PENSIONS IN PERSPECTIVE

VOLUME 1, ISSUE 3 // DECEMBER 2011

Supporting adequate pensions and retirement with dignity.

Welcome to the third 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 Canada.

In each issue, there will be a mix of commentary, a defined benefit (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 be posted on the HOOPP website and the blog of the Alliance for Retirement Income Adequacy, which can be found at ariapensions.ca

Retirement savings – a problem that needs to be fixed, fast

By John Crocker

Over the last three decades – including 10 leading the Healthcare of Ontario Pension Plan – I've been helping people save for retirement.

But in the past 20 years or so, we're seeing a shift away from having stable, adequate workplace pension plans for Canadians. Good workplace pension plans – ones that provide workers with a specified benefit, defined by their earnings and years of membership in the plan – have all but disappeared in the private sector, and in many jurisdictions, are starting to disappear from the public sector.

This is a terrible trend. Workers who don't have adequate pensions are starting to outnumber those who do. Worse, those who may not have adequate pension coverage aren't aware that what they have won't provide enough money for them to retire.

Last year, HOOPP paid the average starting pensioner about $18,400. Someone retiring at 60, and living for 25 years, would receive $460,000 in pension payments – to keep this example simple, we're not factoring in future inflation increases.

If you've got a defined contribution plan (DC) or an RRSP, that $460,000 is a target to shoot for. That's how much you'll need to save to provide yourself with $18,400 per year.

cont'd on page 2

HOOPP Healthcare of Ontario Pension Plan

50 YEARS OF SERVING OUR MEMBERS

FACTS AND FIGURES

- From 1977 to 2007, defined benefit pension plan membership dropped from 31% of private sector workers to 16%. Today, more than 12 million of Canada's 17.5 million workers do not participate in a defined benefit plan. *Source: James Pierlot and Faisal Siddiqi, Benefits Canada*

- A survey of Canadian defined benefit plan members found that 83% trust that when they retire, their organization's DB plan will have sufficient money to pay them, and 74% say their DB plan is their primary vehicle for retirement savings. *Source: Grant Thornton LLP and RBC Dexia Investor Services, "Keeping the Faith," October 2011*

from page 1

for. That's how much you'll need to save to provide yourself with $18,400 per year.

Let's deal with RRSPs first. The average Canadian is only putting away about $2,730 a year, according to Statistics Canada – and there was nearly $600 billion in unused contribution room at the start of 2009. If you put $2,730 away for 30 years, you will have invested $81,900 – you would need a 500% return on your investment to get to $460,000.

It's hard to imagine someone getting those types of returns when the Toronto Stock Exchange's rate of return is only about six or seven per cent per year, on an historical average.

If you are in a DC plan, and the employer matches, you'll probably be able to put more away, but you'll still need to be a very savvy investor. Someone making $50,000 a year for 30 years in a 5% match DC plan would get $5,000 a year in their savings plan, and $150,000 invested after 30 years. You'd still need to triple your money to have enough to retire.

And before someone suggests that you can get there picking stocks, let's remember that nearly all RRSPs and DC plans invest in mutual funds. Those funds typically charge 1.5 to 2.5% fees, year after year, whether you gain or lose money in their fund. David Pitt-Watson of the UK writes that a mutual fund charging 1.5% a year erodes the value of the assets by a staggering 30% after just 20 years.

As many of you may know, I will be retiring at the end of the year. So as the sun sets on my career, I want to make one final observation. Making hard-working Canadians look after their own retirement savings, or putting them in plans that simply don't save enough, will, as referenced in the article Pension Freedom Further Away published recently in the National Post, will create some new notions in our future. We'll be hearing about people either retiring on far less than they expected, or having to work longer than planned to be able to afford to retire.

This is a shame. The answer is staring us in the face. Rather than dismantling good workplace pension plans that provide a pre-defined benefit, we should be expanding them. There's no savings in cutting back on pension benefits. Throwing an inadequate amount of money at the problem of retirement today simply means that in the fairly near future, we'll face the same situation now being felt in Australia, where workplace plans were converted from defined benefit plans to DC "supers." Half of Australian seniors live below the poverty line, and a third of them run out of savings from their DC plans by age 75. Reliance on the government for social programs is growing.

The old saying about teaching someone to fish so they can feed themselves for life applies equally to pensions. Creating plans that can sustain people for life is a boon for society – seniors are independent and live with dignity. Putting money into ill-conceived savings ventures with no target denies them of that security and independence, and makes them dependent on others. We've got to do the right thing and improve workplace pensions, or else the problem of inadequate retirement savings will one day come home to roost.

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

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 recent provincial election campaign was 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/

WHAT THE POLITICIANS ARE SAYING

"We believe that there have to be modest enhancements to the CPP over time as part of a broader reform to improve retirement income security."

Dwight Duncan, MPP, Windsor-Tecumseh (Liberal) November 2011 (letter to Canadian Association of Retired People)

"Today marks a major milestone in our efforts to ensure the ongoing strength of Canada's retirement income system by providing a pension option (the Pooled Retirement Pension Plan) for the many workers.. who currently do not participate in a company pension plan."

Ted Menzies, MP, McLeod (Conservative) November 2011 (Toronto Star)

"We need decent pensions. It's absolutely unacceptable that our grandmothers and grandfathers, who worked so hard, who don't have the benefit of defined pension plans, should be forced to work in their retirement or live in poverty."

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

Pensions in Perspective
Pensions in Perspective is produced by the Public Affairs team at the Healthcare of Ontario Pension Plan.
All stories may be reprinted with permission. Submitted articles are welcome.
Editor: Martin Biefer, Director, Public Affairs mbiefer@hoopp.com
To unsubscribe from Pensions in Perspective simply respond to this email with 'unsubscribe' in the subject line.
To see prior issues, and for information on this topic, please visit this page: http://www.hoopp.com/about/media/