C.D. Howe And HOOPP And The CPP



The C.D. Howe Institute has issued a new paper by Keith Ambachtsheer: "*Helping Canadians Save for Retirement: How the Province Could Adapt the Canada Supplementary Pension Plan*." The paper argues for a government run, defined contribution plan with a member opt out, and an opportunity for conversion into annuities.

Mr. Ambachtsheer is a member of the Technical Advisory Group on Retirement Security advising the Ontario government as to the design of an Ontario Pension Plan.

Rationally, if it were implemented a government run pension plan should be tied closely to the CPP for economies of scale in investments and plan administration. A defined contribution component to the CPP is an idea that has been around for a number of years, having been proposed before, by Mr. Ambachtsheer and others, including the federal Liberals. It has been however dismissed by the federal and provincial governments in favour of the PRPPS or perhaps a "modest" increase to the CPP on a defined benefit basis.

There is another view. At a recent event hosted by the Healthcare of Ontario Pension Plan, the Boston Consulting Group advocated employer-sponsored defined benefit plans as benefiting not only individual plan members, but also the economy. Defined benefit plans, especially high quality defined benefit plans such as HOOPP and other government or quasi-government sponsored plans, are superior retirement vehicles to DC plans or RRSPs, and the assured income of retirees serves many communities well.

This writer believes however, that the horse has long since left the barn. Employers will not establish new defined benefit plans for a number of reasons, including accounting rules, over-regulation, and surplus rules.

If private sector employers will not sponsor defined benefit plans, whether shared risk or jointly governed or both, the logical response to the HOOPP advocacy of defined benefit plans is a fairly substantial increase of the CPP on a defined benefit basis.

So what should we do? Expand the CPP on a mandatory defined benefit basis? Expand the CPP on a defined contribution basis, with an opt out for employees? Encourage PRPPS but make them mandatory? We have to remember that a material increase in benefits from CPP or any provincial or private sector pooled pension plan on either a defined benefit or a defined contribution basis is twenty or thirty years away, assuming the funding burden is placed on those who will benefit.

On what basis should a pension reform decision be made? Is it an issue of paternalism versus individual responsibility? Is it an issue of minimizing the drain on the GIS through mandatory retirement savings? The discussion continues.

Article by Priscilla H. Healy

Fogler, Rubinoff LLP