



## RETIREMENT SECURITY

LET'S MAKE IT WORK *for everyone*

# Retirement security reform #3 - Pension Insurance

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Recent events have made it obvious: Canadians need an insurance system to protect their pensions. This requires leadership at the 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, our bank deposit accounts, our vehicles, and our jobs (EI, WCB). A similar priority has to be placed on our pensions, one of the most important assets a worker owns.

With this in mind, Ottawa should create a federal system of pension insurance financed by contributions from pension funds themselves. This system would initially apply only for pensions in the federal jurisdiction, but other provinces could also choose to opt in if they wish. As part of this insurance system, Ottawa should also create an agency to adopt pension plans abandoned in corporate bankruptcy, to offer 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 0.1% financial transfer tax on Canadian stock markets. Speculators at the heart of recent financial turmoil would be compelled to protect pensions. Currently thirteen other countries use a financial transfer tax (or Tobin Tax) to extract a rent on speculators. Such a tax would have 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 regulation 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 \$2,500 per month when an employer enters bankruptcy proceedings and is unable to pay out pension benefits. The second component would adopt pension plans abandoned 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 Ontario's pension insurance system, with an increase to the amount recently proposed by the Ontario Expert Commission on Pensions. It would assess a mandatory fee of \$2.50 per plan member for pensions that are well funded, and higher premiums for plans with poorer funding records (to a maximum of \$12 million per year). The recent experience of General Motors testifies to the need for additional protection for large pension insurance claims. For this purpose, a small 0.1% financial transfer tax (or "Tobin Tax") would be levied on Canadian stock markets by 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.

## Can we afford to do this?

Yes and at a very low, cost to the public purse. Our federal pension insurance plan requires minimal government investment apart from beefing up the ability of federal pension regulators to play new roles. The core of our insurance system is financed by pension plans themselves.

Our proposed reserve fund extracts a small rent from the same speculators who caused the current economic mess. This is a smart, low-cost solution that draws revenue from those who should play a role in making pensions more secure.

## Why should well-funded pension plans subsidize others with poorer records?

This isn't about subsidizing poorly funded pension plans. This is about ensuring a base level of protection for all workplace pensions in the event that the worst should happen. That is the responsible thing to do.

Employer lobbyists always whine about the "moral hazard" of pension insurance. They worry that bad employers will game the system to offload pension obligations at the expense of good employers.

This is a serious concern, but entirely manageable if attention is paid to two things. First, pension regulators must do their job, and insist that pensions are well-funded. Second, if employers declare bankruptcy and file pension insurance claims, regulators must ensure claims are legitimate. If regulators do this, bad employers will not be allowed to game the system.

## Why should government protect the pensions of better-off unionized workers? What about those who have nothing?

This is about retirement security for everyone. This is about ensuring hard-earned pensions aren't stolen by unscrupulous people. Pensions are deferred wages, and not a sponge for an employer's economic problems. Also, the social cost of pension insecurity is too high. Communities where pensioners live will suffer if Ottawa allows the fleecing of our pensions.