

## TIME TO LIFT THE FOG SHROUDING PENSION REFORM

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As they tackle the pension reform question once again on December 20 in the Rockies, the greatest Season's gift the country's Finance Ministers could bestow on Canadians is focus and clarity.

For example, which of the following three goals guides their pension reform efforts:

1. Provide all Canadians with a good pension when they retire.
2. Solve some specific problems in Canada's current pension system.
3. Facilitate market-driven solutions to retirement income provision.

Achieving any one of these goals requires a different strategy than the other two. For example, Goal 1 is best achieved through mandatory participation by all workers in a major expansion of the Canada/Quebec Pension Plans. In contrast, Goal 3 only requires bringing Canada's pension rules and regulations into the 21<sup>st</sup> Century.

While they have not directly said so, the Ministers seem to be moving to Goal 2: solve a limited number of well-documented pension system problems. Why? Because these problems are accepted as real, and because the Ministers believe sufficient consensus can be built on how to solve them. Specifically, two problems seem to be foremost in their minds:

1. Some four million private sector workers do not have a workplace pension plan and many will experience significant declines in their living standards as they retire in the decades ahead;
2. Many pension rules and regulations have outlived their usefulness and must be updated and harmonized across Canada.

If these are the problems the Ministers want to solve, now is the time to explicitly say so. Such a statement would set the stage for designing targeted solutions for each of them. For example, regarding the workers without a pension plan, specific questions like these three must now be resolved:

1. What kind of supplemental (i.e., in addition to the basic C/QPP/OAS pension) formula best suits these workers? The time has come to bury the fruitless DB vs. DC debate. Discussions should focus on the target supplementary pension the formula should deliver, on the contribution rate structure required to finance it, on the degree of retirement date flexibility to be offered, and on how investment, inflation, and longevity risks are to be borne.
2. Through what mechanism(s) is the supplemental pension accumulation formula most cost-effectively implemented? Is it through the C/QPP infrastructure for salary deductions, investing and benefit administration? Or is it through the pension management infrastructure already built by our insurance companies and large-scaled public sector multi-employer pension plans?
3. What degree of compulsion is appropriate? Should participation in this new pension arrangement be mandatory? Voluntary? Or is auto-enrolment with opt-out rights the best compromise between these two ends of the spectrum?

In short, the vague 'modest C/QPP enhancement' and 'pension innovation' options that came out of the Finance Ministers' June conference on pension reform in PEI may have been politically useful at the time. Now we must move beyond ambiguity and get to the heart of the pension reform matter.

As for updating pension rules and regulations, the Income Tax Act should be carefully reviewed to remove remaining inequities between people in different age groups, work categories, and income levels. A fine balance must be struck between principle- and rule-based approaches to pension regulation. Corporate DB plans must be made more financially secure. Existing impediments to sponsorship of large multi-provincial, multi-employer pension plans must be removed, as must the remaining impediments to pension portability. Finally, the same pension rules and regulations should apply from coast-to-coast.

Please Ministers, give Canadians focus and clarity on where pension reform is going as they say goodbye to 2010 and say hello to 2011.

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