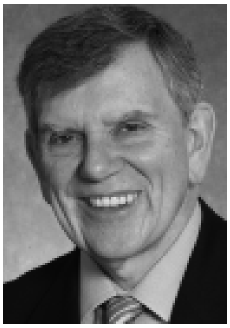

Pension Changes Are Happening!

Patrick Longhurst

It is only a year since many of you participated in the *MoneySaver* survey on the future of Canada's retirement income system, but many significant changes to the system have been proposed since then. Past columns have dealt with the planned amendments to the Canada Pension Plan and the results of the task-force hearings into the future of pension plans in Ontario, Nova Scotia, B.C. and Alberta. This column will deal with new proposals that affect the fundamental structure of the Canada Pension Plan, Old Age Security and the private pension system.

The C.D. Howe Benefactors Lecture

On November 18, 2009, Keith Ambachtsheer, Director of Rotman International Centre for Pension Management at the Rotman School of Management, University of Toronto, gave an elegant speech on the current status of Canada's retirement income system and his proposals for addressing the current inadequacies. His presentation, entitled, "Pension Reform: How Canada Can Lead the World" can be downloaded from the C. D. Howe Institute website at www.cdhowe.org.

In his paper, Keith outlines some of the current inadequacies of the current pension system and illustrates them with telling statistics. The report states that, "Of Canada's workforce of 17.8 million, 5.7 million have a Registered Pension Plan (RPP). Of these RPPs, 4.6 million are Defined Benefit (DB) plans covering about half the 7.8 million middle-income workers. Of all 5.7 million workers with an RPP, 2.9 million also have an RRSP. At the same time, 3.3 million workers have accumulated retirement savings only in an RRSP. The remaining 8.8 million workers, almost half the total workforce, have neither an RPP nor an RRSP."

Keith suggests three possible approaches to addressing this shortfall:

- The financial services proposal – a private sector solution focusing on individual choice and maximum flexibility.
- The vertical expansion of the CPP which would aim for a target of an inflation-indexed 70 per cent of income replacement by expanding current pension benefits. This solution would call for a doubling of the current CPP contribution rate from 9.9% to 19.8%.
- The Canada Supplementary Pension Plan (CSPP) proposal would set a default, inflation-indexed, income-replacement target of 60% for middle-income workers. All Canadian workers without workplace pension plans would be automatically enrolled in the CSPP with an option to opt out.

After a thorough analysis, Keith comes down in favour of the CSPP, the type of approach also preferred by *MoneySaver* readers. The key to this proposal is that all participants would have their own pension accounts, so that current issues of ownership would not be a problem. Most important to me is the fact that Keith is describing policy options that can be thoroughly reviewed in a national pension debate.

The Canadian Centre for Policy Alternatives

More radical ideas are contained in the recent proposal from the Canadian Centre for Policy Alternatives that Old Age Security (OAS) benefits should be increased to help meet the current gaps in private sector coverage. The additional cost of these benefits would be met by reducing the taxpayer subsidies to existing RPPs and RRSPs, which as we have seen are covering less than 50% of the population.

The Centre is on dangerous ground in estimating the tax subsidies to existing RPPs and RRSPs to be $28.9 billion. Previous government estimates of this figure have been greatly overstated in the view of many private sector pension experts.

The Ministers Meet

On December 17 and 18 the federal and provincial ministers of finance met in Whitehorse to discuss the pension reform issue. While I have not yet seen an agenda for this meeting, I can only hope that it will be consistent with the challenge laid down by the Canadian Institute of Actuaries, as follows:

"We call on all parties to take immediate action on our retooling strategy, so that Canadians can benefit from a pension system that favours strong and secure pension promises, provides flexibility in plan design, and includes the necessary incentives for action. This will lead to a safer and more certain future for today's workers and retirees."

On the event, *The Globe and Mail* reported: "The ministers rejected the spectre of crisis, backing their opinion on a report by University of Calgary professor Jack Mintz that concluded the system is 'performing well'. So Ottawa and the provinces will look at all pension options, aiming for some sort of new national program. Details of the options will be considered by the ministers at a meeting, likely in May."

How convenient that the Mintz report would be ready just in time for the conference. The report contains the remarkable conclusion that those retirees who had registered pension plans (RPPs) had less retirement income than those without RPPs. So how can low pension coverage for the private sector be a problem? It turns out that those without RPPs have more income because they retire later and frequently have to retain part-time jobs!

It is not surprising that some of the provinces are thinking of acting unilaterally, which means we will end up with the same patchwork quilt we have always had.

Patrick's Pension Adventures

For those of you who are following my adventures with HM Revenue and Customs, I did receive a reply to my initial request, as detailed in my last column.

Under the Pensions Act 2007, an individual needs 30 qualifying years to get a full basic state pension (contrast the 40 years of residence required in Canada for a full OAS benefit). Apparently, I have 8 qualifying years which gives me 8/30ths of the full basic state pension, currently 95.25 pounds per week.

I also have 33 GRB units under the old graduated retirement benefit scheme and this will be an additional 3.80 pounds per week!

Most interestingly, I do have the chance to buy back additional service under the state pension scheme by making additional voluntary contributions for the tax years from 2003/ 2004 to 2008/2009. A total contribution of 3,088.80 pounds at the class 3 rate will buy me an additional basic pension of 19.05 pounds per week (990.60 pounds per year) at current rates. This looks like a very good deal!

More mysteriously, I may be able to buy this pension at the cheaper class 2 rate. To find out, I have to send in information on my past employment in the U.K. and my recent employment in Canada. This was mailed off. So, I await the next letter with interest. Then I hope to tackle the question that was posed to me by a reader recently, "Is the amount you pay to buy an additional U.K. state pension tax deductible in Canada?" Stay tuned.

Next Column

In my next column, I will be tackling the thorny issue of picking between a lump sum commuted value or a pension benefit when you leave a defined benefit pension plan. If you have had any interesting experiences in making this decision, please let me know and I will try to incorporate them in the column as advice for those who are facing the question now.

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