PENSIONS IN PERSPECTIVE

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Supporting adequate pensions and retirement with dignity.

Welcome to the latest edition of Pensions in Perspective, a newsletter that addresses issues of pension design and promotes innovative ideas about how to provide adequate retirement income to Canadian citizens.

In each issue, there is a mix of commentary, an In the News segment, Facts and Figures about pensions, and a look at what politicians are saying.

The newsletter is published four times a year, and past issues are posted on the HOOPP website and the blog of the Alliance for Retirement Income Adequacy, which can be found at ariapensions.ca. We encourage you to follow ARIA on Twitter – the handle is @ARIApensions

Enjoy!

DB eases transition from work to retirement, opens door to "strong backs and new ideas"

By John Devine

When Richmond Hill, Ontario fire captain Eric Taverner was a young man just starting out in the field of endeavour that was to become his life's work, he recalls a bit of wisdom handed down from his first fire chief.

Joining the department as a dispatcher, the then 21-year-old chafed at the regular deductions taken at the time from his pay as pension contributions. Making less than $14,000 a year at the time, and seeing retirement as a concept so far down the road as to be meaningless, he asked if he had to continue with the deductions.

"I remember the day I got the job and asked if I had to make the pension contributions. I was told two things. Yes, they are mandatory, and the chief also told me that even if they weren't mandatory, I'd be dumb not to contribute," Taverner said in a recent interview.

Now in his late 40s and looking at a retirement that's considerably closer than it once was, the career firefighter sees the value of a defined benefit pension, not only for him and his family, but also for his profession, one that requires a steady influx of "strong backs and new ideas."

Secure and adequate retirement income allows those with physically demanding jobs, such as firefighters, to leave the playing field when it's time to go, rather than hanging on because they can't afford to leave, says Taverner. That benefits employers and employees, and in emergency services, the general public as well.

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

FACTS AND FIGURES

- One third of Canadian retirees have debt; among those 55 and older who are not yet retired, two-thirds have debt. Source: Statistics Canada
- Forty-one per cent of Canadians consider home equity an option for retirement income, and 47 per cent say their home is their biggest asset. Source: BMO Retirement Institute
- Canadian men worked until age 63.2 in 2011, compared to 61.3 in 1997, while Canadian women retired at 61.4 in 2011, compared to 59.9 in 1997. Source: Statistics Canada
- For the average Canadian household in 2012, the ratio of debt to household income was 164.6 per cent. Source: CIBC
- 38.3 per cent of Canadian workers are covered by a registered pension plan at work. Source: CBC

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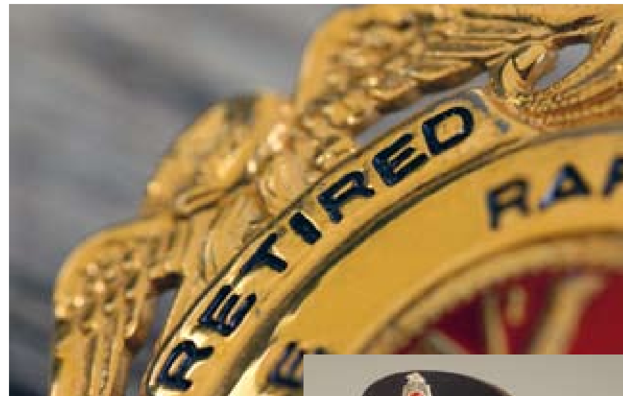
But with DB disappearing from private industry and now largely concentrated in the public sector, Taverner acknowledges the growing retirement anxiety in the country that lends itself to feelings of 'pension envy,' a factor seized on by those pushing to replace defined benefit plans with defined contribution schemes.



Pension experts and commentators say a move away from DB to DC would be a mistake, leaving individual 'investors' facing a variety of risks such as market volatility, high management fees and a general lack of investment knowledge.

While acknowledging the 'pension envy' that exists and the retirement insecurity that drives it, Taverner says the attitude is propelled by misinformation about taxpayer contributions to public sector plans like the one in which he is enrolled, the Ontario Municipal Employees Retirement System (OMERS). His retirement income, he points out, will largely come from investments made by the pension plan, and not from government revenues.

"The belief that many people seem to have is that public pensions are paid through tax dollars, and that causes retirement angst, especially among those who don't have a pension … but that is a product of misinformation."

In most DB plans, employers match employee contributions, but investments made by the plan account for the bulk of a subsequent pension. Contribution rates can also be adjusted to improve a plan's funded status.

A general industry rule of thumb says that $20 is needed in a retirement pot for every $1 taken out as income. Under this formula, for a retirement income of $20,000 a year, one would need $400,000 in RRSPs at retirement. Not many of us have that much capital socked away. According to Statistics Canada, the average balance at retirement is about $60,000.

Taverner says his job is the best in the world, and not just because of the promise of adequate retirement income, saying "we show up when someone is having the worst day of their life, and we make it better."

The provision of a secure pension, though, is appreciated, as is the management structure that delivers it.

"The only way they (plan managers) define success is that the benefit exists at the end of the day."

John Devine writes for the Alliance for Retirement Income Adequacy. Read the ARIA blog at ariapensions.ca, and follow ARIA on Twitter – the handle is: @ARIApensions

IN THE NEWS

Returns of 17.1 per cent propel fully funded HOOPP to record $47.4 billion in assets

The Healthcare of Ontario Pension Plan (HOOPP) has posted returns for 2012 of 17.1 per cent, which boosted the pension plan for Ontario healthcare workers to a record $47.4 billion in assets, compared to $40.3 billion at the end of 2011.

At the end of 2012, HOOPP was 104 per cent funded – this fully funded status means the Plan has sufficient assets to pay for every promised member's pension benefit, with no shortfall.

"HOOPP had a very strong year in 2012 – with our best investment results in more than a decade," says HOOPP President & CEO Jim Keohane. "This was a year when all of our investment strategies worked. We were firing on all cylinders, with positive returns from every type of investment," he said. HOOPP's liability driven investment (LDI) strategy continues to contribute to HOOPP's success, Keohane added.

The Plan paid out more than $1.4 billion in pension benefits in 2012, an increase of $151 million over 2011, he added.

Created in 1960, HOOPP is the pension plan of choice for Ontario's hospital and community-based healthcare sector with over 440 participating healthcare organizations. HOOPP's 274,000 members include nurses, medical technicians, food services staff and laundry workers, and many other people who work hard to provide valued Ontario healthcare services.

The full HOOPP annual report, and a short video, featuring remarks by Jim Keohane, have both been posted on the HOOPP website: www.hoopp.com.

Japan's elderly told to "hurry up and die"

The importance of seniors have adequate retirement income – so that they can live independently in retirement – has been underscored in Japan, the world's 10th most populous nation.

The finance minister of Japan, Taro Aso, noting that the nation is wrestling with "the financial and medical needs of the elderly," has told that nations seniors to "hurry up and die," the Globe and Mail reports.

With over a quarter of Japan's population over 60, the strain on government resources has been serious, the Globe notes. "The number of households receiving welfare that include a senior over age 65 represent about 40 per cent of the total," the newspaper reports

Aso, "a wealthy 72-year-old, said he couldn't imagine living off the state in his golden years," and "would wake up feeling increasingly bad knowing that [treatment] was all being paid for by the government," the Globe report notes.

Senior poverty seen as largest riding problem: MP Scott Simms

For Liberal MP Scott Simms of Bonavista-Gander-Grand Falls-Windsor, the biggest problem in his riding is senior poverty.

Simms' riding is in the province of Newfoundland and Labrador.

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WHAT THE POLITICIANS ARE SAYING

"Today, British Columbia leads again in tabling legislation to make this low-cost pension alternative (pooled registered pension plans) available to the more than two-thirds of workers in British Columbia without access to a workplace pension option."

Ted Menzies, Minister of State (Finance) -- Conservative

"The Canadian Federation of Independent Business tells us that public sector workers earn 27 per cent more in wages, pensions and benefits than their counterparts in the private sector for the very same job. It's not fair, it's not equitable and it's certainly not affordable."

Tim Hudak, Leader of the Opposition, Ontario – Progressive Conservative

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In a story in The Gander Beacon, Simms says "the number one issue in my riding that my three district offices dealt with was senior poverty. The cost of living, such as food and fuel for heat, is rising, and the fixed income of our seniors can't keep pace with rising costs. This needs to be seriously looked at in the year to come."

U.S. workers dipping into retirement accounts for other purposes, eroding savings

A "large and growing share" of U.S. workers are dipping into their retirement savings for non-retirement purposes, reports Michael Fletcher of the Washington Post.

"More than one in four American workers with 401(k) and other retirement savings accounts use them to pay current expenses, new data show. The withdrawals, cash-outs and loans drain nearly a quarter of the $293 billion that workers and employers deposit into the accounts each year, undermining already shaky retirement security for millions of Americans," he writes.

He goes on to say that with cuts being considered to U.S. social security and medicare, and "traditional pensions in a long decline," experts are concerned about the impact the savings drain will have on future retirees.

"We're going from bad to worse," Diane Oakley, executive director of the National Institute on Retirement Security, tells the Post. "Already, fewer private-sector workers have access to stable pension plans. And the savings in individual retirement savings accounts like 401(k) plans — which already are severely underfunded — continue to leak out at a high rate."

One in four workers dip into their funds to "pay their mortgages, credit card debt or other bills," and one-third of those in their 40s raid their savings, the article notes.

Links to articles referenced:

Globe and Mail: http://www.theglobeandmail.com/life/the-hot-button/hurry-up-and-die-japans-finance-minister-tells-nations-elderly/article7643799/

Gander Beacon: http://www.ganderbeacon.ca/News/2013-01-03/article-3149677/%26ldquoYear-of-strange-truths%26rdquo/1

Washington Post: http://www.washingtonpost.com/business/economy/401k-breaches-undermining-retirement-security-for-millions/2013/01/14/f54a0e90-5e70-11e2-8acb-ab5cb77e95c8_story.html

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WHAT THE POLITICIANS ARE SAYING

"Why is the household debt of average families in this province increasing? It's because they cannot make ends meet, and they're trying to hold on to a decent quality of life. So they turn to their lines of credit or their credit cards or other credit instruments to try to maintain a decent quality of life."

Andrea Horwath, Leader, Ontario New Democratic Party

HOOPP Healthcare of Ontario Pension Plan

50 YEARS OF SERVING OUR MEMBERS

Pensions in Perspective

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