



## CANADA'S NEW PENSION PLAN FOR WORKERS WITHOUT ONE: MAKING IT WORK IN THE REAL WORLD

*“On December 20, 2010, Canada’s Ministers of Finance decided to move ahead with the introduction of Pooled Registered Pension Plans --- a new kind of low-cost defined contribution pension plan that would allow participation by all employees, as well as self-employed individuals. Ministers indicated that their officials would engage with key stakeholders to ensure that the framework for these new plans will meet the needs of employers, employees, and those financial institutions that may offer the arrangement.”*

Department of Finance Canada Consultation Document  
June 15, 2011

### Moving Canada up the Global Pension Index

Last month’s *Letter* offered advice to the Dutch on how to maintain their #1 ranking in the Melbourne Mercer Global Pension Index. This *Letter* offers Canada advice on how to improve on its current #5 MMGPI ranking. A strong point of Canada’s pension system is that its public component produces high income replacement rates for low income workers. However, a growing body of research is confirming that the private component of the Canadian pension system needs shoring up. Specifically, millions of middle-income private sector workers employed by mid-sized or smaller firms, as well as the self-employed, are not members of employment-based pension plans.

While these workers do have access to individual tax-deferred Registered Retirement Savings Plans (RRSPs), research is confirming what behavioral finance predicts. While some use these vehicles carefully, others use them haphazardly; and still others don’t use them at all. Further, many of those who do contribute into their own RRSP, use retail mutual funds sporting some of the highest fees (2%+) in the world. Taken together, these facts lead to a poor prognosis for the ability of many of these workers to maintain their standard of living when they cease employment in the decades ahead.

Over the course of the last two years, Canadians have engaged in a serious debate about the public policy implications of these realities. While some have taken a ‘caveat emptor’ stance, a majority view has emerged that a public policy response of some kind is warranted. The question was: what kind of response? Some thought the answer was to expand the universal DB-based Canada/Québec Pension Plans. Others thought a more nuanced, flexible approach would achieve a broader-based ‘buy-in’ from a diverse group of stakeholders. This latter approach has won the day, manifesting itself specifically in the Pooled Registered Pension Plan (PRPP) concept, as set out in the Consultation Document cited above.

However, saying is one thing, doing another. A great deal of work remains to be done to turn the promising PRPP idea into an effective reality. The goal of this *Letter* is to begin to bridge that idea-reality gap.

### From Idea to Reality in Five Steps

Making a serious start on bridging the PRPP idea-reality gap requires addressing five issues:

1. Maximizing PRPP participation: unless the initiative leads to millions of additional middle-income, private sector