TIME FOR A NEW PENSION PARADIGM (2023)

Issue

Pension security is an important asset that employees require to be productive and loyal to employers. The current pension models used by Canada are dying and unable to account for the many employees due to the ineligibility for the described benefit or described contribution.

Additionally, pensions are volatile and depend on market stability, which is not always the case. This leads to uncertain and unproductive employees.

There are still too many working Canadians that do not have an employer-sponsored pension plan (Defined Benefit (DB), Defined Contribution (DC), or group Registered Retirement Plans (RRSP)) to supplement their retirement income, together with their CPP.

Background

As a result, an increasing number of Canadian workers will likely require future financial support of the federal government's Guaranteed Income Support (GIS) program during their retirement years. Future Canadian taxpayers will therefore be subsidizing future GIS payments to today's workers who are not setting aside sufficient pension monies.

Over the long term, the funding risks to Canadian workers associated with DC Plans and RSPs has long been ignored by Federal and provincial stakeholders.

Constitutionally, the Provincial Governments have the responsibility for Pension Plans. In 1966, the provinces, excluding Quebec, worked closely with the Federal Government to implement the Canada Pension Plan. Quebec brought in their own provincial Quebec Pension Plan at that time. Thirty years later, in 1996, important reforms were made to the CPP Plan, which raised contribution limits. That CPP implementation resulted in a dramatic decrease in 'poverty in Canadian seniors' over the following decades.

In 2017, further reforms were made to CPP. It has been written that these changes were principally motivated by the declining share of the workforce that was covered by an employer DP plan, which had fallen from 48 percent in 1971 to 25 percent by 2011. A further reason was the move by Ontario to launch its own Retirement Pension Plan. While the 2017 CPP change agreed by all provinces and the federal government to increase the level of 'replacement pension incomes from the level to 25% of 'earned income as defined' to a modest 33% is a very good start. Quebec followed the lead of the other provincials and made similar adjustments to its Plan. The number of people that have a registered pension plan has been declining in recent years.

In 2018, federal and provincial governments implemented important changes to the Canadian Pension Plan (CPP) to provide, when fully mature by 2063, retired workers a modest 33 percent of average worked earnings. This was up from the current level of providing 25% of average worked earnings.

A June 2019 paper issued by the C.D. Howe Institute – "The Great Pension Debate, Finding Common Ground" (#543) – Brown & Eadie should remind all of us in the business world that pension innovation is required in each of our Provinces with the full support of the Federal Government.[1]

In February 2020, the National Institute on Ageing issued a discussion paper titled "Improving Canada's Retirement Income System", the authors, Ambachtsheer and Nicin, further supports the lack of political decision-making, regulation and retirement income research, and the fragmentation within Canada on pension – both limiting important pension innovation.[2]

In Canada, there are currently approximately 20 million workers. Of the Canadian workers, 6.3 million participate in Registered Pension Plans and a similar number - 6.3 million - participate in Registered Retirement Plans.[3]

As there will be some double participation, as they may be in more than one registered DB, DC and/or RSP plan, there are estimates that between 10 to 12 million Canadian workers, (50% to 60%), do not have Pension Plans other than CPP.[4]

Over the past decade, the private sector has moved away from offering Defined Benefit Plans and implemented Defined Contribution Plans. The dramatic increase of Canadians living longer combined with the significant reduction in the investment returns in the pension plans have resulted in many employers with DB Plans having to assume material pension liabilities as an outcome of how pension calculators work.[5]

While the private sector DC plans and RSP plans do not have the same level of financial risk as the employers with DB plans, the reduction in investment returns, and for many, the size of the plan's fund management costs (MERs) results in materially less pension monies available at the time of retirement.

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[1] Brown, R., Eadie, S. (2019). The Great Pension Debate: Finding Common Ground. (#543). https://www.re-a.com/wp-content/uploads/2019/05/TheGreat-PensionDebate-FindingCommonGround.pdf
[2] Ambachtsheer, K., Nicin, M. (2020). Improving Canada's Retirement Income System: A Discussion Paper on Setting Priorities. National Institute on Ageing, Ryerson University
[3] https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110009401
[4] Ambachtsheer, K., Nicin, M. (2020). Improving Canada's Retirement Income System: A Discussion Paper on Setting Priorities. National Institute on Ageing, Ryerson University
[5] Ibid, 2020.

When Canadian workers retire with their DC or RSP plans, there is currently little flexibility on how to manage their retirement monies and so they take on future investment return risk.

There are 10 million Canadian workers who are not members of a private sector pension plan. There is very clear evidence there is room for improvement in the pension plan governance model in Canada. We have a public policy vacuum. It would take a generation of workers to turn this matter around should important changes be made. For such an important matter, one suggests there should be a Federal Minister of Pensions and each province should have a Minister of Pensions. These ministers and offices would need to work collaboratively to navigate the regulatory hurdles and intra-provincial barriers to find a better solution to manage and grow private sector pensions.

According to Brown in the commentary paper titled "The Great Pension Debate: Finding Common Ground"[6], policies encouraging large, collective and pooled pension plans governed by independent management boards are the way forward. Concurrently, Ambachtsheer posits that due to the lack of protocol for updating federal tax policy and federal/provincial/ territorial regulatory fragmentation within and between the pension and insurance sectors, and between individual and group investment regulations, Canada has suffered from stagnated innovation in its retirement income system (RIS).[7] It is vital that regulation and tax laws allow small and medium sized employers to join in such collective systems to extend their benefits to the majority of working Canadians.

THE CHAMBER RECOMMENDS

That the Government of Canada:

1. Assess the pool of employees currently covered under the traditional Defined Benefit, Defined Contribution and group Registered Retirement Savings Plans.
2. Improve financial literacy through effective programs.
3. Protect existing RPPs.
4. Develop a legislative framework to increase flexible and competitive pension contribution options for employers that can supplement CPP participation for businesses of all sizes, helping businesses attract and retain employment.
5. Increase labour force participation rates at older ages as life expectancy increases.
6. Reform the current regulatory environment to support innovation pension reform that includes:

[6] Brown, R., Eadie, S. (2019). The Great Pension Debate: Finding Common Ground. (#543). https://www.re-a.com/wp-content/uploads/2019/05/TheGreat-PensionDebate-FindingCommonGround.pdf

[7] Ambachtsheer, K., Nicin, M. (2020). Improving Canada's Retirement Income System: A Discussion Paper on Setting Priorities. National Institute on Ageing, Ryerson University

a. Regulatory support for private sector multi-employer pension programs.
b. Regulatory framework to include multi-employer pension programs across provincial jurisdictions.
c. Regulatory framework for trusteed pension plans that do not require government or union sponsorship.
d. Regulatory frameworks that allow and promote private sector access to the very solutions already available in the public sector.
e. Regulatory frameworks and support that provide access to the efficiencies of collective pension plans and that recognize the unique needs of small private sector employers and self-employed individuals.
f. Adding to the portfolio of the Minister of Seniors.

7. Develop a legislative framework to increase flexible and competitive pension contribution options for employers that can supplement CPP participation for businesses of all sizes, helping businesses attract and retain employment.