# Pension Innovation

Pension reform is a hot button issue, with many Canadians aware of the challenges facing traditional pension plans today. Now is the time for both public and private sector plans to evolve in response to growing sustainability concerns so that employees may retire securely.

As the theme of this year's conference – "Leveraging the Moment: Time for Solutions" – suggests, pension innovation is at the forefront of our minds. We are constantly hearing about sustainability and affordability issues facing public sector plans, retirement savings adequacy issues and fewer private sector employers offering workplace pension plans. There are bad news pension stories out of the United States, such as Detroit, and legal actions in Canada challenging pension change. Sustainability, pension adequacy and security, affordability and generational equity are key drivers behind the need for pension innovation and changes to traditional plan designs. We continue to encourage pension innovation and change aimed at addressing these factors.

### SO WHERE ARE WE NOW?

On the retirement savings adequacy issue, the federal government has indicated that at this time it will not expand the Canada Pension Plan (CPP). In order for the CPP rules to change, the agreement of the federal government and at least two-thirds of the provinces, representing at least two-thirds of the population of all the provinces is required. Instead of CPP expansion, the federal government decided to facilitate a new type of savings vehicle, the pooled registered pension plan or PRPP. The federal government has indicated that it hopes that the provinces will enact similar legislation to facilitate PRPPs. Thus far, only Québec has passed similar legislation and regulations in respect of its voluntary retirement savings plan (VRSP) model. Each of Alberta, British Columbia and Saskatchewan have passed PRPP-enabling legislation, however, none are yet in force. In Ontario's most recent budget, the province stated its intention to introduce PRPP legislation.

As the federal government has determined that it will not support CPP expansion at this time, Ontario has indicated that it will proceed to offer a “made in Ontario” supplement to the CPP, the Ontario Retirement Pension Plan (ORPP). The ORPP, which is expected to be launched in 2017, will be mandatory for employers who do not offer a “comparable” workplace pension. It is currently unclear what will constitute such a comparable workplace pension. Employers and employees will contribute equal amounts (up to 1.9% each) on earnings up to $90,000. Certain other provinces have been closely watching the ORPP development.

For public sector plans, there has been an increased focus on long-term sustainability and efficiency. Governments and taxpayers are taking a closer look at the costs of public sector pension plans. Several provinces have undertaken steps to achieve a new and/or different risk sharing of public sector plans with members, while working to address sustainability issues and continuing to provide defined benefit (DB) type pensions. This has involved design changes to several plans, including changes in some cases that may impact future COLA payments for all plan members. Although arguably necessary, not all such reforms have been welcomed. In New Brunswick, a legal application has been launched with regard to the conversion of the public service pension plan to shared risk. In Québec, municipal workers have not been wearing their uniforms in protest of the government’s proposed pension changes under Bill 3.

With respect to private sector innovation, target benefits have been the recent trend. Target benefit plans have fixed (or variable within a narrow range) contributions, provide a targeted DB type benefit, and permit benefit adjustments. Like DB plans, target benefit plans pool investment and longevity risk. While currently only New Brunswick and Alberta have comprehensive single employer target benefit rules (and Québec for the pulp and paper sector only), many other provinces are at various stages of implementing single employer target benefit rules. It appears that some of these jurisdictions may limit target benefits to unionized workforces. We would support rules that facilitate target benefits as a design option for all employers, not just unionized workforces. The federal government recently completed its consultation on target benefit plans and has indicated that it intends to move forward with legislation facilitating such plans. Changes to the federal tax laws are also needed to better accommodate single employer TBPs.

Single employer target benefit plans allow employers to provide a plan that offers a pension at retirement to their employees, pools longevity risk and gives the plan sponsor cost certainty. For employers who want to provide more than a savings account on retirement to their employees, but also require cost certainty, target benefit plans are a welcome innovation.

On the DC side, there has been an increased focus on decumulation, or the payout phase. Decumulation has historically been overlooked, and DC members have largely been left to their own devices with their savings accounts at retirement. The traditional decumulation vehicle for DC plans has been individual annuities. However, with current low interest rates, annuities can be very expensive. In several jurisdictions, pension laws have not yet been changed to allow payment of pensions to members from a DC pension plan, despite variable benefits being permissible under tax laws. As these rules evolve to facilitate payment of pensions to members from DC plans, administrators will have ongoing obligations to members who remain in the plan and potentially additional disclosure requirements.

Private sector pensions are voluntary. Innovation should continue to facilitate plan designs that private sector employers can embrace. Part of the issue with some pension changes is that the regulatory regime can be a significant disincentive to employers to establish or maintain pension plans and drive them instead to less attractive and regulated vehicles, such as group RRSPs. To those employers that provide a workplace pension – congratulations. You are voluntarily assisting your employees to secure their retirement future. For policymakers, we would continue to support pension innovation that facilitates the provision of sustainable pensions to Canadian employees. We would continue to encourage new pension products and more flexibility in plan designs and options to help ensure sustainable and secure pensions and improve coverage and adequacy of pensions.

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Article by Jana Steele