PENSIONS IN PERSPECTIVE
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Supporting adequate pensions and retirement with dignity.

Welcome to the second edition of Pensions in Perspective, a newsletter that addresses issues of pension design models and promotes 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 pensions, and more. We anticipate publishing the newsletter four times a year, and all issues will also be posted on the HOOPP website.

Pensions – insurance against senior poverty

By John Crocker, HOOPP President & CEO

Do you have a plan for retirement?

Are you putting aside enough money each year to pay for your future retirement? Are you keeping on top of the financial markets – watching your asset mix, balancing risk and return, thinking of the long-term goal?

Have you set a target for your retirement income? Do you think you'll need 50, 60 or 70 per cent of what you're earning now? Have you thought about what your spouse will live on if he or she is still around when you're gone?

Many of us plan for our death, getting mortgage insurance and life insurance, but fail to think of the many years we may live after punching the time clock for the last time.

There's a kind of pension plan that addresses all these retirement issues. It sets aside an adequate amount of retirement income, it professionally invests that money for you over your career, and then delivers you a pre-defined pension based on a percentage of what you make. You'll receive this payment for life – you can't outlive it. It also provides a pension to your surviving spouse.

This kind of plan is known as a defined benefit pension plan – and as the leader of one, the Healthcare of Ontario Pension Plan, I'm quite concerned that such plans are becoming very scarce in the private sector and are under attack in the public sector in many parts of the world, and even here at home.

Our seniors today are among the wealthiest ever, but the vast majority of them receive pensions from defined benefit plans. As these plans disappear, dismissed by employers as being too complex, or too costly for them, nothing that provides the same level of retirement income is replacing them in our financial basket of choices.

That's concerning for all of us. The average Canadian is only saving about $60,000 in his or her RRSP by the time they retire. Using the old investing rule of thumb, that you need to save $20 for every $1 you want to receive in retirement, $60,000 – which sounds like a lot – works out to just $3,000 a year. That's not enough to live on, and worse, even that small annual amount could run out for a long-living senior.

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HOOPP
Healthcare of Ontario Pension Plan

FACTS AND FIGURES

- The average DC superannuation payout in Australia is $130,000 (Australian dollars) for males and just $45,000 for females. Only 35 per cent of Australians have any DC funds left by age 75, according to the Reserve Bank of Australia; 70 per cent of seniors now claim some form of government support. *Source: Australian Investment Institute*
- In the U.S., expenditures from private and public sector pension plans in 2009 had an overall economic impact of $756 billion, supported 5.3 million American jobs, and supported over $121 billion in annual federal, state and local tax revenue. *Source: National Institute on Retirement Security*
- At the end of 2009, there was $589 billion in unused RRSP room in Canada, and more than 20 million Canadians had unused room. *Source: Statistics Canada*

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HOOPP retirees who began collecting their pensions in 2010 received, on average, $18,440. While that's not a "gold plated" pension, it's three times greater than the average Canada Pension Plan annual pension amount of $6,148 in 2010. It's the difference between just scraping by and living independently.

Defined benefit pension plans can work, and HOOPP proves it. We've been paying pensions to retired healthcare workers for more than 50 years. Other types of plans – RRSPs, group RRSPs, defined contribution plans, and PRPPs – don't define the future payment for you. What you get depends on what goes in, how it's invested, the fees you pay and importantly, where the financial markets are when you have take the money out. You'll need to become an expert in investing to maximize your returns – are you? Do you want to?

With a defined benefit plan, it's like having income insurance – or, insurance against senior poverty. Rather than moving to cheaper, "do it yourself" options society should be looking at ways to ensure that everyone has an adequate income when they retire. Coverage is one thing, but adequacy is everything.

John Crocker is President & CEO of the Healthcare of Ontario Pension Plan

The Decline of Defined Benefit Plans in Australia

Editor's note: Defined benefit plans have virtually disappeared in the private and public sector of Australia. Ted Murphy, Deputy Chair of UniSuper, one of the last Australia DB plans, discusses the factors that led to the demise of DB Down Under.

By Ted Murphy

Defined benefit (DB) plans once dominated the pension sector in Australia. Today pensions (known in Australia as superannuation plans) are a regular entitlement for most workers, but they are nearly all of the defined contribution (DC) variety.

As we shall see, it was – ironically – Australian trade unions that played a role in the predominance of DC.

Although one union – the waterfront union – achieved pension coverage for its members in the 1960s, coverage for other Australian workers didn't happen until the 1980-1992 period. Early in the 1980s collective agreements led to the establishment of pension funds for metalworkers, retail workers and construction workers. Wage increases were traded, in negotiations, for an equivalent employer contribution. However by 1985 only about 39% of the Australian workforce received pension contributions.

In 1986, an agreement between the Australian Council of Trade Unions and the federal Labour government led to workers receiving a 3% employer pension contribution instead of a wage increase. Rules were put in place to establish who could receive the contribution, and what pension fund could receive them.

This laid the foundation for what is known today as the Industry Superannuation Fund model. Contributions are allocated to industry-specific pension funds governed by boards with equal labour-management representation, and an agreed chair.

Over time, government legislation increased that original 3% contribution to 9%, and the

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current federal government is planning to increase the amount to 12% by 2022. Research by the Australian Investment Institute shows that the average Australian currently is not saving enough in his or her DC super for an adequate retirement – and many find they have used up their super by age 75.

The industry fund movement is an overwhelmingly DC environment. There are three reasons for this. First, it was felt that it would be easier to market and explain an employer contribution to a DC plan than one to a DB plan. As well, the 3% amount was probably seen as insufficient for establishing a new DB plan. No one could have known that the 3% contribution rate would eventually increase to 9%.

Finally, DC proponents felt DB plans allowed far less portability for workers than DC, and that DB plans put corporate balance sheets at risk. This was dramatically highlighted by the high-profile collapse of some private companies with DB plans; companies that were unable to put any money towards a growing DB liability. Together these three factors strengthened the preference for DC.

The reality was that the private sector DB crisis had few, if any, implications for state and federal DB plans – given the resources of government – or for non-government sponsored multi-employer DB plans, where contributions were made by members and employers each payday.

Nevertheless, the government sector also abandoned DB plans, though for different reasons. In an 'economically rationalist' political and ideological climate state and federal government DB pension liabilities and the levels of general government debt were heavily criticized – even though the level of government debt, when expressed as a percentage of the gross domestic product, was comparable to debt levels of prior governments.

With few exceptions the government sector DB plans were closed to new members and replaced by DC plans that received much lower government contributions. The affected unions failed to mount much opposition against this trend. That's because existing plan members were "grandparented" for DB, and were unaffected by what was effectively a benefit reduction for new staff.

As a result, Australia's pension system is one where – apart from the few continuing DB plans – all risks are borne by individual employee members of the DC supers. When markets are in decline, observers suggest that all that's needed is for members to work a few years longer before retiring. That's much easier said than done, as older workers are often facing a decline in their health and skill sets.

Ted Murphy is the Deputy Chair of UniSuper, which offers a choice between DB and DC. Formerly the National Assistant Secretary of the National Tertiary Education Union, he has also been Labour Party candidate for the Australian Senate, a delegate to the International Labour Organisation, and a member of Australia's Delegations to the Cancun and Hong Kong Ministerial Conferences of the World Trade Organisation.

Sources used for this article include 'A Recent History of Superannuation in Australia' published in APRA Insight, Issue Two, 2007, published by the Australian Prudential Regulatory Authority, and 'A History of Super'. The latter can be found on the website of the Australian Council of Trade Unions, http://www.memberconnect.com.au/ACTUSuperSite/AboutSuper/HistoryOfSuper.aspx

WHAT THE POLITICIANS ARE SAYING

"The numbers speak for themselves — the pension system as we know it is unsustainable. This bill institutes common-sense reforms to bring government benefits more in line with the private sector while still serving our employees and protecting our retirees."

N.Y. Gov. Andrew Cuomo, quoted in the New York Times on his plan to raise the earliest date for retirement to 65 for all state workers and teachers, June 8, 2011.

"Only about a third of us have a defined benefit pension plan... we all know that now, as you do the Tim Horton's or Walmart shopping, you are as likely to see somebody post-55 or 65 even performing those functions of a young student because they need the money; because they can't afford to retire."

Cheri DiNovo, MPP, Parkdale-High Park (NDP), Ontario Hansard, May 12, 2011

"People today are living longer, but they're retiring earlier. The baby boomers are also retiring, but the following generations are getting smaller. Populations are aging and there is a rising tide in the labour force of female participation and changing family structures. There are more people over the age of 65 than under the age of five.

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IN THE NEWS

DC means your pension is your problem: Rob Brown, a professor of actuarial science at the University of Waterloo, wrote a recent column in the Winnipeg Free Press on the difference between private sector defined benefit and defined contribution plans. "In these defined-benefit plans, the worker has a defined benefit and increased costs are the responsibility of the employer. This is bad news today but if the economy improves, good times for the employer could return.

"The opposite is true for defined-contribution plans. Again, as the name implies, in a defined-contribution pension plan, it is the contribution that is defined with no commitment to how much will be paid out in retirement. For example, the plan may provide that the employer will contribute $1 to the pension plan per hour of work. Or it could state that the employer will contribute five per cent of an individual's pay into the plan. Once the employer makes the contribution, however, that is the end of the employer's responsibility."

For full details, visit this site: http://www.winnipegfreepress.com/opinion/westview/why-the-fuss-over-pensions-125129359.html

Fighting for the right to retire: The head of the Ontario Public Service Employees' Union is urging union members to "get ready to defend your right to retire." Warren "Smokey" Thomas says the October Ontario provincial election campaign will be filled with rhetoric from conservative observers on the need to cut "platinum-plated" civil service pensions so that public sector workers are on the same footing as those in the private sector. But he notes that in the Ontario public service, those "platinum" pensions range from $14,200 to $22,500 a year. "Everyone has the right to retire with dignity. This is true for private sector workers, and it's true for public sector workers," writes Thomas. Adequate pensions, he adds, "are not a problem to be fixed. Cutting public sector pensions will do nothing but create more low-income retirees. The real problem in Ontario today is the lack of good pensions for millions of workers."

For the entire article, visit http://www.opseu.org/presidentsmessage/july-13-2011.htm

Good pensions deliver positive economic impact: CalPERS, the giant California defined benefit pension plan, says the plan's $11.5 billion in 2010 pension payments created about $26 billion of economic activity and supports more than 93,000 jobs in the state. CEO Anne Stausboll said a study conducted for CalPERS showed that every pension dollar generated $2.26 in economic activity.

"The evidence from this study is clear: CalPERS retirement cheques are a powerful engine helping to drive California's economy," says Stausboll. "The research shows that every dollar in retirement funds we send out sparks new business activity and generates jobs for our state's workers and tax receipts for our state's cities and counties. As we continue to discuss public pensions, let's remember that Californians' retirement checks are a financial necessity and a vital source of economic strength for many people and communities around the state."

To see this release, visit http://www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2011/july/retire-payment.xml

"Crunch time" coming for public sector DB plans?: Writing in the Globe and Mail, columnist Gwyn Morgan suggests that "the speedy passage of the bill to end the Canada Post lockout marked the beginning of a much larger battle to bring burgeoning public-sector compensation costs under control."

Morgan writes that DB plans, which provide high retirement income and are often indexed, are causing constraints for governments. "Across the country, financially strapped provincial and municipal governments face huge and growing pension liabilities as a wave of baby boomer workers retires," he says.

Morgan suggests that DC plans, "wherein the size of their pension depends on what the invested funds provide at retirement," is "the only way to get government pension costs under control."

Read the full article here: http://www.theglobeandmail.com/report-on-business/commentary/gwyn-morgan/the-catch-22-of-food-and-fuel-subsidies-in-developing-countries/article1979210/

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What does this mean to the future of Canada's retirement income system, and where is it headed? Defined benefit plans have been hit by the perfect storm, and defined contribution plans are inadequate.... RRSPs (are) underutilized for those who are lower-income Canadians."

Donna Cansfield, MPP, Etobicoke Centre (Liberal), Ontario Hansard, May 4, 2011

Pooled Registered Pension Plans (PRPPs) are a new kind of defined contribution pension plan that will be available to employers, employees and the self-employed. PRPPs will play a critical role in improving the range of retirement options available to Canadians by providing a low cost retirement savings option vehicle. This is especially important to small business and its employees who will now have access to a low cost private pension plan for the very first time.

Ted Menzies, MP, Macleod (Conservative), speech at Swiss Master Choclatier, July 18, 2011

HOOPP Healthcare of Ontario Pension Plan
50 YEARS OF SERVING OUR MEMBERS

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