

Wanted: new pension champion for Canada

KEITH AMBACHTSHEER

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History teaches that Canada's major social reforms happen only when a determined champion leads the way. "Greatest Canadian" Tommy Douglas championed the radical idea of universal health care almost 50 years ago. In the 1990s, the successful reforms of the public parts of our retirement income system were led by Paul Martin, federal minister of finance of the day.

The future of Pillar No. 1 – the Old Age Security (OAS) and Guaranteed Income Supplement (GIS) programs – was secured by slaying budget deficits. Pillar No. 2, the Canada Pension Plan (CPP), was stabilized by accelerating the contribution rate and building a massive "rainy day" reserve fund managed today by the CPP Investment Board, an organization that receives international kudos for its competence.

So why does Canada need a new pension champion now? Because Pillar No. 3 – made up of thousands of employment-based pension plans and millions of individual retirement savings plans – is not getting the job done.

For example, studies commissioned by four provinces and the C.D. Howe Institute confirm that employment-based pension plans barely cover 20 per cent of the private sector work force – and that figure is declining.

The other 80 per cent are left to fend for themselves, which is problematic. Most people are insecure and procrastinate. Many turn to advisers with conflicted agendas. As a consequence, millions of Canadians could face unpleasant choices between significant declines in retirement living standards, or working well beyond their target retirement date.

But it doesn't have to be that way. A common theme of the recently completed studies is that a bold, innovative approach is needed to extend reliable Pillar No. 3 coverage to many more millions of people.

New national, regional, or provincially sponsored pension plans should be designed that automatically enroll non-covered workers, and put them on a track to earn a decent target pension in their post-work years.

These plans will be managed at low cost by expert, arm's-length pension organizations solely tasked with this mission. Employees (and employers) could have the opportunity to opt out, if they do not want to participate in such a plan.

It should be clear that these plans would supplement basic retirement income derived from OAS and CPP sources. Thus these arrangements would be of special interest to middle-income Canadians who need that additional pension income to maintain their standard of living.

For example, a 10-per-cent contribution rate (split 50-50 between employer and employee) could be automatically deducted on income over \$30,000, deposited into personal pension accounts, and invested by the expert pension organization. As workers age, a portion of their pension accounts would be automatically used to purchase deferred annuities that would begin to pay a monthly lifetime pension upon retirement.

This approach to providing Pillar No. 3 pensions would be clear and cost-effective. It respects property rights and does not shift wealth from the young to the old, as a major expansion of the CPP would do.

So how do we get there? Only through a series of thoughtfully co-ordinated actions by our federal and provincial governments. First, the nature of the problem, and the solution to it, must be widely understood.

The governments of Alberta and British Columbia have already indicated that they get it. They are now persuading other provinces to come on board. Federally, the Liberals have also indicated that they get it.

For its part, the government has announced it is sending Ted Menzies, MP and parliamentary secretary to the Minister of Finance, on a coast-to-coast pensions fact-finding mission. This is a promising new development.

Canadians deserve and want far better Pillar No. 3 pension design and coverage than they have today. The outline of a sound plan to achieve these goals already exists. The question is: who will drive it to completion and implementation?

Will it be B.C. Premier Gordon Campbell and Alberta Premier Ed Stelmach, followed by the other provincial premiers? Will it be Liberal Leader Michael Ignatieff in Ottawa? Or will it be Prime Minister Stephen Harper?

Would the next pension champion please step forward?

Canadians are ready to follow.

Keith Ambachtsheer is director of the International Centre for Pension Management at the Rotman School of Management, University of Toronto, and the author of Pension Revolution. His C. D. Howe Institute study is titled The Canada Supplementary Pension Plan: Towards an Adequate, Affordable Pension for All Canadians.

Next week: Edward Waitzer on why pension fund managers should take the lead