



Voluntary and Contractual Retirement Saving in Canada: Tactical Fixes, Strategic Reforms and Next Steps

Response to
“Strengthening the Legislative and Regulatory Framework for
Private Pension Plans Subject to the Pension Benefits Standards Act, 1985”

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Introduction and Overview

Current financial turbulence and economic weakness have accentuated many stresses affecting voluntary and contractual retirement saving, and the income it provides, in Canada. Comprehensive review of policies shaping Canada’s third-pillar pension system is timely, and the federal government deserves credit for starting a discussion that will complement the reviews recently completed in Ontario and Nova Scotia, and jointly in Alberta and British Columbia.

This brief comments on several issues raised in the January 2009 Department of Finance Consultation Paper. One key theme worth highlighting at the start, however, is that addressing the problems most Canadians face in preparing for, and living through, retirement requires widening the policy focus beyond the minority who participate in registered pension plans (RPPs), and particularly beyond the smaller minority in defined-benefit (DB) plans. While addressing the challenges afflicting DB plans is a key near-term task, governments’ long-standing wish to expand these plans has been counterproductive. Enhancing the opportunities for Canadians who do not have DB plans to save, invest, transition from accumulation to decumulation, and enjoy secure and adequate retirement incomes should be Ottawa’s main medium and long-term goal for Canada’s third-pillar.

Partly because attempts to improve the third-pillar policy environment have focused disproportionately on the problems of DB plans, the environment for capital-accumulation plans (CAPs) – defined contribution (DC) RPPs, and especially individual and group Registered Retirement Saving Plans (RRSPs) – and distribution vehicles such as Life Income Funds (LIFs) and Registered Retirement Income Funds (RRIFs) on which CAP savers depend after retirement is far less congenial than that enjoyed by DB plans participants. The pages that follow therefore devote considerable attention to measures that could address immediate problems for current participants in CAPs and related distribution vehicles, as well as to strategic reforms that would make some of the better features of both DB plans and CAPs available on better terms to more Canadians in the future.

¹ Much of this brief draws on work in the C.D. Howe Institute’s *Pensions Papers* series (available at www.cdhowe.org). The opinions expressed here are personal, however, and do not necessarily reflect those of the *Pensions Papers* authors or advisory group, nor those of the C.D. Howe Institute’s members or board of directors.



Retirement Saving and Income in Canada: Background and Key Challenges

The Consultation Paper rightly notes that key elements of Canada's retirement income system are in good shape by historical and international standards. The fact that both the first pillar – Old-Age Security, the Guaranteed Income Supplement, and the Allowance – and the second-pillar Canada and Quebec Pension Plans are reasonably stable and seen to be so is a major advantage. To the extent that the main features of these plans are expected to endure, changes to the third pillar of voluntary and contractual saving can take proper account of them, and will occur against a backdrop of public confidence in their stability.

The third pillar also compares well in many respects with past experience and the situation in most other countries. By allowing deductions for retirement saving, and taxing distributions at ordinary personal income-tax rates, Canada's income-tax system recognizes – albeit with arbitrary limits – the essential equivalence of current and deferred compensation, and mitigates damaging double-taxation. Another merit of the current policy configuration is that – albeit also with some arbitrary limits and exceptions – tax and other policies recognize the basic equivalence of different types of deferred-compensation contracts and institutions, and contain measures intended to treat different contracts and institutions in an even-handed way.

These advantages matter all the more because deferred compensation, and saving for and drawing funds down in retirement, pose tough policy challenges. Information problems, and the tendency for disappointments to register only after people have moved from one stage of life to another, have produced some pressing problems.

The failed promise of the classic DB plan

The stresses in the current system that tend to attract the most policy attention are those afflicting the classic single-employer DB plan. The deferred-compensation “deal” at the root of these plans was, to be blunt, too good to be true. Typically, employees gave up comparatively modest current compensation and, in return, employers promised regular, predetermined payments after retirement. By protecting employees from such hazards as saving too little, investing unwisely, or failing to arrange an attractively priced annuity, these plans appeared more attractive to sponsors, participants and many commentators than CAP alternatives.

Even at a glance, the enthusiasm of many commentators for these plans seems misplaced. The accrual of benefits in a typical DB plan is not neutral as regards place of work or time of retirement (Schirle 2008). Since benefits accrue at rates de-linked from value-added by a worker at his/her current or alternative employers, DB plans may lock employees into jobs that make suboptimal use of their talents, and tip them into retirement while they still have important human capital to deploy. The presumption that free contracting between employers and employees tends toward optimal outcomes from society's point of view is difficult to sustain in the face of the information, agency and time-inconsistency problems that afflict deferred compensation. As labour gets scarcer in the future, these flaws will become more evident, and the plans that embody them will attract less support.

A deeper look, moreover, reveals a fundamental flaw in the economic assumptions underlying the classic DB plan's apparently attractive balance of low current cost and high, secure, future benefits. Plan sponsors thought



they could underwrite their promises with rapidly growing revenue from operations and/or high risk-adjusted investment returns. The widespread practice of discounting future promises at arbitrary rates involving high assumed “equity premiums” and lack of flexibility encouraged neglect of deviations between the assumptions and experience – until a crisis imposed losses on people who were not party to the original contract (Laidler and Robson 2007).

Among the lessons retaught by the financial crisis is that, in pensions as in most things in life, guarantees cost money. The most reliable DB pension promise is one backed by assets with cashflows that match pension obligations as closely as available technology permits, and funded with whatever contributions are needed to buy those assets. To the extent that any pension plan of any description deviates from that model, a clear understanding of the rights and responsibilities of the parties to the contract, and ability to execute in accordance with that understanding if problems arise, is critical to a durable system of deferred compensation.

More promising directions for Canada’s third pillar

Since the classic single-employer DB plan has no such understandings and is inflexible when stressed, new contractual deferred-compensation arrangements in the future likely will and should look different. This is not to argue against measures to alleviate immediate stresses afflicting DB plans: the economic and policy environment of the past fostered these arrangements, and wise policy – mitigating incentives to underfund, for example – can avoid gratuitous damage. DC plans are much clearer about the rights and responsibilities of the contracting parties, however, since participants know from the outset they will get a pension equal to whatever their accumulated saving and returns on it can buy. Building on that base to address such drawbacks in ordinary DC plans as uncertainty about retirement income and longevity, inadequate understanding of and mechanisms to deal with financial-market risk, and such policy-induced problems as transfer between funds and institutions at annuitization, is more promising than trying to retrofit the classic DB model.

Even major progress in fostering better DC plans or hybrid plans with DC and DB elements, however, will do little for the majority of Canadians who are not members of RPPs at all. Data on pension-plan participation are imperfect, but clearly show a strong aversion on the part of actual or potential sponsors to enroll new employees in these arrangements. Large numbers of Canadians, moreover, work for enterprises too small for RPPs to be practical, or are self-employed and therefore ineligible to participate in any such arrangement. Others have already retired after saving in CAPs, and are drawing income from RRIFs and other post-retirement vehicles. For these people, a focus on RPPs or even employment-related contracts generally is too narrow. They need more room to save, more cost-effective and less error-prone accumulation vehicles, better transitions to decumulation, and a more congenial environment for drawing on their savings when they are old.

Examples of policies and institutions that would serve one or more of these goals exist elsewhere. Limits on tax deferred saving are more generous in the United Kingdom and the United States, for example. Simply aligning the limits on CAP savers with those effectively enjoyed by participants in richer DB plans, such as those found in Canada’s public sector, would vastly improve many Canadians’ opportunities to save. Accelerating the existing timetable for raising annual contribution limits would let CAP savers rebuild savings hurt by the crisis.



Widening the definition of income eligible for tax-deferred saving would help many. More fundamentally, moving to lifetime contribution limits – or, more ambitiously, accumulation limits – set equivalently to the pension wealth of retiring public-sector workers would give greatly expand CAP savers’ opportunities to recover from adverse shocks to income or investments (Pierlot 2008).

As for accumulation vehicles, some advocates envision multisponsor arrangements that would reap economies of scale while pooling investment risk – and, if annuitization within the plan is an option, longevity risk as well – across larger populations. Plans in the Netherlands and Australia have many of these features. Since coordination problems inhibit the establishment of such plans, one option would be legislation that makes enrolment the default option for people who have no alternative arrangement (Ambachtsheer 2008).

Mandatory enrolment, contributions and annuitization would not be desirable in Canada, where the first and second pillars are better developed than in many other places. Modest-income earners cannot, and should not be forced to, save for a retirement income no better than the first and second pillars will give them. Income-tested provincial programs for seniors also reduce the returns from retirement saving to the point where an individual may rationally wish not to save (Shillington 2003). The new federal TFSA will also allow many savers, including those with modest incomes, to do better outside retirement-saving vehicles that get tax deferred treatment. So participation could be the default option for people not covered by any other arrangement, with the choice, subject to safeguards, to opt out or participate in ways that differ from the default arrangement.

Specific Issues in the Discussion Paper

Against that backdrop, the next section addresses specific issues raised in the discussion paper, as a prelude to some suggestions for action in the coming months in the final section of this brief.

The ten-percent surplus threshold for funding DB plans

More risk-conscious sponsors will likely wish to match the assets in DB pension funds more closely with plan liabilities in the future, a trend that fair-value accounting for pension plans will accentuate. Some mismatching is inevitable, however, and a respectable argument exists that efficient allocation of capital requires it. One way or another, many DB plans will continue to swing between surplus and deficit, which means that any disincentives to running surpluses that match deficits over time will cause them to be underfunded on average.

The *Income Tax Act*’s restriction on contributions to plans with assets that exceed their liabilities is such a disincentive. If abolishing the restriction altogether appears to open the door to tax evasion, raising the limit to the 25-percent that applies to some multiemployer plans should largely eliminate any remaining adverse impact (Banerjee and Robson 2008).

Remedying funding deficiencies in DB plans

The current crisis presents policymakers with many dilemmas, in which they must weigh alleviating short-term



pain against the benefits of reducing the chances of recurrence. Forbearance in the face of underfunded DB plans is a stark example. To elaborate a thought in the previous section, suppose DB plan sponsors had known the day they started their plans that they would have to report their assets at whatever they could sell them for, report their liabilities at whatever they would need to pay someone to take them on, and report the difference on their balance sheets quarterly. If they had, mismatches large enough to bankrupt sponsors or even produce a systemic financial crisis would have been far less likely to occur. But they have occurred. So policymakers must balance desire to avoid exacerbating current stresses against desire to foster less extravagant risk-taking in the future.

Temporarily extended funding schedules are a straightforward approach to alleviating short-term stress. Under current circumstances, extending temporary funding relief past the end of 2009 and lengthening the extended schedule to, say, 12 years seems a reasonable response to the market collapse. If requiring consent from a majority of working and retired participants is a significant administrative obstacle to sponsors, a “negative-option” – with extension occurring barring a significant vote against – would offer affected parties some voice in the decision. Allowing letters of credit to secure the difference between the standard and extended schedules is an attractive option where such consent is not available. Letters of credit are harder to obtain now than formerly, but this repricing of risk is not surprising, and this approach has the key merit of putting decisions about sponsors’ creditworthiness in the hands of someone with a direct financial stake in getting it right, rather than a credit-rating agency or a regulator.

To balance these measures to mitigate short-term stress, the federal government needs longer-term policies that will move DB pensions closer to the evolving fair-value accounting practices and disclosure requirements that apply to other financial institutions. Some data such as workforce demographic information that would ideally be incorporated in quarterly valuations is not available at that frequency, but more frequent valuations with appropriate caveats are still desirable. Both smoothing and estimating from artificial assumptions simply hide the volatility that pension-fund managers, regulators, shareholders and employees must see if they are to respond appropriately. Frequent and complete disclosure of financial positions on a fair-value basis will let interested parties make more informed judgements about the financial soundness of plans and their implications for the financial condition of sponsors, and demand appropriate action.

Valuing liabilities in DB plans

In keeping with the principle that the liabilities in a pension plan are worth what a sponsor would have to pay someone else to assume them, commuted values, appropriately calculated, would appear the relevant benchmark for solvency calculations.

Ownership of surpluses in DB plans

Uncertainty about the ownership of surplus in DB plans does appear to be a major disincentive to full funding. As was noted above, employment contracts contain both current and deferred compensation. Employers must pay current compensation as agreed, and deferred compensation as agreed. The retired employee’s entitlement



is to the agreed deferred amount, not the assets that back that payment. The sponsor must make the payment, and cover a deficit if one exists, but is not obliged to do more, and therefore should have access to surpluses.

Letting sponsors put contributions in special trust accounts where they will not be “trapped” and/or allowing letters of credit to bridge solvency gaps are measures that can mitigate the adverse incentives created by uncertainty over surplus ownership, but legislation that addresses the question head-on would be more effective in encouraging full funding. Looking ahead, legislation could require newly established DB plans to contain specific provisions on ownership and disposition of surpluses (and, presumably, deficits as well) to reduce the likelihood that new plans will encounter the same uncertainties that have plagued existing ones.

Requiring Full Funding on Voluntary Plan Termination

The view that pension promises are an obligation of an employer on a par with current compensation would support a view that sponsors should ensure that plan assets can cover the full amount of promised benefits. To require that plan sponsors fully fund pension benefits when a plan is terminated and allow payments to be made over a period of five years appears reasonable.

Translating that principle into practice requires finesse, however, in the event of a sponsor’s obtaining protection under the Companies’ Creditors Arrangement Act or becoming bankrupt. This parallel suggests that pension claims should rank, like unpaid wages, with other claims of unsecured creditors – yet that seems inappropriate for pension entitlements accrued longer ago than the last pay period. Imposing this requirement abruptly and retroactively would appear to some DB sponsors as a rewriting of the implicit contract, moreover. Among other things, that step would increase the atmosphere of asymmetry and uncertainty that is discouraging the enrolling of new employees in DB plans. So changes in this area might contemplate a role for pensioners in restructuring negotiations, and should probably be phased in on a prospective basis.

Partial Termination and Immediate Vesting

The position that employees are entitled to promised benefits but not to the assets that back them vitiates the notion that partial terminations should trigger pro-rata distribution of DB plan balance assets and liabilities. The possibility that a partial termination will cost a sponsor ownership of a surplus that would otherwise have been available to cover adverse events is a notorious incentive to underfund plans. The Supreme Court’s refusal to grant leave to appeal the Marine Atlantic case provides welcome clarity, but the mixed case law in this area suggests that legislation specifying that – barring an explicit agreement to the contrary – distribution of surplus is not required in such cases would be useful. Other rights and obligations, however – including the potential obligation to fully fund pension entitlements just discussed – probably make the concept of a partial windup sufficiently useful to preserve in other contexts.

A maximum two-year vesting period is short enough that the possibility of a termination before an employee reaches it does not appear to require policy intervention. Deferred compensation has some value as a retention tool, and two years is not long enough to raise serious questions about time inconsistency or myopia. Benefits



not yet earned by virtue of a vesting period should not create a funding requirement for a plan sponsor either before or after a termination.

Contribution holidays by sponsors of DB plans

The view that pensions are deferred compensation implies that sponsors have an obligation to fund up to the amount required to pay the benefits, and no more. Contribution holidays by sponsors whose plans have sufficiently large surpluses, calculated on a solvency basis, are therefore reasonable in principle.

As was noted above, the long-term goal of policy ought to be fair-value calculations of pension-plan balance sheets at a frequency that matches other common financial reports. Under those circumstances, the timing of contribution holidays would present less acute problems, and forward-looking regulation should anticipate a move to annual filings – and, possibly, quarterly reporting as well. While sponsor reluctance to take on the administrative burden of more frequent reporting is understandable, many have argued for annual filings in the case of plans that have deficits. If sponsors also needed to file valuation reports to justify annual contribution holidays, the bulk of plans would soon move to annual valuations.

The deferred-compensation view also makes it clear that sponsors of hybrid plans ought to have access to surpluses in the DB component of the plan for any purpose, including covering its contributions to the DC component of the plan.

Safe-harbour protection for CAP sponsors

Although legal liabilities for sponsors of DC plans and group RRSPs are not now a high-profile issue in Canada, US experience indicates that they may become one – an event distress about the impact of recent market turmoil on portfolios may hasten. If they do, employers may become more reluctant to sponsor DC plans in the first place, and will certainly hesitate to add features such as auto-enrolment, escalating contribution rates, and default or guided investment and annuitization options that could help financially unsophisticated participants avoid mistakes. Safe harbour protections for DC sponsors who act in good faith to protect the interests of plan participants would likely enhance willingness to set up and maintain plans, and to add features that would boost participants' retirement bang per saving buck (Robson 2008a). Such protections could replace the fiduciary standard which, as the Consultation Paper notes, is not appropriate for the sponsor of a DC plan.

Safe harbours should protect employers who offer matching grants to employees' RRSPs as well. Like sponsors of DC plans, employers who match employees' RRSPs may find they have legal liabilities they did not anticipate when they put the arrangement in place. Group RRSPs could also have features such as automatic default enrolment, escalating contribution rates, and guidance about investment vehicles – all of which will become unattractive if employers worry that participants unhappy with their investments may take them to court. An additional consideration for group RRSP sponsors is that matching contributions to RRSPs but not for Tax-Free Saving Accounts – which will appeal less to employers who want to ensure that their contributions support retirement rather than other goals – may appear to steer employees into a tax-deferred vehicle when a



tax-prepaid vehicle would have served some better. Safe-harbour provisions that give legal protection to employers who live up to standards such as those in the Canadian Association of Pension Supervisory Authorities CAP Guidelines would help ensure continuing employer support for these vehicles.

Retirement Benefits Paid from the Pension Fund

Requiring DC participants to transfer accounts and/or financial institutions at retirement not only imposes an administrative burden at retirement that DB participants escape, but also creates an opportunity to make costly and irreversible investment mistakes. Permitting payment of variable retirement benefits from the fund therefore seems sensible.

Access to capital for retirees

With its Budget 2008 measures to allow a one-time unlocking of up to 50 percent of a LIF and closing small LIFs by people 55 and over, the federal government joined a desirable national trend toward liberalized access to locked-in funds. The principle that policy should restrict locked-in funds to certain purposes rests in part on the view that tax deferral is a privilege. If pensions are deferred compensation, however, such restrictions make no more sense for retirement incomes than they would for current incomes. Moreover, for some retirees, highly restrictive locking-in creates hardship. Whether potential loss of access to funds discourages pension saving is not a question about which solid evidence exists, but it might, and provincial liberalizations do not appear to have fostered short-sighted dissipation of wealth.

If tax deferral – treating current and deferred compensation evenhandedly – is good sense, another policy affecting Canadians who are drawing on their retirement savings also needs re-examining. Current rules force holders of RRIFs and similar accounts to draw their savings down at rates that might have been reasonable when life expectancies were shorter and real returns on investment were higher, but they now subject those holders to much greater risk of reaching advanced age with their tax-deferred funds severely depleted (Robson 2008b). The recent budget's temporary reduction in mandatory drawdowns was a small, one-time response to a large, ongoing problem. The schedule mandating these withdrawals should be liberalized – perhaps geared to annuity payouts – and should apply later in life.

Hybrid Plans

The Consultation Paper's request for comments on additional flexibility under the PBSA to accommodate new hybrid plans is welcome. In particular, plans that would vary contribution rates in the light of investment experience and/or changes in life expectancy in seeking to achieve a target annual payment appear to offer an attractive mix of the better features of DB and DC arrangements.

Large, pooled DC arrangements for people who do not already have a private pension plan

The Consultation Paper's invitation to comment on ways policy might foster the creation of new pooled DC



arrangements for people who do not have pension plans is also welcome. No matter how adeptly the federal government addresses the stresses afflicting DB plans and improves the environment for DC plans, current indications are that the bulk of Canadians will almost certainly do most of their retirement saving – if they do it at all – outside RPPs. For many, inadequate saving, poor investment choices and inept transitions to retirement are a threat to decent income replacement in old age.

Whether the federal government can improve the environment for such plans decisively on its own is unclear. Many of the impediments to establishing these plans on a large scale are provincial. To the extent that changing the *Income Tax Act* – relaxing contribution limits to facilitate funding target benefits, for example – can open the field up for such plans, and to the extent that safe-harbour provisions can encourage small employers to enroll in such plans, Ottawa can help. Combining such measures with leadership in a national conversation about building a better third pillar with such plans would be commendable, since provinces are likely to see lack of federal movement as a decisive obstacle to progress.

Federal leadership can usefully emphasize the wide variety of sponsorship and administrative arrangements that might serve the ends envisioned by advocates of large-scale hybrid plans. The high fees and poor alignment of interests evident in many retail retirement-saving schemes today have led many advocates to conclude that governments or not-for-profit organizations should administer the new plans. These are powerful arguments. The hazards of government control of retirement saving are well known, however, and the attractions of diversification that underlie the three-pillar model make government administration of the third pillar as well as the other two look unwise. Uniform not-for-profit administration, for its part, might deprive the third pillar of some of the disciplines that promote low cost and innovation in many non-government sectors of the economy.

Many financial institutions offer group plans for pensions and other benefits to individuals and small- and medium-sized employers across the country. Some of these institutions argue that the greater popularity of health-benefit plans over DC pensions among their clients owes much to the greater cost, complexity and liability associated with DC plans – and have further suggested that lack of progress in simplifying and improving the DC pension policy framework arises from policymakers' reluctance to increase the attractiveness of alternative to DB plans. An improved framework for private providers – one that let them relieve employers of key plan, design and monitoring duties that the proposed Alberta-British Columbia Plan might take on (such as collection through the Canada Revenue Agency) – would be a good element of a national conversation about a stronger third pillar, and would help ensure that the private-sector alternative got an equal hearing with frameworks for plans sponsored by governments and not-for-profit organizations.

Over or under-inclusiveness of federal pension legislation

In general, greater clarity in the Act as regards the provisions that apply to all pension plans and those that apply to DB or DC plans specifically seems desirable. A further objective of the redrafting ought to be flexibility – not prejudging what hybrid plans may emerge in the future, but rather accommodating a number of potential features. Simple hybrids with conceptually separate DB and DC components should be straightforward to deal with. Other ways of melding the two types of plans – variable contribution rates calculated with respect to an



income-replacement target, for example – may require concepts that are akin to surplus and deficiency, but trigger actions on the part of sponsors and participants different from those in traditional DB plans.

It may also be useful to recognize other types of CAPs – individual and group RRSPs, and TFSAs – in the legislation. Some aspects of the reformed legislation, particularly those relating to sponsor obligations and safe-harbour provisions, may apply to all sponsored CAPs. Parallel treatment will also help the drafters of the legislation spot areas where current treatment is markedly asymmetrical – as, for example, in the emphasis that provisions governing DB plans place on making participants whole after adverse market events, while ITA limits on CAP plans impede participants from rebuilding their wealth.

Investment Rules

The objective of fostering efficient allocation of capital by pension funds would suggest that quantitative limits generally are clumsy, and should be replaced by a “prudent person” standard, as has been specifically proposed for the restriction on holdings of voting shares (Puri 2009). Guidelines around the prudence standard might indicate how much of a fund’s assets could consist of large voting-share holdings. Accompanying measures could guard against related-party transactions, such as purchases of securities of the sponsor by the plan.

The suggestion for accompanying measures of this type is a specific response to a more general concern that has inspired a separation of commercial and financial entities in Canada. It might make sense, for example, to align restrictions on pension-fund holdings of shares in commercial entities more closely with restrictions on similar holdings by banks, bank holding companies, and other financial institutions – with both types of restrictions moving over time to an approach based more on market power than on quantitative limits for individual institutions and types of investments.

Next Steps

The Consultation Paper’s commitment to issue a final report in early June 2009 to permit legislative and regulatory amendments to be drafted in the fall is ambitious. Many of the suggestions prefigured in this submission are susceptible of action in this timeframe, and would be helpful elements in the 2010 federal budget. More generous limits on tax-deferred saving and less onerous mandatory drawdowns, for example, are easy to draft and implement. The risk in this accelerated approach, however, is that it will preclude exploring some broader issues – particularly those affecting DC plans, RRSPs and TFSAs – and elaborating the legislative changes that could foster the establishment of new, large-scale hybrid plans. The accelerated timeframe may also impede coordination with provinces. For this reason, the federal government might contemplate a bifurcated approach: a swift program to address the short-term stresses affecting DB plans; and a ten-month exploration of the larger issues in concert with the provinces, with tax and other changes in the 2010 federal budget being first steps to more fundamental reforms.

In undertaking the broader exploration – how to foster the expansion and evolution of existing CAPs, and the establishment of new, large-scale, hybrid plans – it will be important to engage not only with stakeholders in



current plans, but also with experts, representatives of small employers, sole proprietors and savers who currently use RRSPs or other non-registered saving vehicles, financial institutions that provide CAPs, provincial policymakers, and others. This widening of the circle would help ensure that the wants and needs of Canadians who are not well served by existing third-pillar institutions feature in the deliberations. Particularly in view of the momentum and openness to innovation expressed in the recent provincial reviews, the federal government should seize the opportunity to move beyond short-term fixes, and build a broader, deeper and more robust third-pillar system in the future. The C.D. Howe Institute intends to convene a national pension policy summit in the fall of 2009, and would gladly collaborate with the federal government to ensure that all avenues toward an improved third pillar receive due attention in that forum, with a view to outlining principles for reform that have a critical mass of support from key actors, including both senior levels of government.

To set parameters for that broader discussion, the federal government might usefully underline at the outset two key themes of the Consultation Paper: one, that the first- and second-pillar systems are in good shape by historical and international standards and are well suited to their safety-net and basic income-replacement purposes; and two, that policy should create a neutral environment in which employers, employees and savers generally can make the current and deferred compensation arrangements that suit them now and in the future. Effective channeling of the discussion in this way will reassure people who fear changes in the fundamental parameters of all three pillars, and will encourage constructive suggestions to develop the third pillar rather than attempts to solve third-pillar problems with first- or second-pillar tools.

Conclusion

The scope and urgency of the federal government's current review of pension legislation is commendable. The financial crisis and economic slump have highlighted problems with Canada's third pillar, while provincial reviews and work outside government are generating fresh ideas and energy to help solve them. If the federal government feels it can design both the tactical fixes needed on the DB side, and the strategic reforms that will create a better and more robust third pillar in the future, within the timeframe laid out in the Consultation Paper, all Canadians interested in better contractual and voluntary saving will wish it well. If elaborating the longer-term vision, achieving the required degree of consensus, and moving to practical implementation will take somewhat longer, however, the extra time and attention will be well spent. Canadians need more opportunities to save, better accumulation vehicles, easier transitions, and a more congenial environment for drawing on their savings. A consultation that sets the stage for those reforms will do the country a great service.



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