NUPGE Pension Manual, Module 2

A Brief History of Pensions in Canada

October 2024

UNIONS FOR NUPGE PUBLIC GOOD

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

Jason MacLean, Secretary-Treasurer

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Workplace Pensions

The rise of workplace pensions in Canada is very much a 20th century story; however, the first pension plan dates back to 1874.

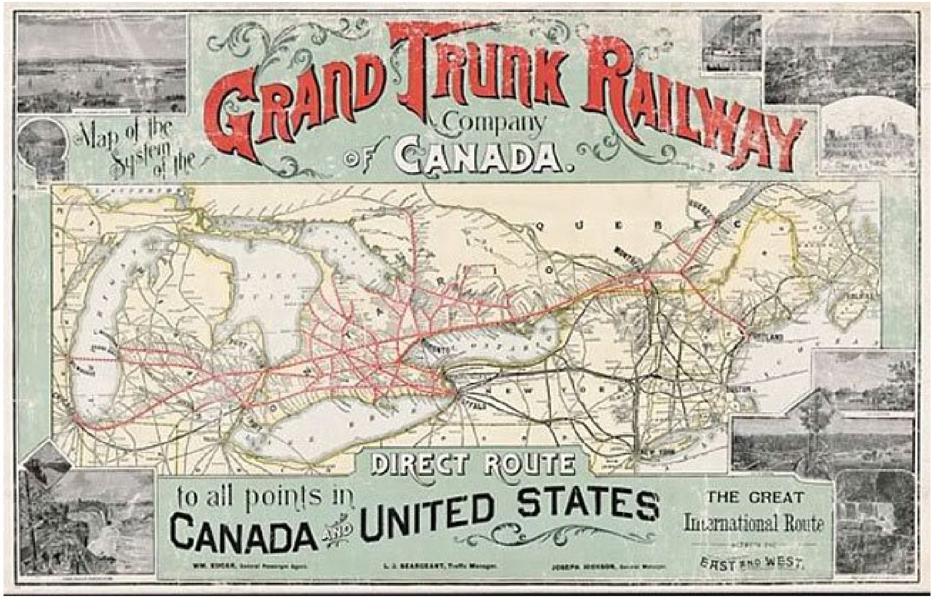
Retirement Not an Option for Workers in the 19th Century

During the first half of the 19th century, most men worked in farming, crafts, or trades. For those people who lived to old age, support was provided by their offspring who had taken over the family business or farm. The last third of that century saw manufacturing employment increase at twice the rate of population growth, and these new workers needed to find a different way to provide for their old age. This was also a period when banks, insurance companies, and the stock and bond markets were developing many new financial capital instruments for retirement savings. Saving for retirement, however, was not an option most workers could afford. They therefore continued to work until they no longer had the physical capacity to do so.

Railroad Companies First to Introduce Workplace Pension

This was also a period of widespread labour unrest, with violent strikes and the rise of labour unions. As the 19th century ended, employers faced an aging workforce with potentially diminished capacity. In response, some of the more enlightened employers started providing a variety of benefits for their workers—a response that is often referred to as the beginning of welfare capitalism. These early pension plans were developed based on 3 different rationales: career, welfare, and efficiency.

The first workplace pension plan recorded in Canadian history was a plan that the Hudson's Bay Company had established for certain retiring meritorious officers in 1821. Other 19th century workplace pension plans were also in sectors with large employers that needed to retain workers.



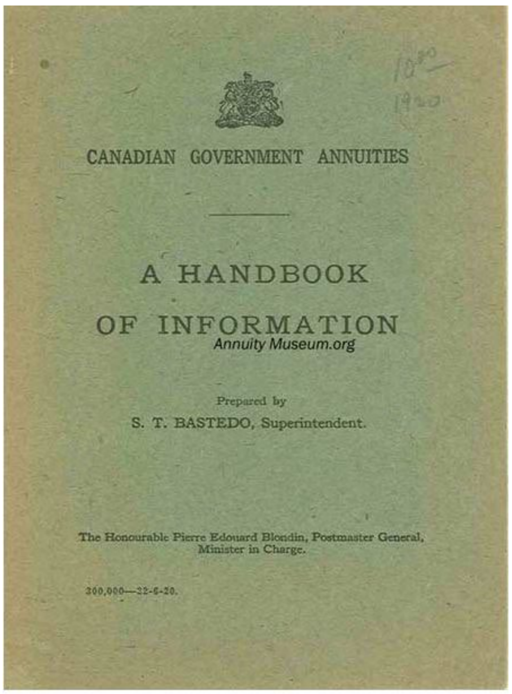
The railroads were the nation's first large industrial sector to develop pension plans. In 1874, the Grand Trunk Railway Company, a Canadian line, created a plan that was only for management.

The plan required employees to join by age 37 and remain at work until at least age 55. The pension deferred part of their wages until retirement, thus "buying" the loyalty of its workers. By 1900, only federal employees, railway workers, and employees of some commercial banks were covered by pension plans.

At first, pension plans were justified as a tool to increase workers' loyalty and to reduce strikes and turnover. As employers found that pensions were not very successful meeting these objectives, they became more interested in the value of mandatory retirement. This was the period of *scientific management*, when it was thought that older workers (over 45) could not keep up.

Private pension providers at first had little understanding of the actuarial realities of the pension plans they were creating. During the first 2 decades of this century, most large corporations financed their pensions from operating funds and had no reserves.

First Canadian Private Pension Legislation



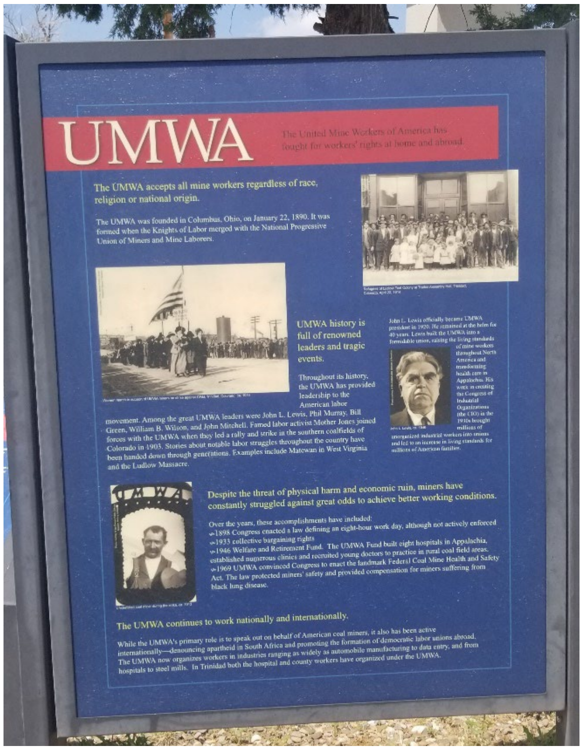
The first Canadian legislation that encouraged workers to save for their retirement was the Canadian *Government Annuities Act of 1908*. Its purpose was to encourage Canadians to prepare financially for their retirement through the purchase of a government annuity. The act allowed for the purchase of various annuities for different amounts and lengths of time. At a specified age, the recipient would begin to receive fixed yearly benefits. The government guaranteed these benefits and assumed all the costs to administer them. The problem, however, was that few Canadians could afford to buy them.

Pensions—Tool for Controlling Workers

After the well-publicized failure of the Morris Packing Company pension plan in 1923, suggestions for reform came from government, consultants and insurance companies, specifically that 1. pension cost should be accrued, 2. funds should be held with an independent fiduciary, and 3. workers should be vested.

Reforms were resisted on all 3 counts. From the beginning, most plans were non-contributory so that employers could terminate them at any time. Actuarial costs were difficult to estimate with most plans, because benefits were based on final salaries. Building trust funds was expensive, and these might be seen as employee assets. Corporations did not want to turn over funds to another institution when they felt they could better use the funds themselves. Finally, vesting was the least desirable idea, since employers wanted to give pensions to reward only long-serving employees. In general, there was a conflict between the reformers’ view of pensions as deferred wages, and the corporations’ view of pensions as tools for controlling their workforce.

Unions Influence Growth of Workplace Pensions in Postwar Period



During the postwar period, the most important factor that influenced the growth of workplace pensions was the growth of the trade union movement and collective bargaining. First the United Mine Workers, and then the Congress of Industrial Organizations (CIO), a federation of unions, began pushing for industry-wide standards for pensions in Canada, as well as in the United States. Their success is measured by the fact that, between 1945 and 1960, and almost entirely due to union initiatives, pension coverage increased from covering 19% of the workforce to 40%. This 40% pension coverage rate stayed fairly constant until around 1990, when the rate began to drop to where it is today, with only 33.6% of the workforce being covered by a workplace pension.

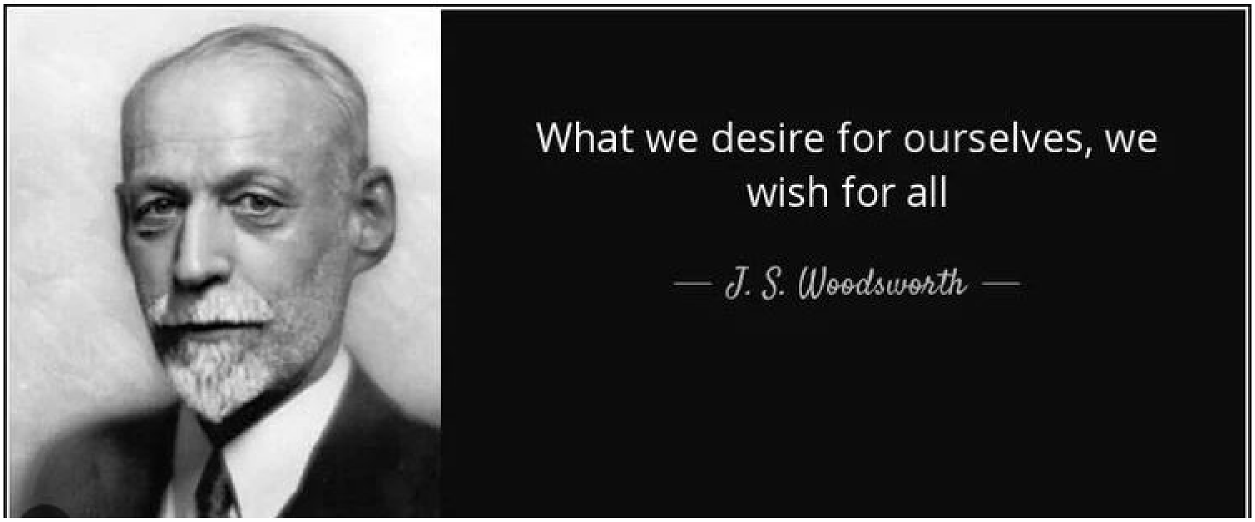
Canada's Public Pension and Retirement Income System

The first substantial involvement by the federal government in the field of income security took place during the decade after the First World War, (i.e., 1920–1930).

The federal involvement was the product of not only a high regard for veterans but also of social unrest that included the Winnipeg General Strike. Returning veterans were not assured of work and found a marked contrast between the society's rhetoric and their destitute circumstances.

Old Age Pensions Act, 1927

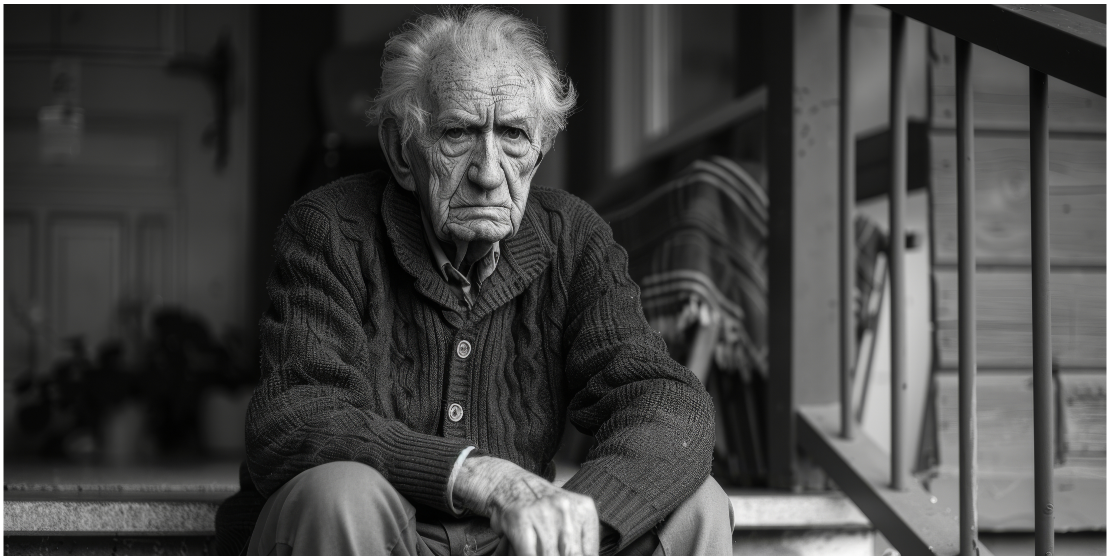
Survivor and disability pensions were therefore created for war veterans and their families, but there was still a strong and growing need for a national old age pension system. The *Government Annuities Act of 1908* was not the answer since few people could afford annuities. So, in the 1920s, the issue of government assistance for the elderly was back on the political agenda. In 1924, Parliament appointed a special committee to study the question of pensions.



Political advocates like James S. Woodsworth and Abraham A. Heaps argued for a national pension scheme. When Mackenzie King's government finally won a majority in 1926, he followed up on his promise to Woodsworth and Heaps by introducing legislation that became the *Old Age Pensions Act* in 1927. The maximum pension was $20 per month or $240 per year. It was available to British subjects aged 70 or over who had lived in Canada for 20 years. It was also restricted to seniors whose income, including the pension benefits, was less than $365 per year (this was determined by a means test). Status Indians were excluded.

Although eligibility was limited, the act was a modest beginning to nationwide benefits for some of the poorest elderly. The program gradually included more diverse populations, such as blind persons, but eligibility remained limited, and seniors had to pass a degrading means test.

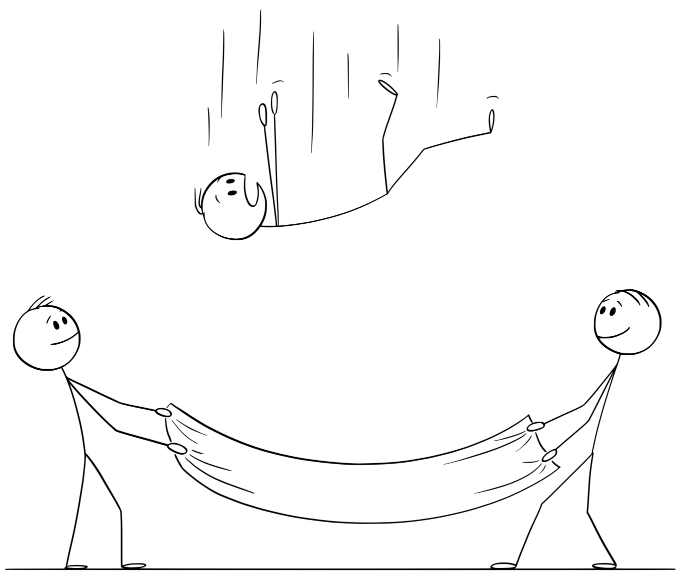
The pension became increasingly unpopular when provincial legislation was used to back up the means test. This included requirements that, to qualify for assistance, parents prove that their children could not support them. Officials went so far as to encourage some elderly parents to sue their children for maintenance. Recipients' eligibility could be withdrawn after they had begun receiving pension payments. Payments were even recovered through claims against the estate of recipients after they died.



In 1939, Canada's entry into the Second World War put people back to work and breathed new life into the economy. These were good economic times. But they were not as favourable for seniors, whose pensions were devalued because of inflation. The contrast between the prosperous and the aged poor and the memory of the Great Depression inspired many people to propose a new national system of social security. Political parties, unions, seniors, and social interest groups urged the elimination of the means test and the establishment of policies to protect all Canadians from extreme poverty.

Old Age Security Act, 1951

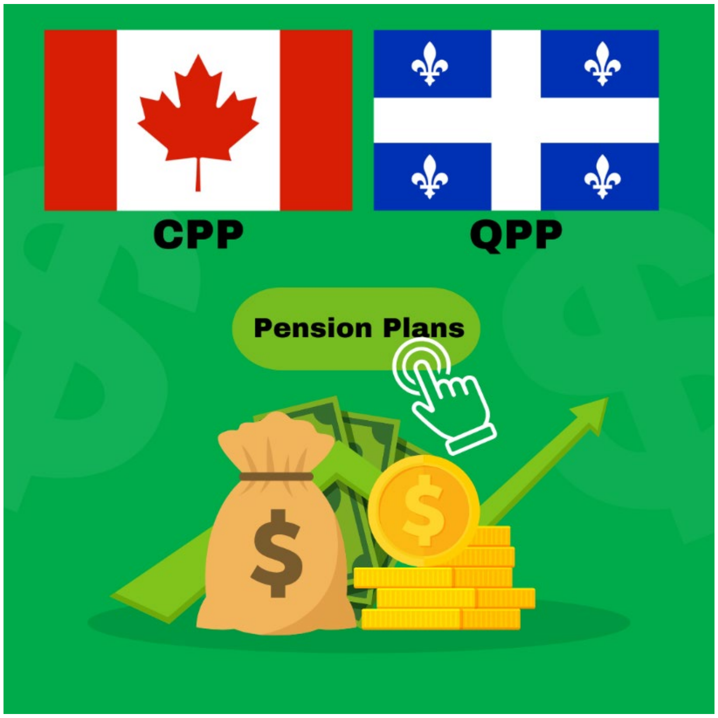
In 1951, the Constitution was amended to allow the federal government to pass the Old Age Security Act. The act, which took effect in January 1952, established a federally funded pension for all men and women 70 years of age and over, except for Status Indians. The maximum Old Age Security pension was $40 per month, or $480 per year. For the first time, Canadian seniors could receive a pension without undergoing a means test. The Old Age Security pension, however, was not an income replacement measure. It was a safety net that conferred on all seniors who met the residency requirements a basic amount of support.



Private pension plans or savings were supposed to supplement that amount, if possible. Yet, for most people, retirement meant a drastically reduced standard of living. Even with Old Age Security, the average income for seniors in this period was only around 50% of average industrial wages. Some workers had employment-based pension plans, but they faced several problems:

- These plans were tied to a particular job.
- They were not portable.
- They usually required very long contributory periods.
- Provision for survivor benefits was poor.

Canada Pension Plan and Quebec Pension Plan, 1966



Responding to the need for a public pension plan that offered portability, a greater measure of income replacement, and insurance for families against the death or disability of a breadwinner, Lester Pearson's government introduced the Canada Pension Plan (CPP) in 1966. This was a compulsory, contributory scheme for salaried and self-employed workers between the ages of 18 and 70. A sister program, the Quebec Pension Plan (QPP), was enacted in the same year to cover Quebec workers and their families.

The existence of 2 plans stemmed from the desire of the Quebec government to retain primacy in the social welfare field in that province and to have control of pension fund reserves for investment in provincial development.

As well, in the 1960s, Quebec also benefited from having a younger population than Canada overall did. With a younger population in Quebec, contribution levels were the same for the Quebec Pension Plan as for the Canada Pension Plan, even though the Quebec plan was smaller. Quebec's population is now older than average, and, as a result, contributions to the Quebec Pension Plan are higher.

The other provinces had the option of establishing their own parallel plans as well, but none did. Ontario had legislated its own plan but never brought it into force, throwing its weight behind the Canada Pension Plan in the national interest. A Canada Pension Plan without either Ontario or Quebec would have faced significant challenges to its credibility and, perhaps, longevity. Development capital for the provinces could be acquired through loans from the Canada Pension Plan surpluses.

Section 94A of the Constitution, that had been added in 1951 to permit the federal government to make laws in relation to old age pensions, was amended. This change permitted the Canada Pension Plan to provide pensions to survivors and disabled persons *who were not old* and whose pensions would therefore not be old age pensions. The paramountcy clause, which ensured the CPP would not affect any provincial old age pension program, was also retained although its language was slightly modified.

Over the next 5 years, the eligible age for the Old Age Security pension and the Canada Pension Plan would be lowered to 65. Both pensions would be indexed to offer inflation protection.

Guaranteed Income Supplement, 1967

In the interest of fairness, a Guaranteed Income Supplement (GIS), tied to Old Age Security (OAS), was introduced in 1967 as a temporary measure to further reduce poverty amongst seniors. The GIS was part of the Old Age Security program and provided Old Age Security pensioners who had low-incomes with additional money. It was *income tested*, meaning that, as the amount of income increased (to a maximum of $720 a year in 1967 dollars for a single pensioner), the amount of the supplement decreased. It predominantly helped those who would retire before they benefited from the Canada Pension Plan.

Important Changes in the 1970s and 1980s

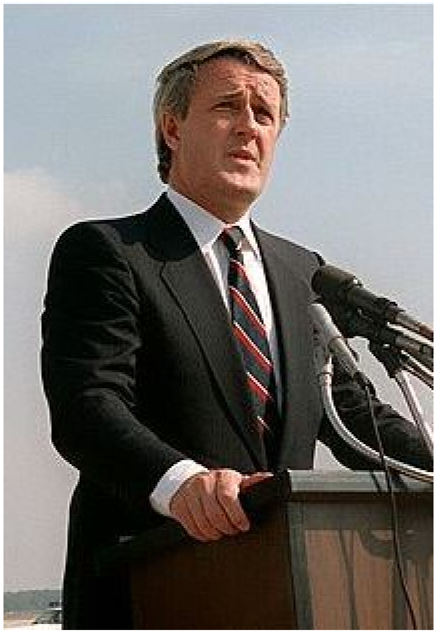
Throughout the 1970s and 1980s, many changes to our public pension system were introduced to help women, low-income workers, disabled people and other groups most vulnerable to poverty. Here are some important changes:

- Flexible retirement was introduced in 1987, allowing Canada Pension Plan contributors the option of receiving a pension as early as the age of 60.
- The Guaranteed Income Supplement, introduced in 1967, became permanent.
- The Spouse's Allowance was introduced in 1975, and the Widowed Spouse's Allowance was introduced in 1985.
- Better inflation protection was put in place: from 1973, Old Age Security benefits were indexed quarterly as opposed to annually, and indexation was linked to the Consumer Price Index (CPI).
- Partial Old Age Security benefits were made available to people who could not meet the residency requirements for a full pension.

- The definition of *spouse* was added to the Canada Pension Plan and redefined under the Old Age Security program to include both legal and common-law spouses.
- Provisions were made to adjust the CPP/QPP contribution period for parents who left the workforce to raise their children.
- In 1988, Indigenous people earning income on reserves were allowed to contribute to the Canada Pension Plan and receive benefits from it for the first time.
- In 2000, all Old Age Security and Canada Pension Plan benefits and obligations were extended to same-sex, common-law relationships (they were extended to female-male common-law relationships in 1975).

Uproar Over Mulroney Government's Proposal to End Indexation, 1985

There were also regressive changes to our public pension system introduced in the 1980s. The Mulroney Conservative government came to power in the mid-1980s espousing neoconservatism (or neoliberalism) in the same wave that elected Thatcher in the UK and Reagan in the US. Regarding social programs, the message was that spending had to be restrained, and "benefits targeted to those in need."



In the May 1985 budget, Minister of Finance Michael Wilson declared that “social programs must be changed so that benefits are targeted to those in need.” He announced that Old Age Security would no longer automatically increase in dollar terms against the first 3% increase in the CPI annually.

Figure 1 Solange Denis confronted Mulroney in 1985 after he de-indexed old age pensions. Source: Toronto Star

The OAS de-indexation announcement provoked an uproar from the seniors’ lobby. On June 19, then prime minister Mulroney encountered a group of seniors protesting outside the Centre Block on Parliament Hill—in the rain. He thought he could sweet-talk them. But with the TV cameras rolling nearby, one senior, Solange Denis, directly challenged the PM: “You lied to us! You got us to vote for you, and then good-bye Charlie Brown!”

This proved to be a public relations disaster for the government. 8 days later, with Denis sitting in the public gallery, Wilson rose in the House of Commons to announce the government was flip-flopping on the partial de-indexation for the OAS and withdrawing it.

The labour movement learned an important lesson from this episode: that Canadians are justifiably worried about their retirement security, and that politicians who seek to reduce retirement benefits are potentially vulnerable to union opposition and popular mobilization.

An End to Universality of OAS, 1989

The universality of the Old Age Security ended in 1989 with that year's federal budget clawback. The budget declared that seniors had to repay 15¢ of their pension for every dollar of net income earned over a certain threshold. The threshold was $53,215. Seniors received their monthly OAS cheque as before, but the next spring at tax time, the funding was clawed back from the seniors affected by the threshold when they filed their income tax form.

But the threshold level where the clawback kicked in was only partially indexed against inflation: indexing continued only at inflation rates above 3%, as with the 1985 reform (see above). This meant that, over time, the threshold level declined in real terms.

The Liberal government reformed this program in July 1996. The reform was to provide that, henceforward, eligibility for OAS was determined before the benefit was paid out, based on last year's income tax return. Benefits for affluent seniors are correspondingly reduced before the monthly cheques are sent out, rather than being taxed (clawed back) after the seniors have received their cheques.

Now affluent seniors do not receive any nominal funding at all. Under the Tories' clawback, at least affluent seniors got a nominal benefit on a monthly basis before it was clawed back when the seniors filed their income tax return. So, the Tories maintained at least the pretence of universality; the Liberals eliminated even that.

The Tories' (partially indexed) clawback ended the universality of the OAS, because it was now allocated on the basis of income. Their strategy for selling it to the public was to emphasize that it only affected the wealthiest 4.3% of the seniors' population: why should they get a government benefit? But, because of the partial de-indexing, a growing number of seniors could expect to be affected (depending on the inflation rate). Thus, the clawback was another example of the policies by stealth strategy, coupled with seductive rhetoric about the reasonableness of "targeting" programs.

Changes to CPP to Guarantee Sustainability, 1998

When the CPP was set up in the 1960s, it was entirely a pay-as-you-go plan. Benefits were being paid out of contributions being paid by active members. Assets were limited to what was needed to meet short-term obligations.

But, as Canada's population aged, the sustainability of Canada's public pensions grew into an important political issue in the 1990s. Life expectancy was increasing, and seniors were making up a greater share of the population. At the same time, the number of workers contributing to the CPP was decreasing. Many people were concerned that pensions would not be there for them when they retired.

In response to this growing concern, the Government of Canada and the provinces agreed to make changes to the CPP in 1998. The goal of these changes was to have an increasing portion of CPP benefits funded by income from investments instead of from current contributions.

Canada Pension Plan contribution rates were increased. The Canada Pension Plan Investment Board (CPPIB) was established to invest funds not immediately needed for benefits. The administration and calculation of benefits changed.

Moving away from the entirely pay-as-you-go CPP that was set up in the 1960s also meant that the value of CPP assets has grown dramatically. In December 1999, CPP assets were worth $42.8 billion.i At the end of the 2020/21 fiscal year, the value of CPP assets had grown to $543.7 billion.ii CPP assets are expected to be worth more than $2 trillion by 2050.

Public Pensions Are Here to Stay

These changes put the CPP on solid financial ground. Despite the aging population, Canada's public pensions will continue to be available for future generations.

Endnotes

[i] Office of the Chief Actuary, *Actuarial Report (31st) on the Canada Pension Plan*, December 14, 2022, 41.

[ii] Ibid.

COMPONENTS

B.C. GENERAL EMPLOYEES' UNION

CANADIAN UNION OF BREWERY AND GENERAL WORKERS

HEALTH SCIENCES ASSOCIATION OF ALBERTA

HEALTH SCIENCES ASSOCIATION OF BRITISH COLUMBIA

HEALTH SCIENCES ASSOCIATION OF SASKATCHEWAN

MANITOBA ASSOCIATION OF HEALTH CARE PROFESSIONALS

MANITOBA GOVERNMENT AND GENERAL EMPLOYEES' UNION

NEW BRUNSWICK UNION OF PUBLIC AND PRIVATE EMPLOYEES

NEWFOUNDLAND & LABRADOR ASSOC. OF PUBLIC & PRIVATE EMPLOYEES

NOVA SCOTIA GOVERNMENT AND GENERAL EMPLOYEES UNION

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SASKATCHEWAN GOVERNMENT AND GENERAL EMPLOYEES' UNION

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