

PENSION REFORM IN CANADA: AN UPDATE

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I have recently spoken in Canadian Pension and Benefits Institute (CPBI) public forums in Winnipeg, Regina, Vancouver, and have had private conversations with officials in five provinces (ON, MB, SK, AB, BC) on pension reform. So this is a good time to share some observations and reflections. **Please note that they are my own, and that they are not necessarily those of any of the people I have spoken with over the past month.** Here are my thoughts:

- ◆ There is still considerable appetite for a package of sensible pension reform measures in all five provinces, with both the 'CPP enhancement' and 'private pension innovation' paths open. There is also a broad understanding this is about making our retirement income system more effective in a multi-decade time-frame, and not about some quick fix for tomorrow.
- ◆ Despite ongoing discussions, it will take concerted efforts by the working groups of officials to make significant design progress along each of these two paths prior to the next Ministers' Meeting (likely in mid-December).
- ◆ The weight of opinion appears to be that if anything significant is to happen on the 'CPP enhancement' path, it should be to raise the YMPE, thus making the current CPP benefit apply to some amount of income above \$47K. However, there are still those who argue for raising the CPP benefit (i.e., income replacement) level as well. And there are those who continue to argue that 'don't fix what isn't broken', and that we should instead focus our attention fully on the 'private pension innovation' path. There is increasing recognition that even the 'raise the YMPE' path has considerable implementation challenges attached to it (e.g., "how high to raise the YMPE?", "how to integrate with current DB plans?", "how to test and explain intergenerational fairness?", "how to justify mandating anything?", "how to deal with serious disappointment by many when they realize that, whatever is done, it will only have major impact decades from now?").
- ◆ The 'private pension innovation' path is being actively brainstormed. There is broad understanding that whatever is done, it must materially raise pension coverage for middle-income private sector workers at a reasonable cost. There is also broad understanding that 'auto-enrolment' into one of a few large-scaled, well-managed plans is critical to success. The toughest nut to crack in bringing this about is 'sponsorship'. The idea of doing something nationally under the CPP legal umbrella (e.g., the Canada Supplementary Pension Plan proposal I set out in my 2008 CD Howe paper) is currently, to quote Minister Flaherty in PEI, "off the table". So if not the CPP legal umbrella, what is the alternative? One possible idea is to create national (or equivalent multi-provincial) Q legislation which would set out the rules for pension plans to qualify to receive contributions from auto-enrolled workers and their employers. One or more independent expert Q Board(s) could be established to qualify and oversee Q Plans, and to grant Q Licenses to qualifying pension delivery organizations (e.g., existing pension plans and insurance companies). Failing national agreement on this Q approach, an alternative approach could be for one or more provinces to create one or more Provincial Supplementary Pension Plans, possibly using the legal and organizational structure of the already-existing Saskatchewan Pension Plan as a starting point. Such an approach could lead to four similar large multi-employer schemes across Canada (e.g., for Western Canada, Ontario, Quebec, and the Maritimes). The idea of creating similar supplementary pension plans with provincial or multi-provincial sponsorship and portability between them has, in my view, considerable merit.

It remains to be seen if one or more of these ideas gel sufficiently by December to win broad ministerial approval. Stay tuned.

As a last-minute footnote, the Senate Committee on Banking, Trade and Commerce just today recommended the creation of a national retirement savings plan with auto-enrolment.

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