



MP COMPENSATION REFORM

Time to Adopt the STAF-F Principles



[News Release](#)

[Chart comparing salaries](#)

[Chart comparing pension plans](#)

A submission to the
Lumley Commission to Review Allowances
For Parliamentarians

May 4, 2001.

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Master Compensation Analysis – National Perspective Provincial Legislature Member Pension Comparison

INTRODUCTION

The Canadian Taxpayers Federation (CTF) is Canada's leading advocate for compensation review and reform for elected officials.

In just over a decade, the CTF has widely commented on and submitted proposals to change and improve the structure of compensation for elected officials at all three levels of government: federal, provincial and municipal.

For example, the CTF submitted a series of proposals to the Compensation Committee of the Ottawa Transition Board in April 2000, while the Board was in the process of setting salaries structures and amounts for councilors in the newly amalgamated City of Ottawa.

In addition, the CTF submitted recommendations to the "Blais Commission" that was reviewing compensation levels for MPs and Senators. Finally, the CTF has also been active at the provincial level with its submission in December 1996, to the British Columbia Citizens' Panel on MLA Remuneration.

In 1994, the CTF established MP pay and pension reform as a principal federal priority. A petition of 50,000 names was submitted to the Chretien government to adopt a self-funding defined contribution plan to replace the current MP pension plan.

When the CTF was prevented from making its presentation at a hearing to review the MP pension plan in June, 1995, the CTF placed 242 pink plastic pigs on the front lawn of Parliament Hill. Within hours the Federation was allowed to make its presentation before the committee.

This document outlines our proposals for changes and improvements to the compensation structure for Members of Parliament. Our focus is on the major components of compensation for elected Members of Parliament. Therefore, we not address the issue of compensation to Senators. However, the guiding principles outlined in this document can and should be applied to Senators as well.

SENSE OF URGENCY

While the need for MP compensation reform is axiomatic, elected officials continue to largely ignore the work that several review Commissions – appointed for the sole purpose of making constructive reform recommendations – have completed for almost a quarter century. Six commissions, usually identified by the last name of their respective chairs, have reported to Parliament over the past 22 years:

- The Hales Commission, 1979
- The McIsaac-Balser Commission, 1980
- The Clarke-Campbell Commission, 1985
- The St. Germain-Fox Commission, 1989
- The Lapointe Commission, 1994
- The Blais Commission, 1998.

As the Blais Commission noted in its report in February 1998, some common themes have emerged from these reports:

1. Parliament is a valuable institution and should be maintained as an institution that functions effectively and smoothly. To do this requires the election and retention of competent, qualified people, and good pay is required to attract good people.
2. The work that MPs do is roughly comparable to that done by middle-upper level professionals. MPs work long hours and have many demands and pressures on them that most people do not face, and they should not be expected to cover all the expenses occasioned by their life as MPs from their own pockets.
3. MPs should not become wealthy or profit excessively as a result of their public service, nor should MPs see their pay increase when other Canadians are suffering financial hardship.
4. MPs vote for their own increases, and this constitutes a conflict of interest.
5. Regardless of any determination of what constitutes fair compensation for the value of the work they do, MPs' remuneration must be consistent with public expectations, and public expectations may in fact require that MPs be paid less than a fair amount.

Source: ***Supporting Democracy***, Vol. 2, p. 13

While Parliament has adopted some of the recommendations from each Commission, it is fair to say that on the issues of fundamental reform, such as fairly reforming the MP pension plan or abolishing tax-free allowances, Parliament has failed miserably.

The public has tired of this issue and have resigned themselves to a **they're only in it for themselves mindset** when formulating a general opinion of MPs. As such, the institution of Parliament and the nobility of public service through elected office have been subjected to understandable and scornful attack.

Recommendation #1:

The Commission should base all of its analysis and recommendations concerning MP remuneration on the following principles: simplicity, transparency, accountability and fairness (STAF in acronym format).

- A. Above all else, MP compensation must become **SIMPLER** to understand. The Commission must take serious steps to deconstruct the convoluted layering of allowances and extra indemnities that only serve to cloud the true value of the MPs total compensation.
- B. Compensation packages must be **TRANSPARENT**: there should be no hidden benefit and no special tax-exempt status for MPs. By ensuring that the compensation package is simple and transparent, this information can be presented to Canadians in a clear and understandable format.
- C. Where an expense allowance is required for a Member to fulfil his/her responsibilities, complete disclosure provisions should be instituted to allow the member to be held **ACCOUNTABLE** for the expenditure of public monies.
- B. A clear and **FAIR** distinction must be made between pay that is provided to the MP as compensation for the responsibilities of the job (i.e., their salary) and allowances that are provided in support of the MP to perform the job (i.e., their expenses).

This emphasis on fairness is particularly important given that Parliament is not subject to the *Access to Information Act*. Expense allowances should be paid on the basis of expenditures incurred and should reflect the costs associated with doing the job but should not contain extra-ordinary benefits. The Board of Internal Economy should develop detailed and transparent guidelines on what are considered allowable expenses.

By adopting the STAF principles, the CTF believes that some degree of closure can be brought to the MP pay reform debate. In this sense, the debate can be ***FINISHED*** and parliamentarians and the public can move to the larger public issues – such as health care reform, public pension stability and national debt reduction, just to name a few – that require urgent attention.

SERVICE IS A FREE CHOICE

There is no doubt that Canadians desire and deserve competent and talented women and men to serve their country through elected and un-elected public service. However, the argument that better pay and compensation will attract more qualified individuals to public life is not borne out by any academic evidence. While a competitive wage should be paid to our parliamentarians, we sincerely believe and hope that an over-riding sense of civic virtue and duty is the first and primary motive for Canadians who seek the opportunity to serve as Members of Parliament.

Moreover, other motives and attributes that come with being an MP such as influence, power, single-interest devotion, and even ego also attract people to public life. Indeed, the opportunities that are inherent in the privilege to represent one's own constituents through election as a Member of Parliament are unique.

It should be noted that public service is a free choice: no one is forced to seek elected office. Furthermore, the Blais Commission argument that “most people who run for federal office interrupt a career to do so, with consequences for their career development or seniority in a job and their prospects for future employment and earning capacity after service in the House of Commons” is **flawed**.

While it is true that some MPs interrupt careers, others are career politicians and still others earn more income than they ever did in their previous private or public sector positions.

In our submission to the Blais Commission in 1998, we noted that according to Robert Fleming in *Canadian Legislatures*, the MPs annual salary was equivalent to \$106,204.00 when all allowances were factored in. Since then, MPs have received 2% annual base salary increases, it is reasonable to assume that this calculation now puts the Fleming calculation in excess of \$110,000.

If one only considers the base MP salary of \$69,100, an MP falls within the top 8.6% of all Canadian income earners. However at, \$110,000, the typical MP ranks among the top 2.1% of all Canadian income earners. Looking at draft data from **1998 Tax Statistics on Individuals**, soon to be published by the CCRA, it is clear that MPs are among the top ranks of all Canadian income earners.

1998 Tax Filing Statistics

		<u>Top Percent</u>
Total number of Canadians filling returns:	21 383 860	
With incomes over \$60,000:	1 838 000	8.6 %
With incomes over \$100,000:	442 660	2.1 %

COMPLEXITY AND LAYERING

Members of Parliament have access to numerous indemnities and allowances designed to compensate them for their public service and to reimburse them for expenses incurred as part of their duties. These include:

- an annual salary of \$69,100
- a non-taxable expense allowance ranging from \$22,800 to \$29,100 dependent upon the constituency which the MP represents
- additional allowances if the member is fortunate to serve as the Prime Minister, Cabinet Minister, Leader of an Official Party, Secretary of State, Parliamentary Secretary, Party Whip, House Leader, etc.
- enrolment in various insurance plans including life, health and dental and airline flight insurance coverage
- a travel budget including 64 round trip air flights anywhere in Canada with allocation privileges for spouses, dependants and staff
- a central travel reservation service for scheduling of travel
- travel status expense reimbursements
- moving expenses
- an Ottawa office and a constituency office budget set at base amounts with appropriate elector and geographic supplements
- personal computers and laptop allocations as well as appropriate network and software training
- electronic equipment including televisions, photocopiers, cell phones and other telecommunications devices
- access to daycare services
- food services on Parliament Hill
- a gymnasium
- on-site health services (Parliament Hill)
- parking and mini-bus access (Parliament Hill)
- postal and messenger services
- printing resources
- language training for members, spouses and members' staff, and
- translation services.

This plethora of salaries, allowances, indemnities, and reimbursements make it difficult for the public to understand the actual degree to which MPs are compensated (in monetary and non-monetary terms) for their service.

In addition, MPs are obligated to participate in what the Canadian public rightly regards as the **gold-plated MP pension plan**.

This almost incomprehensible system has arisen in large part because politicians have attempted to increase their compensation packages while avoiding the political backlash associated with more visible base MP salary increases. Furthermore, the extra indemnities paid to MPs should they occupy certain House Officer positions serves only to add another layer of complexity to determining an individual MPs compensation.

Extra Indemnities Paid to Members of Parliament (as of Jan. 29, 2001)

Prime Minister	\$75,100
Cabinet Ministers	50,000
Secretaries of State	37,500
Speaker	52,700
Leader of the Official Opposition	52,700
Leader of Other Opposition Parties	31,600
Deputy Speaker	27,500
House Leader - Official Opposition	25,300
Chief Whips - Government and Official Opposition	13,900
Parliamentary Secretaries	11,200
Deputy Chair - Committees of the Whole House	11,200
Assistant Deputy Chair - Committees of the Whole House	11,200
House Leader - Other Opposition Parties	10,800
Chief Whip - Other Opposition Parties	7,900
Deputy Whips - Government and Official Opposition	7,900

Recommendation #2:

The Commission should strive to simplify the salary structure for Members of Parliament by:

- A. abolishing the non-taxable expense allowance and making the appropriate upward adjustment (accounting for federal and provincial tax effects) to the base MPs salary;
- B. simplifying the grid and variation of extra indemnities paid to House officers;
- C. combining the travel status expense (accounting for federal and provincial tax effects) into the base MPs salary and making the appropriate upward adjustment;
- D. instituting an indexing clause based on the national average of public and private sector wage settlements; and
- E. recommending that any changes to the pay structure **only** take effect after the next general election thereby removing the inherent conflict of interest of having members vote upon their own salary changes.

MP PENSION PLAN REFORM

Any credible study of remuneration to Members of Parliament must include an examination of current and alternate pension arrangements.

The CTF's lobbying efforts for changes to the MP pension plan are well documented. And the symbolism of the intransigence of Parliamentarians on this issue is not lost on Canadians.

Indeed, we found it highly ironic and duplicitous that Parliamentarians implemented a 73% premium (read: tax) hike in an effort to prop up the Canada Pension Plan while continuing to enjoy benefits from the second richest public service pension plan in the country.

Despite repeated calls for reform – and even a choice of two-plans (status quo and defined contribution) as advocated in the Blais Commission report in 1998 – individual members have not shown the courage to wind up their own outrageous plan and replace it with a comparable group RRSP scheme.

While it is true that changes were made to the plan in 1995 including a minimum retirement age of 55 years and a reduction in the accrual rate from 5% to 4%, the basic structure of this generous defined benefit plan remains intact.

And despite these changes, for every dollar that each MP contributes to this plan, Canadian taxpayers still contribute a matching amount of \$4.32 toward the maintenance of the MP pension plan.

According to the latest **Public Accounts (1999-2000)**, the following contributions (net of interest) were made to the Members of Parliament Retiring Allowances Account and the Members of Parliament Compensation Arrangements Account.

	MPs Retiring Allowances Account	MPs Retirement Compensation Arrangements Account	Totals
Members contributions	\$ 1,054,926	\$ 1,248,721	\$ 2,226,950
Government contributions	\$ 2,673,500	\$ 7,397,670	\$ 9,624,620
Payments and other charges	\$ 15,991,549	\$ 7,272,907	\$ 23,264,456

In addition, the cost of pension payments to MPs or their beneficiaries – from the **Public Accounts** – has, for the most part, risen consistently of the past decade.

Fiscal Year	MPs Retiring Allowances Account	MPs Retirement Compensation Arrangements Account	Totals	Annual Percent Increase
1990-1991	\$ 6,396,298		\$ 6,396,298	
1991-1992	7,194,610	10,050	7,204,660	12.6 %
1992-1993 *	9,830,667	6,581,440	16,412,107	127.9 %
1993-1994 **	13,936,155	7,600,653	21,536,808	31.2 %
1994-1995 ***	15,991,549	7,272,907	23,264,456	8.0 %
1995-1996 +	15,884,219	6,145,755	22,029,974	- 5.3 %
1996-1997 ++	15,139,159	4,713,798	19,852,957	- 9.9 %
1997-1998 +++	16,092,426	5,655,599	21,748,025	9.5 %
1998-1999 #	15,885,368	6,191,532	22,076,900	1.5 %
1999-2000 ##	15,991,549	7,272,907	23,264,456	5.4 %

* Payment from the MPs Retirement Compensation Arrangements Account includes a payment of \$6,516,391 to Revenue Canada.

** Payment from the MPs Retirement Compensation Arrangements Account includes a payment of \$6,637,345 to Revenue Canada.

*** Payment from the MPs Retirement Compensation Arrangements Account includes a payment of \$5,790,772 to Revenue Canada.

+ Payment from the MPs Retirement Compensation Arrangements Account includes a payment of \$4,808,645 to Revenue Canada.

++ Payment from the MPs Retirement Compensation Arrangements Account includes a payment of \$3,884,619 to Revenue Canada.

+++ Payment from the MPs Retirement Compensation Arrangements Account includes a payment of \$3,982,375 to Revenue Canada.

Payment from the MPs Retirement Compensation Arrangements Account includes a payment of \$5,101,490 to Revenue Canada.

Payment from the MPs Retirement Compensation Arrangements Account includes a payment of \$4,808,645 to Revenue Canada.

The maintenance of this pension plan runs contrary to the trend away from these arrangements at the provincial level. From Ontario west to the Pacific Ocean, these generous schemes **have fallen like dominoes**. In their place, self-funding group RRSP plans have been instituted with the notable exception of Alberta who abolished their plan outright.

While pension plan coverage is almost universal in the public sector, according to the Blais Commission report in 1998, “coverage in the private sector is less than 40 per cent of the workforce. If group RRSPs are included, the coverage figure would be slightly higher.”

We assert that most Canadians would agree that it is appropriate for MPs to receive some form of retirement savings benefits while they serve in Parliament.

As noted earlier, MPs already find themselves in the top 2.1% of all Canadian income earners. Retirement provisions should not be excessively generous nor exceed what is legally permitted in the public or private sector. This includes the principle that adequate retirement savings are normally achieved only by making provision over an individual's entire working life. Therefore, an MP's pension should not be considered as one's sole source of retirement income, except in those circumstances – which are rare – where an individual has given 30 or more years of service in Parliament.

Benefits should accrue to all Members on an even basis, regardless of the amount of time served as a Member. There should be no arbitrary minimum service requirements that benefit only incumbent Members. Retirement savings should be vested immediately to the Member. And taxpayers' liability for MP retirement provisions should be limited to matching an MP's contributions on a dollar-for-dollar basis. **Period.**

The CTF has always been clear that the generous defined benefit plan should be abolished and replaced with a group RRSP style scheme.

The NDP government of Saskatchewan was the first province in Canada to adopt a self-funding plan for its provincial legislators in 1979. Manitoba undertook a similar move in 1995 while Ontario switched over to an RRSP-type plan in June 1996. Alberta abolished MLA pensions altogether in 1993 as did B.C. in 1996.

Recommendation #3:

The CTF recommends the current MP pension plan be abolished and replaced by the Parliament of Canada with a group RRSP scheme similar to those in effect in Saskatchewan, Manitoba, Ontario, and British Columbia. The group fund would be based on matching contributions to a maximum of 9 per cent of MP and other legislative salaries. Participation would be voluntary and flexible. The new group RRSP would be retroactively made available to all Members currently sitting in Parliament (with appropriate conversion of and accounting for past contributions into the MP pension plan).

Upon leaving the Legislature, Members may choose to leave their contributions in the fund, transfer them to a portable annuity or savings vehicle of their choice, or draw upon them during their transition from public to private life. For those sitting members who do not wish to convert their accumulated contributions to the group RRSP plan, payout arrangements can be made.

No changes are recommended to the structure of MPs health, dental and other medical coverage schemes.

SEVERANCE ALLOWANCES

The MP severance allowance is equal to one month per year of service up to a maximum of 50% of the total of the annual sessional allowance plus any additional allowance and withdrawal allowance to which a member is entitled. MPs entitled to collect a pension upon leaving office are not entitled to severance provisions.

There are three main scenarios where a Member of Parliament would cease to be a member.

- 1) ***Electoral defeat.***
- 2) ***Involuntary departure.*** This includes resignation from office due to permanent illness (either with the Member or in the Member's immediate family) or infirmity.
- 3) ***Voluntary departure.*** This includes resignation from office to pursue other career options or a conscious decision to finish one's term of office and not to seek re-election. This also includes instances where an incumbent member fails to earn the nomination in his/her constituency.

In the case of electoral defeat, a Member of Parliament is almost immediately thrust from employment as an elected official to searching for alternate employment. It is not unreasonable to offer transitional financial assistance to the affected MP given their time in service to the public.

This challenge in seeking employment after political life is compounded as the long hours involved in public representation can cause an MP's skills to atrophy. The pace of technological change and the need to stay current in the use of commercial technologies is just one of these challenges.

In the second scenario, being forced to unwillingly leave office due to illness, infirmity or personal tragedy also necessitates some form of compensation. Most reasonable employers would make every effort to offer their employees assistance under such circumstances. Members of Parliament deserve the same level of compassion.

However, the third scenario of a voluntary departure from office is different. Presumably, a member that decides to leave office is planning for some form of career transition. Canadian citizens that decide to leave their employment for no valid reason are not eligible for employment insurance benefits. By employing this line of thinking, it logically follows that a Member of Parliament should not be entitled to severance benefits.

Recommendation #4:

The CTF recommends that the MP Severance Allowance be paid to members in case of electoral defeat, involuntary departure from office due to reasons of illness, infirmity, personal tragedy or other circumstances deemed extraordinary by the Executive Committee of the Board of Internal Economy where arguments of compassion deem the payment of the severance allowance necessary.

Members who decide not to seek re-election before the dissolution of Parliament are not entitled to receive any severance. Likewise, those members who decide not to seek re-election after the dissolution of Parliament should not be entitled to any severance allowance.

FUTURE REVIEWS

Currently, the *Parliament of Canada Act* stipulates that Parliament appoint a commission to review compensation to Parliamentarians after each general election. We believe that this schedule is sufficient. However, if all recommendations in this report are implemented, the necessity for future reviews should be brought into question.

Recommendation #5:

The CTF echoes recommendation #9 of the 1989 St. Germain-Fox commission, which is as follows:

In future, Commissions to Review Allowances of Members of Parliament must appear to be as impartial as possible and their recommendations must be dealt with as much objectivity as possible on the part of Parliament, therefore, it is recommended that the process governing future Commissions to Review Allowances of Members of Parliament be amended in the following ways:

- A. The Chairperson and one Commissioner be non-politicians, and only one Commissioner be a former Parliamentarian;
- B. The Commission be appointed within one year of the preceding election; and
- C. The Commission's recommendations with respect to salaries and allowances, although they would be passed by the Parliament of the day, would come into effect only after the following general election.

APPENDICES

- Master Compensation Analysis – National Perspective
- Provincial Legislature Member Pension Comparison