

NUPGE Pension Manual, Module 1

Pensions Are Important to Workers and Their Unions

September 2024



The National Union of Public and General Employees (NUPGE) is a family of 13 Component unions. Taken together, we are one of the largest unions in Canada. Most of our 425,000 members work to deliver public services of every kind to the citizens of their home provinces. We also have a large and growing number of members who work for private businesses.

The office of the National Union of Public and General Employees is on the traditional and unceded territory of the Algonquin peoples and is now home to many diverse First Nations, Inuit, and Métis peoples.

We recognize the crimes that have been committed and the harm that has been done and dedicate ourselves as a union to moving forward in partnership with Indigenous communities in a spirit of reconciliation and striving for justice.

Bert Blundon, President

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A Pension Plan Can Be an Important Financial Asset to Workers

For those workers who have the opportunity to participate in a workplace pension plan during their working careers, their pension plan will likely be one of the biggest assets they acquire in their lives—if not the biggest.

Traditionally, however, workers have not paid a lot of attention to pension funds and plans. Pensions were seen as a “reward” to be paid to workers who retire from working 30 to 40 years at a job. For many years, working people assumed their pensions were the responsibility of their employer. They assumed the employer had the sole prerogative to manage their pension plans as they saw fit in order to provide their workers with the *pension promise*: secure income during their retirement years.

Workers and their unions rarely questioned how the pension plan was being administered, or the decisions plan managers made on fund investment. Their focus was on the actual amount of the pension benefit on retirement.

Pensions Are Workers’ Deferred Wages



Perhaps the most fundamental fact to know about pensions is that they are workers’ deferred wages regardless of whether the contributions were made by them or their employer.

Pensions are key to assuring a life with dignity and adequate income upon retirement. They are a particularly important component of the compensation workers receive

in return for their labour. They are not a gift from the employer; they are earned by the workers.

Unfortunately, relatively few working people understand a great deal about workplace pensions or the other parts of the retirement income system. They are often intimidated by the perceived complexities of pensions and often don't know how to cut through the terminology that is so often associated with pensions.

Since a workplace pension plan is one of the biggest assets that a worker will probably own, it's critical that workers and their unions expand their knowledge base in the pensions policy area. But the importance of pensions goes beyond what the value of an individual pension plan is worth to a worker who is about to retire.

There are many more equally important reasons why the labour movement must take a much more proactive approach to pensions. That's why, in the last 2 decades, there has been a huge shift in the level of interest and attention workers and their unions give to pension plans. Let's briefly examine some of those reasons why there has been greater interest in the field of pensions (all of which will be covered in greater detail in National Union booklets on specific aspects of pension plans).

The Advantages of a Workplace Pension



There's a reason that decent pensions have always been a priority for the labour movement. Quality pensions are the best way to ensure people are able to enjoy a secure retirement. That's why unions have pushed for the establishment of workplace pension plans, or established their own pension plans. Despite the huge growth of private savings as a way to provide retirement income, pension plans still provide the best benefit to retired workers and to workers planning their retirement. It's been estimated that \$1 put into a

defined benefit pension plan in Canada will generate \$5.32 in retirement income, compared to only \$1.72 from \$1 put into private retirement savings.¹ Workplace pension plans are not only better for workers but are also better for employers, and are simply better public policy.



Workplace pension plans are generally the best vehicle to ensure workers' investment risks are managed professionally. They provide workers with the advantage of a pooled investment risk. Belonging to a pension plan means that workers are generally subject to less investment risk than if they were responsible for the investment of their private retirement savings.

With private retirement savings, the responsibility for making investment decisions rests with the individual worker. This means that the value of a private savings plan will depend on an

individual's ability to choose investment funds that do well and the individual's ability to make appropriate changes if they are not doing well. If the individual's investment strategy is not successful, then they have nothing to fall back on.

Because of how much the value of investments can fluctuate, relying on private savings can turn retirement planning into a lottery. Whether people have enough saved for a secure retirement can depend on whether they are withdrawing funds during a boom or are forced to cash in investments after a crash.

In the case of a pension plan, the pooled investment risk means pension plan members are largely immune from market fluctuations. The size of pension plans means they are generally able to take a long-term approach and avoid the need to cash in investments after a crash.

There is also a huge difference between the resources pension plans have and the resources individuals relying on private savings have when making investment decisions.

With pension plans, investment decisions are guided by the advice from professional investment consultants. This prescribes how the investments are to be divided among the different types of investment, such as equities, bonds, real estate, etc. Professional investment managers who specialize in each of these investment categories are hired to make the day-to-day investment decisions. Performance of the investment managers is monitored closely by the plan's manager or trustees. Because of the size of the pension plan assets, plan members through their trustees have access to specialized advice and resources that are not available to individual investors.



Private savings plans also shift the cost of administration of the plan onto the individual. The individual pays significant management fees for mutual funds and other services directly out of their retirement savings, whereas pension funds use their own managers. The lower expense levels enjoyed by the pension plan can have a significant positive impact on the benefits that can be provided at retirement.

The Pension Promise

First and foremost is that we have yet to achieve the pension promise for the majority of Canadian workers. When we as union activists refer to keeping the pension promise, we are talking about our commitment to do everything in our power to ensure that our members have financial security in their retirement years. We also do everything we can to hold our federal and provincial governments and our members' employers to that same promise.

In fact, in recent years the pension promise in Canada has taken a backward step. We must continue to work to achieve pension plans for many workers who are not even covered by a workplace pension plan.

Only 27.5%² of all Canadians of working age were covered by a pension plan in 2021, and the percentage continues to decline—35.4% were covered 30 years ago.³

In terms of the paid workforce, the in 2021 was 38%⁴—this represents a significant decline from 1993, when pension coverage of the paid working force stood at 44.6%.⁵

Coverage also differs greatly in the public and private sectors. Since 1977, the workplace pension coverage rate for the private sector has been steadily decreasing, from 35.4% in 1977⁶ to about 22.8% in 2021.⁷ In the public sector, the coverage rate has always been much higher. In 2021, 87.8%⁸ of workers in that sector were covered by a workplace pension. Coverage in the public sector actually increased over much of the earlier part of this period, from 1977 to 1991, but has since been relatively stable.⁸

Another trend is for smaller plans to become part of larger plans. Similarly, some larger plans have expanded into sectors where the number of pension-plan members was historically low, such as the non-profit sector.

The best assurance of belonging to a workplace pension plan is to be a union member. Unionized employees are more than twice as likely to be covered by either a pension plan or a group RRSP than non-unionized workers.⁹

The Retirement Wave

Another reason for the increased interest in pensions relates to the huge retirement wave that is taking place as baby boomers reach their 50s and 60s.



The 2021 Census showed an 18.3% increase in the number of people in Canada over 65.¹⁰ This follows a 20% increase in the number of people over 65 in the 2016 Census.¹¹

This wave is not over. According to the 2021 Census, 21.8% of the working-age population is close to retirement.¹³

As more of our members retire, or get closer to retirement age, it's natural that we would have many more members thinking about pensions.

Economic Structural Changes Impacting the Value of Pension Funds

Another reason for the growing interest in the pension field has been the structural changes to our economy in the last several years. Unemployment, stagnant wages, privatization, deregulation, and the globalization of finance and markets have led to our members feeling less secure about their economic well-being during their working life and future retirement.



Major events like the technology sector meltdown, the Great Recession that started in 2008, and the COVID-19 pandemic that started in 2020, have provided workers with many more reasons to connect the health of their pension plans with their financial security during their retirement years. For workers retiring during one of these events, their

financial security was closely tied to whether they had a workplace pension plan and what type of plan they had.

Pension Assets Are the Largest Single Source of Capital in the World

Canadian pension fund assets covering 6.7 million workers¹⁴ are estimated at over \$2.5 trillion¹⁵ and are second only to the combined financial assets of the major banks in Canada. The value of pension funds globally is over US\$60 trillion.¹⁶ This pool of assets represents the largest single source of capital in the world today. We have witnessed an explosive growth in pension funds in each decade since the 1950s, when the practice of private pensions spread through many sectors of the economy. Between 2001 and 2021, this capital pool grew by almost 200%.¹⁷

The Power of Our Pension Funds

The pension funds put aside to guarantee our members' retirement incomes can also determine the term of employment, community life, the environment, consumer goods, and public services that help define the quality of life that they and their families are able to enjoy. Yet the financial institutions and individuals that manage pension funds are often given a mandate to pursue narrow investment goals that often undermine the very workers whose savings they invest.

We all agree it's critical that the pension funds of our members should be invested in profitable ventures. But that doesn't mean ethical, socially useful, and other



positive considerations can't affect a part of the investment decisions of our pension funds. Only if workers and their unions are part of the decision-making process can we ensure that our pension funds are not used to the detriment of workers and their families, but instead are directed to socially responsible, yet profitable investments.

Finally, unions must confront one of the main challenges facing all pension fund members: that their interests do not necessarily coincide with the interests of those managing their collective assets. Corporate CEOs are usually

rewarded based on short-term stock prices, and this focus cascades throughout the organization.

In contrast, pension funds must be invested for the long term and trustees should be more concerned about a company's ability to grow over the longer term than about short-term fluctuations in stock prices. For this reason, proxy voting—which allows pension funds to be heard as owners—and corporate governance reform must remain key priorities for pension fund trustees.

The labour movement, here in Canada and internationally, is slowly beginning to recognize this paradox. As a result, there has been a huge development in union interest in joint trusteeship and the investment policies of pension funds.

Expanding Our Knowledge Base on Pensions

Most union education on pensions has not focused a great deal on these important issues.

We have perhaps done a better job of having our members understand their rights to pension benefits when they retire, their entitlements from Canada's public pension system, and how public pensions relate to workplace pensions. All are important aspects of member education and will also be covered in NUPGE pension manuals.



But it is important that union activists move beyond this traditional approach to take a full leadership role in the field of pensions.

The reality is that our members need to be better informed—not just on the technical aspects of their pension plan, but on the broader issues of joint control and the investment policies of our pension plans.

It's critical that we create widespread awareness and knowledge among our members of the profound effects

of their pension funds. That is why we've

revised and expanded our pension manuals that are now in their fifth edition. The first edition was published in 1995.

Our hope is that through reading them and sharing the information with your fellow union activists, you and your Component will become much more knowledgeable in the field of pensions and better equipped to advance our broader agenda in the pensions field.

This agenda requires somewhat of a cultural shift within our union. This shift will help us expand our expertise and unleash our capital power, so that we can skillfully and confidently use pension fund investment to maximize long-term value for our members. And this means, for their financial security in retirement and the overall quality of life in their broader community.



Appendix

Many of the figures in this report come from reports that are updated regularly.

Every year in June or July, Statistics Canada issues a report called *Pension plans in Canada*. The most recent version available at the time this report was produced was [Pension plans in Canada, as of January 1, 2022](#). But the newest available version can be found by going to the [Statistics Canada website](#) and searching for *Pension Plans in Canada*.

Statistics Canada also issues a report called *Pension Satellite Account*, which comes out in December of each year. The most recent version available at the time this report was produced was [Pension Satellite Account, 2021](#), but the newest available version can be found by going to the [Statistics Canada website](#) and searching for *Pension Satellite Account*.

Endnotes

¹ Healthcare of Ontario Pension Plan, *The Value of a Good Pension Plan, How to improve the efficiency of retirement savings in Canada*, 2018, 4, <https://hoopp.com/docs/default-source/about-hoopp-library/advocacy/the-value-of-a-good-pension-102018.pdf>.

² Statistics Canada Tables 98-10-0030-01 and 11-10-0133-01 (2022 figures).

³ Statistics Canada, *Canada's Retirement Income Programs: A Statistical Overview*, 2003, 52, <https://www150.statcan.gc.ca/n1/en/pub/74-507-x/74-507-x2000001-eng.pdf?st=Hl5fqacu>.

⁴ Statistics Canada, Pension plans in Canada, as of January 1, 2022, June 23, 2023, <https://www150.statcan.gc.ca/n1/daily-quotidien/230623/dq230623b-eng.htm>.

⁵ *Canada's Retirement Income Programs: A Statistical Overview*, 52.

⁶ Edward Tamagno, *Occupational Pension Plans in Canada: Trends in Coverage and the Incomes of Seniors*, Caledon Institute of Social Policy, December 2006, 5, <https://maytree.com/wp-content/uploads/610ENG.pdf>.

⁷ Statistics Canada, "Pension plans in Canada, as of January 1, 2020," June 29, 2021, Table 2, <https://www150.statcan.gc.ca/n1/daily-quotidien/210629/t002c-eng.htm>.

⁸ Ibid.

⁹ Statistics Canada Tables 11-10-0133-01 and 14-10-0027-01 show public sector pension plan membership has been increasing since 1991, but percentage of employees covered has ranged from 85.3% to 92.3% with the number of public sector workers being the main factor.

¹⁰ <https://cupe.ca/top-10-union-advantages> - data for statement that "Over 70 per cent of union members have access to a workplace pension, compared to less than 30 per cent of non-union workers" came from a custom tabulation of Statistics Canada Labour Force Survey for CUPE in August 2016.

¹¹ Statistics Canada, "In the midst of high job vacancies and historically low unemployment, Canada faces record retirements from an aging labour force: number of seniors aged 65 and older grows six times faster than children 0-14", April 27, 2022, <https://www150.statcan.gc.ca/n1/daily-quotidien/220427/dq220427a-eng.htm>.

¹² Ibid.

¹³ Ibid.

¹⁴ "Pension plans in Canada, as of January 1, 2022," Table 1.

¹⁵ Statistics Canada, "Pension Satellite Account, 2021," December 12, 2022, <https://www150.statcan.gc.ca/n1/daily-quotidien/221212/dq221212d-eng.htm>.

¹⁶ OECD, "Pension Markets in Focus 2022," February 6, 2023, 7, <https://www.oecd.org/daf/fin/private-pensions/Pension-Markets-in-Focus-2022-FINAL.pdf> and <https://www.oecd.org/finance/pensionmarketsinfocus.htm>.

¹⁷ Statistics Canada Table 36-10-0576-01 using figures for "Employer-based pension plans," <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3610057601>.

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CANADIAN UNION OF BREWERY AND GENERAL WORKERS



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