

Canadian Labour Congress



RETIREMENT SECURITY

LET'S MAKE IT WORK *for everyone*



Retirement security reform #3 - Pension Insurance

Recent events have made it obvious: Canadians need an insurance system to protect their pensions. This requires a federal level that can be joined by willing partners at the provincial level.

Mandatory insurance for essential things is common in Canada. We are required to have insurance for our houses, cars, bank accounts, our vehicles, and our jobs (EI, WCB). A similar priority has to be placed on our pensions, one of the most important things a worker owns.

With this in mind, Ottawa should create a federal system of pension insurance financed by contributions from pension plan sponsors. This system would initially apply only for pensions in the federal jurisdiction, but other provinces could also choose to join. As part of this insurance system, Ottawa should also create an agency to adopt pension plans abandoned in corporate bankruptcies to protect affected workers the safety net of a minimum pension in retirement.

To help finance large pension insurance claims, the federal government's proposed national securities regulator should introduce a financial transfer tax on Canadian stock markets. Speculators at the heart of recent financial turmoil would be compelled to pay. Pensions. Currently thirteen other countries use a financial transfer tax (or Tobin Tax) to extract a rent on speculation. The government has generated a fund of \$7 billion from the TSX alone in 2007.

How our Plan Would Work:

This system would be managed by the Office of the Superintendent of Financial Institutions (OSFI) which oversees pension plans at the federal level. Provinces would be able to opt into this system should they choose to do so.

This system would have two components: The first component would protect pension benefits to a maximum of \$1 million when an employer enters bankruptcy proceedings and is unable to pay out pension benefits. The second component would protect pension benefits when an employer declares bankruptcy and shuts down permanently.

Federal pension insurance would be financed by pension plan sponsors: The fee structure would be based on a risk-based insurance system, with an increase to the amount recently proposed by the Ontario Expert Commission on Pensions (from a mandatory fee of \$2.50 per plan member for pensions that are well funded, and higher premiums for plans with poor funding, up to a maximum of \$12 million per year). The recent experience of General Motors testifies to the need for additional protection against pension insurance claims. For this purpose, a small 0.1% financial transfer tax (or "Tobin Tax") would be levied on Canadian securities. The pan-Canadian securities regulator Ottawa plans to introduce soon.

Why This is a Good Idea:

Workers could count on a significant portion of their pension earnings if the worst happened: They would no longer fear losing their entire pensions to employer mismanagement, stock market shenanigans, or wealthier creditors in bankruptcy proceedings.

Employers and stock market speculators would be compelled to insure pensions: In Canada's regulatory environment, where employers are only required to fund pensions to a minimum amount, employers must insure pensions. Stock market speculators should also be obliged to protect pensions given their often questionable behaviour. It is unfair to ask workers' pensions to bear the risk of employer-bankruptcy alone. This risk should be shared evenly, and mandatory pension insurance allows that to happen.