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Cross-country Views Collected

By: Patrick Longhurst

This past year, I was offered a once-in-a-lifetime opportunity to be the National Speaker for the Canadian **Pension and Benefits** Institute (CPBI) for 2006/2007. The purpose of the program is to enlist an experienced speaker on a topic of interest to CPBI members and to deliver a common message in all eight CPBI regions. In this role, I was able to speak to Canadians across the country on a substantive **pension** issue that has been germinating in my mind for a number of years: What do Canadians actually think of their **retirement** income system and, if change is required, is there any common ground among the various stakeholders involved?

This article tells the story of the rest of the journey.

Getting Started

When I took on the role, I had three months to get my thoughts together and be ready, by October 2006, for a sophisticated audience of consultants, union representatives, sponsors, and pension regulators. Some days, this was a daunting prospect, but, thankfully, I had generous assistance and support from contacts I have made in the industry over the years. Some of the comments I heard in discussions with these contacts included:

- I really don't believe there is a future for Defined Benefit plans in the private sector.
- Why do actuaries make things complicated by using more than one actuarial basis?
- Don't forget the impact of the extended family.
- Many retirees really dislike RRSPs and wish they had never invested so heavily in them.
- Why not ask the attendees what they think?

In September 2006, I visited the UK and was delighted to find a comprehensive report on their retirement income system, prepared by the government, complete with a smiling photograph of Tony Blair! I explained to the cashier that this would fit perfectly with a speech I was preparing for Canadians, to which she replied, "Well, don't make a bloody mess of things the way they have here!" I now had my opening story. How could I fail?

The Presentation

My final presentation focused on giving the audience a broad background, which would enable them to complete a questionnaire after the speech. My goal was to analyze the survey results from across the country and see what common opinions I could identify.

I started with a conceptual approach to retirement income systems, drawing heavily on recent World Bank reports. My point was that every country has a retirement income system composed of a series of pillars. These pillars might be:

- Mandatory or optional
- Contributory or noncontributory
- DB or DC
- Funded or unfunded

Formal or informal My thesis was that in any country, at any given time, there is an optimum combination of these pillars. Given that the fundamental structure of Canada's retirement income system has been unchanged since 1966, it would be remarkable if we had the optimum combination. But maybe we do!

I proceeded to review what is happening in other countries. In addition to the study prepared in the United Kingdom, I also looked at developments in:

- The United States (Who knows what they are doing?)
- Colombia (Which converted their unfunded DB universal plan to a funded DC plan)
- Sweden (Which went a step further and converted their unfunded DB universal plan to an unfunded DC plan)
- Australia (Which has an enormous employment related DC plan)

To bring everyone to the same level, I then reviewed the current Canadian system which, by my definition, includes:

- Pillar 0 – Extended family, home ownership etc.
- Pillar 1 – Old Age Security and the Guaranteed Income Supplement
- Pillar 2 – The Canada/Quebec Pension Plan
- Pillar 3 – Occupational pension plans
- Pillar 4 – Registered and non-registered personal savings

Although Pillar 0 is really not debatable, it is important to realize that these issues provide the foundation upon which the more formal programs are built.

I then got into the meat of the presentation, what do stakeholders think? This included recent material from such diverse sources as:

- David Dodge, who as the governor of the Bank of Canada is a real champion of DB plans
- Jack Layton, who in a recent book highlighted the major discrepancy between pension coverage in the public sector and the private sector
- David Walker, the catalyst for the 1998 overhaul of the Canada Pension Plan, who believes we have to act now to avoid a crisis in 2021
- The Toronto District School Board, which is still circulating “educational material” which completely misrepresents the current status of the Canada Pension Plan and Old Age Security

At this point, I was obliged to provide my own views about the four pillar system, which include:

- A general satisfaction with both Pillars 1 and 2
- A real concern over the Pillar 3 coverage issue – something has to be done to increase the coverage of private sector employees. Unionized employees don't fare too badly, while the rest are mostly out of luck
- A fear that traditional private sector DB plans will not recover – as a retired pension manager told me, “There was much celebrating at the board level when the DB plan was eliminated. It would take a miracle for them to reintroduce one.”
- A belief that there are more innovative hybrid approaches out there which would work in our tax and legislative environment
- A belief that the tax system should be changed for lower income Canadians, so that they have a greater incentive to save for retirement using RRSPs

The presentation ended with the distribution of an attendee questionnaire and a request that they be completed immediately. This approach yielded 295 participant responses from across the country. The complete results, and the questionnaire, can be viewed on the CPBI website at www.cpbi-icra.ca.

Survey Results

All participants had the option of completing the survey from the perspective of their current occupation or from the perspective of an individual who would be a beneficiary of the system. Many opted to complete the survey as individuals with the result that a breakdown of the 295 respondents is Individuals – 91; Employers – 34; Union Trustees/Officers – 14; Suppliers – 100; and Other (for example, librarians) – 42.

What follows are some of the broad highlights of the survey.

Overall Structure – There was no clear consensus as to whether the overall structure is meeting the needs of Canadians.

Pillar 1 (OAS and GIS) – There was a strong backing of the status quo, with the exception that nearly two-thirds of participants believe that the current GIS offset provides a disincentive for lower income Canadians to save through RRSPs.

Pillar 2 (CPP/QPP) – Once again there was broad support for the existing structure. In addition, there was strong support for additional drop-outs or imputed service for periods of parental care.

Pillar 3 (Occupational plans) – There was a strong level of confidence shown that the DB system can overcome the challenges it is currently facing. In addition, over two-thirds of participants believe that alternative plan designs should be developed. From a DC perspective, participants were in favour of new approaches for investments and increases in the maximum contribution limits. There was also strong support, from all categories of stakeholders, for a minimum mandatory plan to be provided by all employers who do not offer a plan which meets minimum standards.

Pillar 4 (Personal savings) – There was broad support for increasing maximum RRSP contributions and for revising the taxation of RRSP proceeds for lower income Canadians. Also, a majority of participants were prepared to revisit the idea of Tax Pre-paid Savings Plans (TPSPs) which were first proposed in the 2003 federal budget.

Future Steps – Three-quarters of participants felt that there was an urgent need for a comprehensive review of Canada's retirement income systems (The long-awaited Aging Paper?) and that the federal government should take the lead in this process. Unfortunately, only one quarter were prepared to get actively involved and make something happen!

Where To From Here?

For all intents and purposes, the 2006/2007 National Speaker Program is complete. I would like to thank the CPBI for a great opportunity. I believe that we have created some initial momentum for a project that is long overdue – a comprehensive review of the system, co-ordinated by the federal government. Although the sample involved is small, the findings were repeated from Vancouver, BC, to Halifax, NS, and across all stakeholder groups:

- There is a need for a fundamental review
- We need a solution to the low coverage in the private sector
- There is an opportunity for more innovative solutions

In 2007, we have seen many interesting developments in the pensions world. The federal budget introduced pension splitting and started to tackle phased retirement. Ontario established its Expert Commission On Pensions. The Canadian Institute of Actuaries' published its 'Prescription for Canada's Ailing Pension System.'

What is needed now is some mechanism for combining all of these initiatives so that they are complementary. Hopefully, this project will help to get the ball rolling. ■

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