# POLICY BRIEF: Double and Triple Municipal Pensions

Colin Craig | November 2019

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## Executive Summary

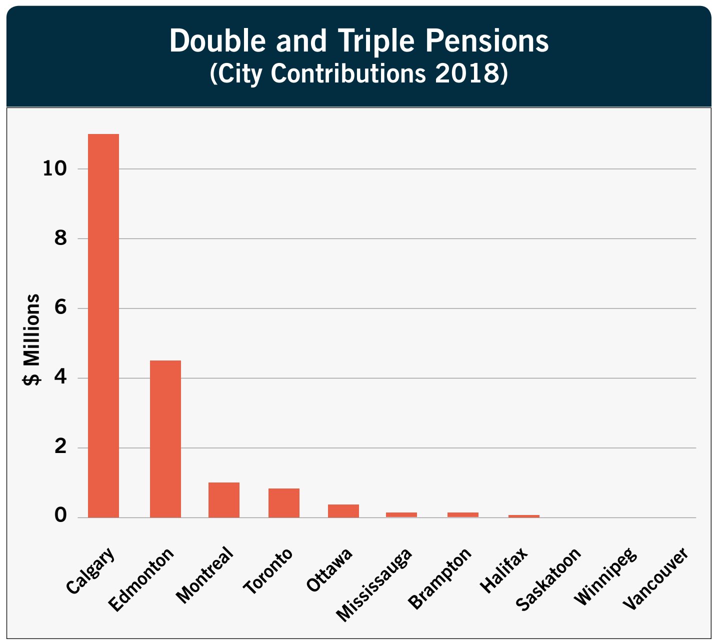
According to Statistics Canada, most government employees in Canada enjoy workplace pensions while most private sector employees do not.

While this gap is significant, an aspect that receives less public scrutiny is the fact that some government employees are set to receive not one, but two government pensions upon retirement from their employer. In rare cases, government employees will even receive three pensions courtesy of taxpayers: a generous main pension plan plus two supplementary pensions to top up their benefits.

SecondStreet.org decided to examine double and triple pension situations in 11 major cities across Canada, filing freedom of information requests with Vancouver, Edmonton, Calgary, Saskatoon, Winnipeg, Toronto, Ottawa, Brampton, Mississauga, Montreal and Halifax.[1]

**Highlights of our study included the following:**

- Calgary spent the most on contributions to second and third pension plans at $10.9 million in 2018 – more than the other ten cities combined. Edmonton was a distant second at $4.4 million, and Montreal came in third place at $0.9 million.
- Calgary was the only city to provide employees with triple pensions. Unlike the first and second pensions, which are roughly paid half and half by employees and taxpayers, the third pension at the City of Calgary is 100% paid for by taxpayers.
- Montreal had the most employees enrolled in double pensions at 4,794. However, this benefit cost an average of just $195 per employee in 2018.
- Saskatoon informed SecondStreet.org that provincial legislation does not allow government employees in the province to receive additional pensions beyond a basic plan. Winnipeg and Vancouver also indicated they do not provide secondary pensions.




*Note: Included in the City of Calgary's total is approximately $2.8 million of expenditures for the Overcap Pension Plan. As there is no dedicated pension fund, this portion is unique in that it represents annual payments and lump sum payments to employees rather than contributions to a pension plan.*

## Pension coverage

According to Statistics Canada, 87% of government employees in Canada were enrolled in a workplace pension in 2017. This compares to just 23% of private sector employees who are fortunate enough to receive a workplace pension.[2]

Most government employees who receive pension benefits will receive the most expensive type of pension – a defined benefit pension. This type of pension guarantees employees annual payments throughout their retirement years – often up to 70% of the average of an employee's best five years' earnings. For example, if your average pay during your final five years was $100,000, after 35 years of pensionable service, you would receive $70,000 per year throughout your retirement – usually rising with inflation or a percentage of it. (Note: See individual pension plans for further details. Some employees may receive reduced pension benefits due to decisions they make concerning spousal benefits, early retirement, etc.)

This pension structure is extremely generous as it requires governments to contribute significant sums of money each year for each employee. Furthermore, the structure of this plan subjects taxpayers to a significant amount of risk, requiring them to bail these plans out with extra money whenever the plans run into financial difficulties. Conversely, the most common type of pension that private sector employees receive – a defined contribution plan – provides no guaranteed payouts and employers are insulated from having to provide bailouts.

The primary plan for municipal employees in Alberta – the *Local Authorities Pension Plan* – is a good example of a defined benefit pension. The plan notes quite clearly on its website that it's "quite generous."[3] If one looks at two figures in the plan's 2018 annual report – active members (162,787) and employer contributions ($1.314 billion) – one can calculate that governments contributed an average of approximately $8,071 per employee in 2018.[4]

## Double and Triple Pensions

Many municipalities provide second pensions to select employees, often called "supplementary" pensions. These pensions have different structures, but a commonality is that they top-up benefits provided through the municipality's basic employee pension plan.

For example, the City of Calgary's supplementary plan increases benefits paid up to the year's maximum pensionable earnings (YMPE) from 1.4% to 2.0% per year of pensionable service.

The cost for secondary pension benefits are typically split roughly 50/50 between employees and employers. A city's total cost for secondary pension benefits depends on a number of factors, including: the generosity of benefits provided, how many employees are eligible to receive the second pension and market returns.

In some cities, such as Halifax, only the city's top brass will receive the second pension benefit (eight employees will receive a second pension in 2018). Other cities, such as Calgary, are significantly more generous. In the struggling prairie city, nearly 2,000 employees will receive two pensions upon retirement.

However, the City of Calgary is unique in that some senior-level employees will receive three pensions from the city when they retire. The third plan – known as the Overcap Pension Plan – is non-registered, and provides benefits over and above what the *Income Tax Act* allows employees to contribute tax-free each year towards their pension.

For example, if an employee earned $250,000 in 2018, that income would have exceeded the income tax limit of $163,992.[5] The employee's first two registered pensions would only provide benefits on $163,992 of earnings. What the third plan provides are benefits on earnings between $163,992 and $250,000, hence the name "Overcap." Unlike the first two pension plans, the Overcap benefits are 100% paid for by taxpayers.

In Ontario, the OMERS basic plan and the OMERS Retirement Compensation Arrangement (RCA) provide benefits that are similar to the three plans in Calgary combined. However, a key difference is that the City of Calgary's third plan is 100% paid for by taxpayers, whereas the second plan in Ontario is split 50/50 between taxpayers and employees.[6]

When one looks at the annual cost of second and third pensions paid to municipal employees, the City of Calgary spent $10.9 million on contributions to those plans in 2018.[a] This is more than what the other ten cities spent combined.

Edmonton came in a distant second place at $4.4 million, Montreal in third at $0.9 million and Toronto in fourth at $0.8 million.

However, not all cities used tax dollars to provide second and third pensions. Vancouver, Winnipeg and Saskatoon indicated they do not provide additional pensions beyond their basic plans. In fact, the City of Saskatoon noted that provincial legislation prohibits municipal employees from accruing benefits with multiple registered pensions from the same government employer.

**Double/Triple Pension Data**

| City | City pension contributions | Employees set to receive two pensions | Employees set to receive three pensions |
|---|---|---|---|
| Calgary | $10,934,000 | 1,936 | 45* |
| Edmonton | $4,448,600 | 1,289 | 0 |
| Montreal | $935,300 | 4,794 | 0 |
| Toronto | $801,514 | 375 | 0 |
| Ottawa | $373,297 | 42 | 0 |
| Mississauga | $118,366 | 25 | 0 |
| Brampton | $ 89,967 | 23 | 0 |
| Halifax | $67,675 | 8 | 0 |
| Vancouver | - | 0 | 0 |
| Winnipeg | - | 0 | 0 |
| Saskatoon | - | 0 | 0 |

**The City of Calgary's freedom of information response indicated 45 employees were eligible to collect the pension as of 2018. However, a July 22, 2019 report to council notes there are 266 active members in the plan. Most of these employees will likely receive the third pension when they are ready to retire.*[7]

## Conclusion

As basic municipal pensions tend to be quite generous, municipalities could save money by phasing out secondary and third pensions. The case for this option is especially strong when one considers that most taxpayers working outside of government do not have a workplace pension, let alone multiple pensions.

Justification for reviewing the phasing out of second and third pensions is especially strong in cities such as Calgary and Edmonton, which spend considerably more than other cities on additional pensions. A review is especially warranted since the two cities are currently struggling with serious economic challenges.

## About the Author

Colin Craig is the President of SecondStreet.org. He has an MBA and a BA (economics) from the University of Manitoba and is the author of *The Government Wears Prada* – a book that examines how Canada can meet the needs of our nation's aging population without raising taxes.

## Sources

1. Freedom of Information responses from each city are posted online at SecondStreet.org
2. Statistics Canada tables 11-10-0133-01 and 14-10-0027-01
3. Local Authorities Pension Plan website. Accessed November 15, 2019 https://www.lapp.ca/page/employer-contributions
4. Local Authorities Pension Plan 2018 Annual Report. Page 3. https://www.lapp.ca/assets/lapp/files/publications/funding/reports/annual/2018%20lapp%20annual%20report.pdf
5. 2018 Local Authorities Pension Plan Annual Report. Page 36
6. OMERS Website – "Retirement Compensation Arrangement" page. Accessed November 15, 2019. https://www.omers.com/Members/Members_FAQ/Retirement-Compensation-Arrangement
7. July 22, 2019 Council Meeting, agenda item 7.15, attachment 4 – "2018 Pension Plan Administrative Report"

[a] Note: Included in the City of Calgary's total is approximately $2.8 million of expenditures for the Overcap Pension Plan. As there is no dedicated pension fund, this portion is unique in that it represents annual payments and lump sum payments to employees rather than contributions to a pension plan.