CANADA

Policies in Place

Social Safety Nets to Alleviate Poverty

Canada's Pension System

Canada's system of pensions and retirement income consists of a mixture of public and private elements. The system aims at assuring a basic amount of assured income to all retirees and a minimum of replacement of wages at retirement, while at the same time relying to a considerable extent on the savings initiatives of individuals and their employers, particularly in the middle and upper income ranges.

The public pension elements consist of:

- The federal Old Age Security programme. This scheme incorporates both a basic, residence-based pension financed from general federal government revenues for persons over age 65 and an income-tested Guaranteed Income Supplement that is targeted to lower-income seniors. (An income-tested allowance is also provided to spouses of low-income pensioners and to widows and widowers as early as age 60). The basic pension is about 15 per cent of the current average wage in Canada. Approximately 5 per cent of pensioners—those with incomes above an income threshold of $53,215 in 1999—are required to repay all or part of their basic pension through the tax system.
- The Canada Pension Plan, and its counterpart the Quebec Pension Plan in the province of Quebec. These are compulsory, contributory social insurance schemes designed to provide a measure of earnings replacement for employed and self-employed persons and their families in the event of the retirement, death or disablement of the wage-earner. The Plans are entirely self-financed through the premiums paid by workers and employers and the investment earnings on Plan reserves. Protection is limited to earnings up to a ceiling that is about 115 per cent of the average wage, and is intended to replace about 25 per cent of average lifetime wages (adjusted for wage growth) up to the ceiling. Retirement benefits are available at age 65, but may be paid on an actuarially-reduced basis as early as age 60, subject to a retirement test. Contributions are paid on earnings above $3,500 annually up to the earnings ceiling, at a rate of 3.5 per cent each for employer and employee. Self-employed persons pay both employer and employee shares. The employer/employee contribution rate is scheduled to rise to 4.95 per cent each—a combined 9.9 per cent by 2003 and to remain fixed thereafter.

The private elements consist of self-financing, employment-based Registered Pension Plans and individual Registered Retirement Savings Plans. The federal and provincial governments encourage and regulate these plans through tax sheltering and through rules governing the benefit standards and allowed types and amounts of investments. Plans are not legally compulsory but membership in a Registered Pension Plan may be a condition of employment with a particular employer.

In addition to these formal programmes, Canadians make provision for retirement through general savings and investments such as home ownership.

Context in which the Canadian System was Developed

The Canadian retirement income system largely developed over a period of approximately 50 years covering the middle part of the 20^{th} century. Before that time, some benefits had been provided for war veterans and through individual large employers such as governments, banks and railways. Public pension responsibilities were seen as a provincial responsibility. Beginning in 1927, the federal government established an Old Age Pension scheme, whereby the federal government would pay half the cost of provincially-delivered pensions. The benefits were low, available only at age 70 and subject to a means test that looked at income, assets and family capacity to support the senior.

During and immediately after World War II, occupational pension schemes began to expand. As well, government interest in providing pensions grew after studies in Canada and abroad recommended major expansion of the government's role in social programmes, fuelled by both optimism about economic growth and determination to avoid the hardships that had characterised the pre-war period. The universal Old Age Security pension was initiated in 1952 following a constitutional amendment that gave the federal government authority to operate such a scheme. The key difference from the previous scheme was the elimination of the means test, so that benefits were available universally at age 70. Means-tested benefits were offered at age 65. Registered Retirement Savings Plans were also instituted in the1950s to give broader savings opportunities to persons who did not have an occupational plan.

In the mid-1960s, as good economic growth continued, further major expansion of the public system was undertaken. The age of eligibility for the universal pension was lowered to 65 and the Canada and Quebec Pension Plans were introduced to provide a measure of earnings replacement to all workers, particularly the roughly 60 per cent who did not have occupational plans. A temporary supplement to the universal scheme was created to help persons who would be too old to participate fully in the Canada and Quebec Plans. This supplement was revised and expanded in the 1970s and early 1980s to provide a guaranteed minimum income to virtually all seniors.

The past 20 years have seen efforts focussing more on assuring long-term stability in the public pension system in the face of lower economic growth and changing demographics. Efforts have also been made to improve the standards governing occupational plans and in ensuring fairness in the savings opportunities between occupational schemes and Registered Retirement Savings Plans.

Assessment of the System

While no two economies have identical retirement income approaches, recent international studies have tended to favour systems that (like Canada's) rely on a mixture of public and private elements. For example, the recent OECD document "Maintaining Prosperity in an Aging Society" (1998) suggest that "A system of retirement provision that is based on many elements has the potential to reduce the risk by diversifying across producers….Indeed, each of the elements of the system has its own strengths and weaknesses and a flexible balance among them not only diversifies risk but also offers a better balance of burden-sharing between generations and gives individuals more flexibility over their retirement decision". The same study ranks Canada highest in a comparison of overall adequacy and equity of retirement income in a number of European and North American economies.

Workplace Practices that Contribute to Enhanced Productivity and Greater Stability

The Labour-Management Partnerships Programme (LMPP) promotes effective labour-management relations at the workplace and sectoral level by providing funding assistance and advice for joint labour-management initiatives that address workplace and sectoral issues.

In an era when changes in the global economy are redefining the whole concept of work, Canadian workplaces are finding more and more that traditional approaches to work-related issues no longer fit their needs. LMPP funding allows them to experiment with new ideas through pilot projects that are outside the scope of normal day-to-day operations, and which might not otherwise have been undertaken.

Since 1991, the Programme has supported a wide range of joint initiatives such as pilot workplace restructuring projects, research projects on workplace, sectoral or industrial relations issues, alternate approaches to traditional collective bargaining, joint labour-management training in labour relations, conferences and studies. In many cases, the knowledge gained has provided a solid foundation for implementing workplace change that benefits both sides. Almost invariably, the process had led to a more positive labour-management working relationship.

<u>Funding eligibility</u>

- Unions and employers in federally-regulated workplaces (excluding federal government departments and agencies)
- Unions and employers in provincially-regulated workplaces, if the proposed projects address significant national or regional issues
- Union-only or employer-only, provided the project engages the other side in meaningful interaction or dialogue
- Joint labour-management committees or organisations

<u>Funding availability</u>

LMPP funding covers up to half of the costs associated with the project, with some exceptions such as replacement wages for workers attending meetings or training sessions, and travel outside Canada. Applicants may, however, consider such costs as part of their contribution, which must at least equal LMPP's, and may be measured either in cash or in kind. The LMPP contribution is limited to C$100,000 per project over a period not exceeding two years. Average contributions range from C$10,000 to C$50,000.

<u>Project assessment</u>

Projects are assessed against specific programme criteria and priorities which emphasise new learning and its application to joint development of new approaches to work and work-related issues. Projects should demonstrate the potential to produce tools—a report, course modules, a video, for example—which would be useful to other workplaces considering similar initiatives. To reflect the fact that successful projects tend to demonstrate a high level of jointness, priority is given to proposals that are submitted jointly by labour and management and that involve unionised workplaces. Projects that meet the priorities and criteria would therefore be potentially successful initiatives whose results would contribute to knowledge in the industrial relations field.

Dissemination of results

Clients are expected to publicise project results widely in both official languages, and to make them available on request. The costs associated with dissemination of results may be incorporated in the funding allocation, since this sharing of knowledge helps the Programme to achieve its objective.

Ministerial responsibility

The Programme falls under the mandate of the Minister of Labour, and is part of the Federal Mediation and Conciliation Service in the Labour Programme of Human Resources Development Canada.