income. One can easily reverse the fairness argument. Is it fair the governments pay benefits to some high-income couples based on how they split their income?

It's difficult to accept any reduction in the

CPP retirement pension. The benefit is already small - the maximum represents only 25 per cent of the average wage. After a meeting in June 1996, federal and provincial finance ministers appeared to be committed to maintaining at least the retirement pension, rejecting proposals from bureaucrats to cut it back. They may, however, opt to reduce the number of low-earning years that a person can drop out of the pension calculation. Such a move would save the plan only a little but would target those who need the CPP most - those who were in and out of the job market and therefore had less opportunity to save for retirement.

The ministers might also look to survivors' benefits for some savings. The CPP information paper suggests eliminating the death benefit. The move would hurt low-income survivors, especially given the high cost of funerals. If it is eliminated from the CPP, governments should provide a death benefit for low-income Canadians. The ministers backed away from any fundamental examination of survivors' benefits. Headlines warning of looming cuts to ''widows and orphans'' just before a critical February 1996 meeting no doubt scared them off. But there may be room for some modest changes to the survivors' benefit. Currently, surviving spouses are paid pensions for a lifetime or until their own retirement, even if they

remarry. In 1996, it was worth \$400 a month for someone between 45 and 65, or someone under 45 with dependent children. The government might consider maintaining the initial value of the survivor's pension but reducing it over time depending on the person's age, or even ending it upon re-marriage.

The ministers have targeted disability for cuts, based in part on warnings from the chief actuary that CPP disability costs were escalating rapidly. However, starting in late 1994, the government took measures to tighten the administration of the system. It's unclear at this point what impact those actions will have on long-range cost estimates. Some reforms were clearly necessary. Previously, someone on CPP disability was assumed to be permanently disabled and was neither encouraged to undergo therapy nor required to submit to periodic medical examinations. That has changed, though more could be done to incorporate the disabled back into the work force. Meanwhile, older, physically exhausted workers continue to be discarded from the work place, increasing the pressure on the disability system. As the baby boom ages, it is likely the number of claimants will rise, not fall. While tighter administration and stricter eligibility can gain some savings, there is a real danger that the disabled will pay unduly as politicians seek to cut

CPP costs without touching retirement benefits. And the truly disabled are no better able to recoup lost income than are the elderly - they just don't represent as effective a lobby. There is merit in proposals for a national disability income system but only one that is properly funded and administered humanely. While such a program could help resolve the problems of the CPP, it would simply add to the taxpayers' burden from general revenues.

Most business groups and conservative economists favor a delay of the retirement age to 67 or later to reduce pension costs. Theroretically, the proposal makes sense. Canadians are living longer and are healthier at 65 than previous generations, and the assumption is those improvements will continue. Someone retiring at 65 in 2015 can expect to live another 19.4 years, more than four years longer than a 65-year-old in 1966 when the CPP was introduced.⁶ Work is increasingly knowledge based, as opposed to physical, making it easier for older workers to continue. And many experts suggest there will be a greater demand for the talents of aged baby boomers, given the smaller generations coming up behind. However, the later age proposal bucks a trend toward retiring earlier rather than later that dates to the early part of the century. It also ignores the

stagnation in employment growth that has plagued the developed world as the technological revolution replaces man with machine and globalization shifts work to the developing world. And it forgets the fact that tail-enders and post-baby boomers will be eagerly awaiting the day their numerous seniors retire.

(Consider a real life example: Front-end baby boomers who make up The Toronto Star management are already worried that its newsroom is filled with less-than-energetic 40-year-olds. Imagine when it is filled with decrepit 65-year-old boomers. It gives the phrase 'ambulance chasing' a whole new meaning!)

Delaying the entitlement age does not mean Canadians could not retire earlier; they'd just be poorer if they did. Those who either wanted out or were forced out before 67 would have to take early retirement, with reduced pensions. Again, the lower-income, lower-skilled workers would be the ones who lose out while the higher-skilled workers would likely be able to sell their expertise on the labor market. Presumably, the Seniors Benefit would also be unavailable until age 67, but one can imagine a system that pays the Seniors Benefit at 65 to early retirees.

The case for delaying the retirement age is much stronger if one allows a gradual retirement with a partial pension. David Foot argues for such an

approach in Boom Bust & Echo.⁶ Several European countries now allow people to make a gradual transition into retirement by reducing their work schedule while picking up a partial pension.⁷ Ideally, the transition would begin well before 65 and end at around 70. It could cost money in the first few years when partial pensions would be available to those who were still working. But that initial investment could yield big dividends as the CPP paid only partial pensions for people aged 65 to 70, while those people began the transition to unclog the job market. Unfortunately, the proposal for a partial pension received little attention during the 1995-96 debate over proposed CPP reforms. In their rush to dissociate themselves from a delay in the retirement age, the ministers ignored a proposal that could reduce the long-term costs of the CPP while allowing people who wanted to continue working past 65 to do so.

The fear of a looming pension crisis has almost certainly led Canadians to boost their RRSP contributions. That is the reaction Ottawa is hoping for. Experts on the left complain about the privatization of Canada's retirement income system, while experts on the right hail the increased personal responsibility. Those in the muddy middle say heightened interest in RRSPs is a natural reaction to

fears about the sustainability of public pensions, but wonder whether the increased savings will make up for cuts to the public side. They will help. Under the Seniors Benefit, upper-middle-income Canadians stand to lose several thousand dollars a year in benefits, while those on the lower half will actually gain a bit. Those affluent Canadians should be able to tighten the belt another notch and plow more into their RRSPs. (Though not without engaging in that not-so-great Canadian pastime - whining about how tough things are!) It may be they'll have to forego a trip to Florida every other winter so they can afford to go when they're retired. Canadians just above the average income will be hardest hit. While they won't lose as much as their more wealthy friends, they'll also have less ability to replace the income they do lose. Many have no other savings than the irregular RRSPs contributions they manage to make and they often have to tap those so-called retirement savings to get them through a temporary hardship, such as loss of a job. Given that difficulty, they would be likely unable to replace any further reduction to their retirement income from a reduction to the CPP pension.

In the current political climate, the government would be ill advised to cut back significantly on RRSP limits. Canadians are being told

they will have to rely more on their own savings; it would be inconsistent to reduce their ability to do so. The 1996 budget did contain several provisions aimed at expanding the ability of middle-income Canadians to take advantage of the tax shelter and foregoing scheduled increases in RRSP limits for upper-income earners. Some further whittling at the high end might be appropriate. Proposals to reduce the generosity of the tax treatment - for example, by changing the deduction to a credit - have some serious flaws, though they are worth investigating further. But it must be remembered the incentive amounts to a tax deferral. In effect, baby boomers will be contributing to their own pensions as they pay tax on the savings they withdraw in retirement.

The incessant calls from business leaders to cut back on the public retirement system would be a bit easier to swallow if there was some evidence of their commitment to workplace pensions. Instead, the percentage of Canadian workers covered by a workplace plan has stagnated since the early 1980s and even dropped in the past few years. And companies are increasingly turning to plans that force their members to bear risks of poor returns. At the same time, some features of the RRSP system penalize pension plan members who change jobs. So far in this round of the

pension debate, governments have been silent about workplace pension plans. It's a glaring omission. Clearly, Canadians are going to have to rely more on private income to achieve a comfortable retirement. Ottawa and the provinces should be actively and conspicuously searching for ways to boost private pension coverage. One approach would be to pressure business and labor groups to sponsor multi-employer pension plans that would reduce the administrative cost of pension plans. Governments could also promote regulatory efficiency, so long as it does not compromise the hard-won protections of the workers. The federal government is already pushing for a national securities commission and national tax collector to reduce costs and improve efficiency. A national pension commission would seem to be a logical addition to that roster.

The public pension system is not going bankrupt, though it does have some heavy i.o.u's outstanding. Current pensioners and those still in the workforce have been promised hundreds of billions of dollars worth of benefits for which not a dime has yet been collected. (The current CPP fund covers only two years of present benefits.) That pension promise grows daily as baby boomers lurch towards retirement. Despite its enormity, it should be affordable with the

right mix of increased savings through higher premiums, modest reductions in benefits, and vigilance in restoring health to the broad public balance sheet.

Actions taken by Ottawa in 1996 - though criticized as too much or too little - should help. But whether the pension system is affordable when the baby boom retires depends entirely upon the economy. Lower interest rates and higher income growth - long promised by governments pursuing anti-inflation, anti-deficit policies - are essential. The government is now operating on the assumption that incomes will grow by one per cent a year - better than recent experience but a far cry from the 1950s, 1960s and even the 1970s. With a better-than-forecasted performance, working-age Canadians would have to devote a smaller-than-expected proportion of their growing incomes to maintain support the elderly. But serious problems arise if incomes continue to stagnate. Fuller-funding will help cushion the shock, but won't be enough. Retirement age Canadians will either have continue working - which doesn't help their successors - or take a hit to their standard of living. Lou Goldenberg's recollection of Montreal in the 1930s, when the elderly relied on families and charity, may seem as much a premonition as a memory. Today's youth who are forced to live with their parents because they

can't find jobs may find their parents living with them when the seniors can't afford retirement.

The key to any pension reform is predicting the future. Despite David Foot's assurances, even demography is an uncertain science. There are no guarantees, for example, that life expectancy will continue to rise. But demographic projections are as sure as tomorrow's sunrise compared to the economic assumptions that actuaries must make in laying out pension projections. Tell me what the unemployment rate will be in 15 years? Where will interest rates be headed? What kind of debt load will governments be carrying? Actuaries can only project from past trends into the future, a notoriously unreliable method but the best we have. Given that uncertainty, it is critical that governments be more nimble in addressing changing conditions than previous governments were. Unfortunately, a sense of crisis is often needed before a government can summon the political courage to act. Finance Minister Martin and his colleagues will put in place a new schedule for CPP premiums that won't have to be revised again for five years. That's simply too long to wait. Given the imminence of the baby boom's retirement, Ottawa should maintain constant vigilance. And it should undertake a fundamental review in 2000 to ensure that the 1996

renovation of the pension system was sufficient to maintain its long-term sturdiness.

NOTES

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