PENSIONS IN PERSPECTIVE

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Welcome to the first issue of Pensions in Perspective, a newsletter that supports the defined benefit pension design model and innovative ideas about how to provide adequate retirement income to more Canadians.

In each issue, there will be a mix of commentary, a DB in the News segment, some Quick Facts about DB, and more. We anticipate publishing the newsletter four times a year.

Commentary: The importance of adequacy

By John Crocker, HOOPP President & CEO

There was a time when a lot more working Canadians were covered by a pension plan at work. These plans – typically the defined benefit type – were designed to ensure that the employee, after a long career, had adequate income for his or her "golden" years.

The defined benefit model was perfect for that task. Typically, a member would receive a percentage of his or her earnings, multiplied by the years of membership in the plan. So after 30 years, a member could look forward to a lifetime pension equalling 60% of what he or she had earned at work, when government pensions are factored in.

But things have changed. According to Statistics Canada figures from 2008, only 17% of private sector employees are covered by DB plans. A further 11% are covered by non-DB pension plans, but a whopping 72% have no pension plan at all.

It would seem, from this trend, that there's now a belief that retirement planning should be something that individuals should handle on their own. But are they handling it?

According to Statistics Canada, there was nearly $600 billion in unused RRSP room at the end of 2009. More than 20 million Canadians have unused RRSP room. Canadians, left to their own devices, are not taking advantage of RRSPs – the average Canadian has only about $60,000 in RRSP savings at the time of retirement.

Given that you need $20 of savings for every dollar of retirement income, $60,000 isn't going to cut it. You would need $500,000 in RRSP savings to provide yourself with post-retirement income of $25,000 per year.

Why aren't Canadians saving enough for retirement? One obvious answer is personal debt. The Bank of Canada reported in 2010 that total consumer debt in Canada is

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HOOPP
Healthcare of Ontario Pension Plan

50 YEARS OF SERVING OUR MEMBERS

FACTS AND FIGURES

- Canadians are gravely concerned about retirement. Research conducted by the Gandalf Group for HOOPP showed that 44% of Ontarians under age 35 have not started saving for retirement - and 58% are concerned that they have not saved enough for retirement.
- The median contribution to an RRSP in 2005 was $2,030 per year. RRSP contributions as a percentage of income fell to 6% in 2005 from 7% in 1999. (Source: CIBC World Markets)
- Coverage by DB plans is down from 41% 20 years ago to less than 30% today. Only 16% of workers in the private sector are covered by DB plans.

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more than $752 billion – more than $25,000 for every man, woman and child. Paying off interest-bearing debt understandably becomes a higher priority for most people over voluntarily savings for retirement.

So what do we do? Over the past few years, many ideas have been put forward. We could expand the Canada Pension Plan, so it provides a more meaningful benefit. We could, as some provinces have suggested, create new defined contribution pension plans with auto-enrolment and an opt-out clause. The federal government has called for the creation of the new pooled registered pension plans (PRPP), which is like an RRSP – voluntary – but with professional investing.

We at HOOPP believe that voluntary plans, or plans that you can opt out of, are not likely to work, given the track record of Canadians with RRSPs, TFSAs, and other savings vehicles already in existence. Contributions need to be mandatory – and ideally, be matched by the employer. The money needs to be invested professionally, with investment costs kept as low as possible; it shouldn't be up to the average worker to worry about what types of investments to take advantage of, or face high fees of 2 to 3% per year. And finally, there needs to be some sort of objective for the savings plan, in terms of post-retirement income.

Two alarming trends are emerging:

- The CD Howe Institute reports that 25% of seniors in 2010 were living on less than 60% of their pre-retirement income.
- A survey by Hoyes, Michalos & Associates indicates that 16% of all debtors who filed for bankruptcy in 2010 were over age 55.

Defined benefit plans like HOOPP are based on these guiding principles, and can deliver tangible results. Multi-employer plans, where the risks and rewards are spread across multiple employers, are a particularly effective way to deliver the promised pension benefit at a lower cost.

Society has, it seems lost sight of the realities of the life cycle of employment. When people spend 30 to 40 years of their lives at work, we have a duty to ensure that they can retire with independence and dignity. Today's seniors – most of whom enjoy a defined benefit pension plan – are among the wealthiest of all time, but that is starting to change.

Senior poverty is a real possibility if these trends continue. It's time for society to focus on the importance of adequate retirement income for our retired workers. If we don't act now to reverse the trend away from pension coverage, we'll be leaving – for our children – the unwanted legacy of bolstering social programs to combat senior poverty.

IN THE NEWS

In Holland, where 90% of workers are covered by pension plans – 90% of which are DB – the Dutch are concerned about the future. In an interview with **Top 1000 Funds** magazine, PGGM executive Else Bos says there is a recognition that the system needs to develop to make it robust for financial shocks, and be sustainable for the future. PGGM is a leading Dutch pension plan administrator to read the full story, click here: http://www.top1000funds.com/conversation/2011/03/09/dutch-look-ambitiously-beyond-db-funds/

The average Canadian now expects to retire at age 68 – that's three years later than what they expected a year ago, reports **Investment Executive**. Those earning $100,000 a year or more expect to retire at 65, but those earning less than $50,000 a year expect to work until age 70. That group says they need to work longer in order to be able to cover basic living expenses in retirement. For the full story, click here: http://www.investmentexecutive.com/client/en/News/DetailNews.asp?id=57229&IdSection=3&cat=3&BImageCI=1

The Association of Canadian Pension Management is calling for the "revitalization" of defined benefit plans. In a paper titled **Improving Retirement Coverage in Canada: The ACPM Five-Point Plan,** the ACPM says "governments have the ability to revitalize the use of DB plans in the workplace as they provide an important component of our retirement income system. Incenting employers to adequately fund plans can make the DB plan an attractive and workable option for more employers and employees."

The Canadian Labour Congress is calling on government to make improvements to the Canada Pension Plan, the OAS, and the GIS. "Even bank economists have started to admit that the RRSP approach has failed," states the CLC. "There's too much risk and not enough security to ensure that, after a lifetime of work, people can retire and live out their last years in dignity." For full details, see: http://www.canadianlabour.ca/action-center/retirement-security-for-everyone

FROM THE LEGISLATURE

"It's a worrying trend. We've seen it in the United States, we've seen it here in Canada, we see it in the industrialized world: Pensions are beginning to be eroded, benefits are beginning to be reduced, an assault on wages has happened for the last 10, 15 years, and we are witnessing a world of part-time work and many who are independent consultants with no pensions and no security." **Rosario Marchese, MPP, Trinity-Spadina (NDP),** March 2, 2011, Ontario Legislature

"A new survey from the Royal Bank of Canada finds that four out of 10 Canadians over the age of 50 who have assets of at least $100,000 have retired with some form of debt, so they're retiring and they have debt. It's not a good situation. A quarter of those entering retirement are still carrying a mortgage on their primary residence. One quarter of retirees have acquired new debt." **MPP Norm Miller, MPP, Parry Sound-Muskoka (PC),** Oct. 25, 2010.

"We will be talking with all Canadian governments about the need for overall pension reform in Canada to assure our seniors and future seniors that we'll have a brighter and better future for everyone." **The Hon. Dwight Duncan, Minister of Finance (LIB)** March 22, 2010

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