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OCTOBER 2014 – AIR CANADA PENSION COMMITTEE REPORT

For the vast majority of working Canadians the ***Canada Pension Plan (CPP)*** will be their major source of retirement income but all or our members who work at Air Canada are lucky enough that the major portion of our retirement income will be provided by our company and union sponsored defined benefit pension plans. We are in the enviable position of having *CPP* and ***Old Age Security (OAS)*** as significant supplemental pensions in addition to our Defined Benefit pensions.

The *Old Age Security* pension was created in 1927 when W.L. Mackenzie King's Liberal government introduced *OAS* in exchange for the support of the CCF party (forerunner of the NDP) for his minority federal government. The maximum *OAS* pension was $20 per month payable to British subjects (excluding First Nations peoples) aged 70 and older who had lived in Canada for 20 years or more and had an annual income of less than $350, including "perks" such as free room and board from family members.

In 1951 the *Old Age Security Act* was introduced. It increased *OAS* to $40 per month and made it a universal benefit by removing the $350 means test. At the same time the *Old Age Assistance Act* came into effect as an anti-poverty measure to provide a $40 per month pension for Canadians between the ages of 65 and 69 if their annual income was below a prescribed threshold.

In 1965 the *Canada Pension Plan* legislation was enacted by Lester Pearson's Liberal government again with the support of the NDP. The first *CPP* pensions were payable on January 1, 1967 but full pensions were not available until after 1976 because *CPP* was introduced with a sliding benefit scale for the first 10 years.

Because of this phase-in feature of the *CPP*, the Pearson government also amended the 1951 *OAS Act* to introduce a tax free income-tested ***Guaranteed Income Supplement (GIS)***. The *GIS* was intended to be a 10 year temporary stop gap anti-poverty program until the full *CPP* pension benefit came into effect.

However during the 1970s it became apparent to federal and provincial governments that the retirement income provided by *OAS* and *CPP* alone was inadequate to keep many seniors from living in poverty. The *GIS* was adapted during the 1970s to become a fully indexed, means-tested protection of last resort to prevent Canadian seniors from having to live in poverty

Unlike *OAS* and the *GIS* benefits which are paid from general government revenues (direct annual tax dollars), *CPP* is a mandatory wage based defined benefit pension plan funded by matching employee and employer contributions. The initial *CPP* contribution rate was 1.8% of gross salary above $600 up to a maximum income of $5,000 in 1966. Although the Year's Basic Exemption (YBE) and the Year's Maximum Pensionable earnings (YMPE) increased annually the 1.8% *CPP* contribution rate remained unchanged until 1987.

At its inception and until the early 1990s *CPP* was a "pay as you go" style pension plan. That meant that the *CPP* contributions made during any given year were used to pay that year's *CPP* pension benefits. In 1996 the contribution rate was still only 2.8% however in 1997 then Finance Minister Paul Martin introduced 2 major changes to the *CPP*.

First he introduced a schedule of contribution rate increases that would see contributions rise from 2.8% to 4.95% between 1998 and 2003. The CPP contribution rate is currently still 4.95%. He also created the Canada Pension Plan Investment Board (CPPIB) which changed the *CPP* from a "pay as you go" plan into a fully funded, actively invested pension plan with assets of $226.8Billion as at June 30, 2014

I may be contacted at president@iam764.ca with any questions or concerns that you may have. You can now also follow me on Twitter **@president764**.

Respectfully Submitted,

Christopher Hiscock
Chairman, LL764 Pension Committee