

## Pensions

# *Supplemental Pension Plans:* **Choosing To Be Different**

**By: John Montalbano**

In terms of financial reform, the next few years will be no stranger to policy overhauls around the world – a by-product of the still-unfolding financial crisis. In the coming period, you will see many initiatives undertaken to protect investors, whether from unethical business practices or from the danger of reaching retirement without an adequate nest egg.

Here in Canada, say what you will about our ruling provincial and federal governments, but they are anything but boring when it comes to their initiatives related to the financial services industry and the capital markets. This calendar year is likely to see greater clarity on the issue of pension reform – specifically supplemental pension schemes and the proposed creation of a national securities commission.

This article will articulate our views on pension reform, as the federal and provincial governments are actively seeking the views of the public at the moment. I feel it is important to share our perspective with you because the debate currently underway may affect how you save for retirement, and even the way that the next generation – your children and grandchildren – saves for theirs. In these matters, it is important to have a voice.

It's clear that Canadians are not saving enough for retirement – a point I've underscored time and again. A recent research paper issued by the C.D. Howe Institute highlighted that an estimated 3.5 million Canadian workers are not members of a workplace pension plan and thus are unlikely to be saving at a level sufficient to sustain an adequate standard of living in retirement.<sup>1</sup>

The problems of inadequate savings will likely deepen, driving standards of living lower.

### **Pending Retirement Bubble**

This is especially poignant when you consider that the proportion of seniors in Canada is projected to double over the next 20 years. The pending retirement bubble, coupled with greater longevity, means that governments must act now to facilitate higher savings rates. That's why we feel that the time is right for Canadians to understand the issues that are on the table and, specifically, the important role that can be played by supplemental pension plans.

Where would the policymakers start when implementing such an initiative? It is entirely appropriate for governments to start by focusing on the work force that does not have access to a workplace pension scheme.

Data from Statistics Canada suggests that only 26 per cent of workers employed at companies with less than 200 employees have registered pension plans, also known as employer-sponsored pension plans. It drops to a staggering two per cent for employers with less than 50 people.<sup>2</sup> These statistics become even more meaningful when accompanied by the fact that employers with fewer than 50 employees account for 31 per cent of Canadian workers.<sup>3</sup>

To combat this looming crisis, many have suggested that a quick and credible fix would be an across-the-board increase to the Canada Pension Plan (CPP) contribution rate. While this option may seem attractive due to its simplicity and ability to leverage the savings infrastructure already in place, it has some notable shortcomings. As with many “one-size-fits-all” solutions, it is inflexible and imprecise.

Higher CPP contribution rates would reduce choice for plan participants and not allow for an “opt-out” clause for those Canadians who have utilized other forms of retirement savings plans (RSPs, TFSAs, inheritance trusts, etc.) or who have other near-term demands on their savings and income streams, such as mortgage payments. Given the diverse needs of our workforce, flexible alternatives would be more appropriate.

Where can such flexibility be found? Ultimately, we believe that employers are best served by looking toward a cost-effective private sector provider of pension services who, through competitive market forces, will customize a plan that suits the needs of an employer and its plan participants. Why private? To prepare a public sector provider for the task would require the build-out of significant administrative infrastructure; this is infrastructure that already exists in the private sector. While the CPP is exceptionally well run, it is not structured to efficiently serve the needs of group retirement plans as intended for supplemental pensions.

### **Greater Choice**

Ultimately, the availability of private pension plans would empower individuals and employers, giving them greater choice. Adding a national supplementary pension scheme with the CPP would overly concentrate Canadians' retirement savings with one entity – an issue come to life with the recent challenges of the Caisse de depot et placement du Quebec.<sup>4</sup> Indeed, the Caisse will survive to provide pensions to its beneficiaries, but it will take some time for Quebec pensioners and future beneficiaries to feel secure about the ultimate assurance of their pension receipts.

Successful public policy in support of a national supplementary pension plan would best be achieved if the Ministry of Finance used the following considerations as guideposts for their discussions:

- ❖ Mandatory enrolment for employees, with an ability to opt out of the supplementary plan
- ❖ Ease of implementation for sponsors and participants
- ❖ Reasonable cost to plan participants and employers
- ❖ Portability between plans to address employee mobility
- ❖ Default retirement investment options for employees
- ❖ Safe harbour provisions for employers providing third-party advice to employees
- ❖ Rollover options at retirement providing for ongoing professional investment management beyond working years
- ❖ Funds invested within the supplemental plan should remain locked-in until retirement

In conclusion, we strongly believe that public policy in support of a supplemental pension plan for Canadians without a workplace pension plan makes sense. That said, Canadians have diverse needs in preparing for a retirement with an adequate standard of living, and such objectives are highly personal. As such, a one-size-fits-all public sector solution will not provide the flexibility Canadians need to address specific challenges in saving for retirement, whereas a private sector offering is better equipped to do so.

I have just scratched the surface of our views on this topic, and the discourse is ongoing. We strongly encourage all clients to reflect on this public discussion and then share your views with your local MLA or Member of Parliament. Together, we can shape public policy to enhance pension coverage and support meaningful improvement in the standard of living for Canadian pensioners for generations to come. ■

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1 "The Canada Supplementary Pension Plan – Towards an Adequate, Affordable Pension for All Canadians," C.D. Howe Institute, May 2008

2 Statistics Canada, CANSIM database, Table 281-0010

3 Statistics Canada, CANSIM database, Table 281-0042

4 Quebec's largest pension fund reported losses of nearly \$40 billion in 2008, the largest loss ever reported by a Canadian pension fund.