

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!



We're All Invested – DB plans “part of the solution” in addressing retirement income crisis

A retirement income crisis awaits us if action is not taken on expanding workplace pension coverage in Ontario and across the country.

That was one of the key messages delivered at “We’re All Invested,” an information session held March 17 at the MaRS Centre in Toronto. The event was sponsored by the Healthcare of Ontario Pension Plan (HOOPP), along with the settlor organizations on its board – the Ontario Hospital Association, the Ontario Nurses’ Association, the Canadian Union of Public Employees, the Ontario Public Service Employees Union, and the Service Employees International Union.

Michael Block of the Boston Consulting Group presented research on the investment expertise of the nation’s public sector pension funds, and as well, the significant impact defined benefit (DB) pension income has on the economy. Canada’s Top 10 pension funds, a group that includes HOOPP, managed more than \$714 billion in retirement assets as of the end of 2011, and their track record of success “has built a great reputation for Canadian pension funds around the world.”

The income that DB pensioners receive, Block noted, has a significant impact on the economy.

In smaller towns, BCG research found that significant total income comes from DB pensions. In Cobourg, for example, 15% of income comes via DB pensions. Across Ontario, DB pensioners spend \$27 billion annually on goods and services, and pay \$3 billion in income taxes. \$3 billion from their spending goes to provincial and federal sales tax and property tax, Block said. “That money, for the most part, all goes back into the economy, and there is a multiplier effect as well,” he said.

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HOOPP
Healthcare of Ontario
Pension Plan

50
YEARS
OF SERVING
OUR MEMBERS

FACTS AND FIGURES

- Canadian men are forecast to spend 19.6 years in retirement, women will spend 23.8 years retired. Source: OECD
- The ratio of household debt to income was 164% as of the end of Q3, 2013. Source: Statistics Canada
- Canadian DB retirees spend between \$56 to \$63 billion annually on goods and services, and pay \$14-\$16 billion in income, sales and property tax. Source: Boston Consulting Group
- 63% of Britons surveyed worry they won't have enough money to retire at age 65. Source: Canada Life
- The maximum annual Canada Pension Plan payment is \$12,500, and the maximum Old Age Security is \$6,618. Source: CARP (Canadian Association of Retired Persons)

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Block also noted that DB pensioners are far less reliant on taxpayer-funded income support programs, such as the Guaranteed Income Supplement (GIS). Only about 10-15% of DB pensioners receive the GIS, compared to 45 to 50% of non-DB pensioners, he noted. He called DB pensions “an important pillar of the retirement system,” adding that the mandatory savings enable savings and investments that might not otherwise have happened.

Next to speak was David Herle of the Gandalf Group. His company did some public opinion research on the topic of retirement, and found that two-thirds of Ontarians are concerned they won't have enough income in retirement. His research found that those with DB plans expect they will have about 95% of the income they need in retirement, while those without plans fear they will be about 20% short.

“People with DB plans don't know how good they have it – and those without them don't know how bad they have it,” he said.

Other findings from Gandalf's research included:

- 86% of Ontarians believe there is a retirement income crisis
- 73% are concerned that it is not mandatory for employers to offer workplace pensions
- 65% believe that without good workplace pensions, the economy will suffer

The research found that there was not envy amongst the public about the pensions that public service workers have, but instead, a belief by 60% that private sector pensions should mirror the public sector system.

“There is a retirement income crisis right now,” Herle said, adding that “a shocking number of people have put nothing away for retirement.” He said that employers and government “both have a role to play” in delivering retirement security.

The final speaker was HOOPP President & CEO Jim Keohane.

He said that the real problem with pensions is that there is a very large number of people who are not covered. He said that having a large group like this without pensions may “cost us dearly” in the future, noting that Old Age Security and the GIS are “a very large expense for the federal government.”

He said the types of pensions delivered by HOOPP are “hardly gold plated,” with the average amount currently around \$23,000 a year. But that reliable income allows seniors to be independent, and less reliant on government income support programs. “They (DB pensioners) aren't the problem,” he explained.

Moving away from DB plans in the private sector was probably more about the tough accounting rules faced by private businesses than the cost of pensions, Keohane noted. There is likely no cost savings by switching from DB to defined contribution, he noted, and the burden of risk “is shifted to the employee. The vast majority of people would be better off in a more defined vehicle.”



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DB plans feature risk sharing through pooling, professional investing, low fees, and cost effectiveness. About 80 cents of every dollar that HOOPP pays in pensions comes from investment returns. Members and employers pay the rest, so the taxpayer is contributing about 10 cents on the dollar.

He concluded by saying DB plans are a “key part of the solution” for the retirement income crisis, adding that a pension plan “structured on the HOOPP model” would be a good model for a pension plan designed to supplement the Canada Pension Plan.

Check the HOOPP website, hoopp.com, for a copy of a White Paper that summarizes the day’s findings, as well as a new DB advocacy section that offers more information on this issue. Video from the March 17 event is being added to the website soon.

HOOPP has started tweeting about DB, follow @HOOPPDB to see what they have to say.

FULLY FUNDED HOOPP TOPS \$51 BILLION IN NET ASSETS

Strong results in 2013 have propelled the Healthcare of Ontario Pension Plan (HOOPP) to its strongest funded position in over a decade, a funded ratio of 114%.

The plan now has a record \$51.6 billion in net assets following a rate of return of 8.55% in 2013, HOOPP reported last month. HOOPP’s full annual report, Fully Committed, has been posted on hoopp.com, as has a short video.

HOOPP President & CEO Jim Keohane says the strong showing and stellar funded position show that the defined benefit pension model works, and works well. Thanks to solid funding, the contribution rates made by HOOPP members and employers have been stable for a decade. HOOPP’s rate of return over the past decade is a solid 9.66%

“Being fully funded means we are able to deliver the pension promise for all of our members,” says Keohane, adding that the plan has the strongest funded position it has had for years.

IN THE NEWS

DB plans consistently outperform DC: report

It’s no secret that pensions are a more reliable source of income than personal savings programs, like 401(k)s in the United States.

But, as reported at cfo.com, the gap seen in 2011 was the biggest it has been since the mid-90s, according to a report from Towers Watson.

One rationale for employers to have a pension plan is to ensure a smooth transition from work to retirement. Without this process, employers might need to resort to other measures to move older workers along, reports cfo.com, including forced attrition, a move that could impact employee morale.

However, many firms don’t appear to be concerned to the point they’ll actually contribute to employees’ retirement funding through 401(k)s, a defined contribution plan. Also, research proves the point of DB over DC.

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WHAT THE POLITICIANS ARE SAYING

“One of the most important things we can do is (provide) retirement security. We are very committed to doing that.”

Ontario Health Minister Deb Matthews (Liberal), speaking in the Ontario Legislature

“This Liberal government is about to remove even more disposable income from the pockets of Ontarians through its plans for a mandatory pension plan... I have, however, yet to hear of an unfunded liability in an RRSP or a tax-free savings account, mostly because these funds aren’t managed by the government.”

Jim McDonnell, MPP (PC), Critic for Consumer Services, speaking in the Ontario Legislature

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“Our research shows that over the last 17 years, at least, DB plans have consistently outperformed DC plans,” Dave Suchsland, senior retirement consultant for Towers Watson, is quoted as saying.

“DB plans are actually a less-costly way to provide the same benefit, because the better investment returns mean a company would need to contribute fewer dollars to offer that benefit. But generally when a company moves from DB to DC, it doesn’t provide the same benefit.”

PEI’s Sheridan “front and centre” in pension debate

With the collapse of talks to expand the Canada Pension Plan, many observers wondered if attempts to address retirement income security issues would stall.

That didn’t prove to be the case as Ontario quickly announced it would proceed with its own solution. Prince Edward Island, and also Manitoba, has joined the initiative, writes Andy Walker at troymedia.com.

Jim Sheridan, PEI’s finance minister, drafted the most recent proposal to expand CPP benefits, essentially doubling them to nearly \$24,000. When the country’s finance ministers met in December, federal finance minister Jim Flaherty declined to sign on with the plan that had gained the consensus of provincial and territorial ministers.

Sheridan, writes Walker, “was front and centre in that fight, along with his Ontario counterpart, Charles Sousa.”

PEI’s small population made it difficult for it to design its own solution, so Sheridan “did the next best thing,” writes Walker, joining Ontario’s pension initiative.

Pension plans’ resurgence continues

The resurgence of Canada’s pension plans continues, with their market value growing 3.1% to \$1.3 trillion, in the third quarter of 2013, reports Benefits Canada.

Data from Statistics Canada showed that pension fund investments in stocks grew 2.9% in value during the quarter, more than the 1.9% rise in share values on the Toronto Stock Exchange, for the same period, reports Benefits Canada.

Bond holdings were up 3.4% in value, while real estate assets grew by 1.9%, reports Benefits Canada. Mortgages and short term investments both declined during the quarter, however the value of foreign investments rose 2.1% Foreign investments held in Canadian pension funds accounted for 32.9% of total pension fund assets, reports Benefits Canada.

Contributions from employers and employees totalled \$12.9 billion during the quarter, with \$11.9 billion in benefits being paid to retirees.

Links to articles referenced:

CFO.com article: <http://www.ariapensions.ca/about-pensions/db-consistently-outperforms-dc-aria-post/>
Troy Media article: <http://www.troymedia.com/2014/03/16/pei-jumps-on-ontario-pension-bandwagon/>
Benefits Canada article: <http://www.benefitscanada.com/pensions/db/market-value-of-pension-funds-on-the-rise-50464>

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WHAT THE POLITICIANS ARE SAYING

“There is more poverty when you have the right-to-work-for-less in the States. That’s a fact. They have no pension plans, so think about what happens to your seniors when that happens.”

Wayne Gates, MPP (NDP), speaking in the Ontario Legislature