

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!



Looming retirement income crisis requires attention: Teachers' Jim Leech

By John Devine

Frustrated by the direction the debate in Canada on pension reform was taking, Jim Leech, a man who knows a thing or two about pensions, decided the best way to influence the conversation was to put thoughts to paper.

His book, *The Third Rail: Confronting Our Pension Failures*, co-written by senior Globe and Mail business writer Jacquie McNish, was released late last year.

The former President and CEO of the Ontario Teachers' Pension Plan found that the raging pension debate focused on the strengths and weaknesses of different pension models and resentment towards public sector workers with good occupational pensions. Key issues of income adequacy and longevity were being ignored.

The Third Rail looks at three jurisdictions – the Netherlands, Rhode Island and New Brunswick – where pension reform has taken place. In all three, political, labour, and business leaders had the courage to identify problems with their retirement system, and propose changes, acting as role models to others as to how it can be done, Leech says.

Canada's three-legged retirement stool – Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) for low-income Canadians, the national Canada Pension Plan (CPP) and workplace pensions or personal savings – is facing a crisis, Leech says.

“The first leg is in decent shape and has effectively reduced geriatric poverty. The second leg – CPP – is a bit wobbly and should be enhanced in a targeted way,” says Leech. “What is in bad shape is the third leg, our private savings.”

Solutions proposed in *The Third Rail* include enhancing CPP benefits (particularly for

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FACTS AND FIGURES

- Only 11 per cent of Canadians know the eligible investments for a Tax Free Savings Account, and just 19 per cent know how much they can contribute to them. Source: BMO
- The average Canadian needs to save \$908,000 in order to retire comfortably. Source: BMO Harris Private Banking
- Just 31 per cent of Canadians plan to put aside any money for their RRSPs for the 2013 tax year, down from 39 per cent a year ago. Source: Bank of Nova Scotia
- 30 per cent of Canadian retirees have had to return to work to pay off debts. Source: ING Direct
- The average Canadian owes \$27,743 in non-mortgage debt, up one per cent from a year ago. Source: Statistics Canada study on CBC

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CPP expansion is not currently on the agenda for the federal government. Leech says their solution – voluntary Pooled Registered Pension Plans (PRPPs) might work with three enhancements -- mandatory participation, an emphasis on cost reduction and simplification of investment choices, and a forced requirement to commence annuitizing at some point during the savings period, to deal with longevity risks. RRSPs are not being used by those who need them most – the middle class, he notes.

Many studies, including a recent one by the Boston Consulting Group, show the value of having retirees with adequate retirement income.

“Defined benefit retirees spend about \$64 billion in the economy ... about \$16 billion in taxes, and represent about 11.5 per cent of all the income of smaller communities,” he notes. Moving away from defined benefit would mean “gutting 11.5 per cent of income from every small community.”

Without adequate retirement income, Canadians will have to rely more heavily on programs like OAS and GIS, both of which are directly funded through taxes, he says. “The GIS and OAS ... cost the taxpayer a dollar for every dollar that goes out. Combined, they already account for the largest expense line in the federal budget ... and the costs are expected to triple in the next 16 years,” he explains.

Canada’s defined benefit model, such as the CPP and the big public plans, is an effective, efficient and low cost provider of adequate retirement income, states Leech, explaining that the vast majority of the benefit dollar comes from returns on investment. In Teachers’ case, 76 to 78 per cent is generated from investments, he says, “whereas the plan costs the taxpayers only 11 cents and the teachers themselves contribute 11 cents – this is a highly cost effective way for the employer to provide retirement security.”

While DB is the best approach, Leech says the model is not immune to fiscal and societal pressures, including longevity risks, and as such, they need to adapt to the times, says Leech.

“Our recommendation is that DB pension plans must move towards a more sustainable position by finding ways to more equitably share risk between the three main players: the employer, the employee and the pensioner, he says. “We firmly believe the old legacy DB model needs to evolve ... we’re not in this book trying to defend the old model. That model does need to shift, but it would be silly to shift to defined contribution.”

As for Leech’s own retirement plans, he is going to be a role model for those who believe retirement is merely life’s second act. Having left his post at Teachers’, he is taking on a variety of jobs, including Chancellor of Queen’s University. “And ... one of the things I am doing with the military is an expedition to ski to the North Pole. I’m not going to get fat on the beach.”

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



Photo: Jim Leech

Provincial government announces Jim Keohane to help design made-in-Ontario pension solution

Healthcare of Ontario Pension Plan (HOOPP) President & CEO Jim Keohane has been asked by the Ontario government to serve on the Technical Advisory Group on Retirement Security that will work on the development of a new Ontario pension solution, designed to strengthen retirement income security for people across the province. While serving on this panel, Keohane will continue in his role as President and CEO of HOOPP.

As announced recently by Ontario Premier Kathleen Wynne, Keohane will be joining a team put together by the province, providing his expertise in pension plan investing and funding. This initiative is following an effort to expand the Canada Pension Plan (CPP) that did not go forward. Premier Wynne has said repeatedly that the relatively modest CPP benefit (maximum of about \$1,000 a month) is not sufficient for the majority of Ontarians who have no workplace pension plan and who have not been able to save enough in their RRSPs to fund an adequate retirement. She feels a “made-in-Ontario” plan that would be universal across the province and would supplement the CPP, would ensure retirement security for more Canadians.

Keohane joins the Technical Advisory Group alongside: former Prime Minister, Paul Martin, noted pension expert, Keith Ambachtsheer, pension industry executive, Bill Morneau, former CEO of CPPIB, David Denison, CARP Vice President for Advocacy, Susan Eng and General Counsel of OTPP, Melissa Kennedy.

“It is critical that we act now to improve retirement security. This technical advisory group will give us the guidance and insight we need to ensure we can protect the people of Ontario in their retirement. I want to thank all of our pensions experts for taking on this important responsibility.” – Kathleen Wynne, Premier of Ontario

IN THE NEWS

Pension plans experience “remarkable” turnaround

Canadian pension plans have rebounded from the ‘Great Recession,’ posting investment returns of 14.2 per cent in 2013, reports the Globe and Mail, which calls the turnaround remarkable.

RBC Investor & Treasury Services looked at 120 defined benefit plans and found that the plans averaged 6.1 per cent in the fourth quarter of 2013, and 14.2 per cent over the entire year, reports The Globe. The large returns were due largely to significant equity returns and a buoyant stock market.

In 2012, pension plans earned an average return of 9.4 per cent, reports The Globe, adding the “higher market returns were one of the key factors in a remarkable turnaround in pension plan health last year.”

“Pensions gained a lot of traction in 2013,” The Globe reports Scott MacDonald, managing director of pensions for RBC Investor & Treasury Services, saying “strong equity gains and a weaker Canadian dollar led to an increase in assets, while higher long term bond yields reduced most plan liabilities, which will please sponsors.”

WHAT THE POLITICIANS ARE SAYING

“Ontario will go it alone (on pensions), we will look at alternatives as we must to protect the interests of our citizens.”

Ontario Finance Minister Charles Sousa (Liberal) in The Canadian Press

“When it gets to the point where there isn’t enough retirement income there, what does that mean? It means we are going to have a run on our social and health care services because people who don’t have enough retirement income ... are going to put extra strain on all of that.”

Prince Edward Island Finance Minister Wes Sheridan (Liberal) in an interview with ARIA

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Canada faces a pension crisis, says NDP pension critic

The NDP took its message about the pending pension crisis to St John's, reiterating that the country faces a problem of inadequate retirement income, reports the St. John's Telegram.

Federal NDP pension critic Murray Rankin met with federal and provincial public sector pensioners groups and other organizations, reports The Telegram. He said the meetings supported the NDP's push for pension reform, which includes cancelling the plan to increase the eligibility age for Old Age Security from 65 to 67.

The party also wants to increase the Guaranteed Income Supplement to ensure seniors stay out of poverty, reports The Telegram. Additionally, the NDP advocates including fuel and utilities costs in consumer indexing.

Further, reports The Telegram, Rankin said reforming the CPP is essential to ensure future generations have access to it, and that the middle class has a decent standard of living in retirement.

Air Canada pension plan running in the black

At Air Canada it's not just the planes that are taking off. The airline's domestic pension plans have lifted into a small surplus from a \$3.7 billion deficit a year ago, reports the Globe and Mail.

The airline announced Wednesday that based on preliminary estimates, its plans will have a small surplus, according to a Canadian Press report on the CTV News website, adding that getting rid of the debt was accomplished by a number of events, including a 13.8 return on investments last year.

Additionally, changes to benefits and contributions by Air Canada combined to push the plans into surplus, the report notes.

Last year's returns continued a four-year stretch in which the airline posted investment returns of more than 10 per cent, "placing it in the first quartile for performance compared with large Canadian pension plans," the report states.

"Air Canada's three primary pension objectives are to ensure our employees' and retirees' pensions are secure, the pension solvency deficit is eliminated and that the costs associated with maintaining the pension plans remain affordable, predictable and stable," The article quotes Air Canada president and chief executive officer Calin Rovinescu as saying.

Air Canada's pension successes line up with growth in other Canadian plans which experienced a significant turnaround last year, the article concludes.

Links to articles referenced:

Globe and Mail article: <http://www.theglobeandmail.com/report-on-business/economy/pension-plans-see-returns-soar-142-in-2013/article16445341/#dashboard/follows/>

The Telegram (St. John's) article: <http://www.thetelegram.com/News/Local/2014-01-22/article-3586509/NDP-critic-gauging-pension-concerns/1>

CTV News article: <http://www.theglobeandmail.com/news/politics/peis-pension-reform-plan-gains-steam-ahead-of-flaberty-meeting/article14672859/>

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WHAT THE POLITICIANS ARE SAYING

"Job creators won't come to Ontario or they won't grow in Ontario if they worry that there is going to be so much debt in the province to pay for unaffordable increases for government workers, to pay for gold plated pensions that they don't even dream of in the private sector."

Ontario Opposition Leader
Tim Hudak (PC) in the
Toronto Star