



Pension reform CURRENT CHALLENGES

TUAC AD HOC MEETING ON PENSION REFORM

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Presentation Outline

1. CANADA PENSION PLAN
2. RECENT PENSION SYSTEM REFORMS
3. OTHER REFORMS
4. INVESTMENT POLICIES
5. INTERESTS AT STAKE

CANADA PENSION PLAN

Consists of three sources

1. Public plans

- ✓ Old Age Security pension
 - Universal
 - Guaranteed minimum income for everyone
- ✓ Guaranteed Income Supplement
 - Universal
 - Accessible only to low-income retirees
- ✓ The Quebec Pension Plan and Canada pension plan
 - Pension based on employment earnings on which a worker paid contributions to the Plan
 - 93% of workforce participates

CANADA PENSION PLAN

2. Employment-related savings
 - ✓ Private and voluntary
 - ✓ By employer and not by sector
 - ✓ 42% of those employed participate
 - ✓ Group defined benefit or defined contribution plan
 - ✓ Individual plan to accumulate capital
 - Group RRSPs - Voluntary
 - RVERs – Right to opt out
3. Individual savings option

RECENT PENSION SYSTEM REFORMS

- ▶ Federal government reform
 - ✓ Basic plan age of eligibility moved from 65 to 67
 - ✓ Orphan clauses in public and para-public sector pension plans
 - ✓ Creation of targeted benefit plans
- ▶ Major reforms to employee pension plans in provincial government public and para-public sectors
 - ✓ Transfer of risk to participants
 - ✓ Cost sharing with workers
 - ✓ Cuts to acquired benefits
 - ✓ Removal of automatic indexation
- ▶ Ending or reducing defined benefit plans in the private sector
 - ✓ Plans closed or transformed to defined contribution
 - ✓ Plans closed to new workers (orphan clauses)

RECENT PENSION SYSTEM REFORMS

- ▶ Challenges in the Canadian pension system
 - ✓ Reforms are aimed at reducing employer costs and obligations
 - ✓ Serious issues remain that have not been addressed
 - Weak coverage by supplemental pension plans
 - Substantial management fees in individual plans
 - Private plans: voluntary and not obligatory
 - System is good for low and high-income earners, but not effective for the middle class
 - ✓ Erosion of public plans

OTHER REFORMS

- ▶ Major private sector pension plan reforms after the financial crisis
- ▶ Followed by reform of the federal public system
- ▶ Budget crisis and transfer of costs from provincial government to municipalities and para-public agencies
- ▶ Other reforms aimed at cleaning up provincial finances
 - ✓ Increased daycare costs
 - ✓ Cuts in provincial government transfers to municipalities
 - ✓ Streamlining public sector workforce
 - ✓ Cuts to university funding
 - ✓ Cuts to agricultural sector's stabilization insurance program
 - ✓ Cuts to Crown corporations such as Canada Post and Radio-Canada

INVESTMENT POLICIES

- ▶ Tendency to look at asset management based on overall plan risk
 - ✓ Match assets and liabilities to limit fluctuations
 - ✓ Explicit reserve functions based on the degree of risk in the investment portfolio
 - ✓ Transfer from variable income to fixed income investments
 - ✓ Little debate or interest in specialized investments, except by the largest Canadian pension funds

INTERESTS AT STAKE

- ▶ Budgetary crisis in various levels of government
 - ✓ Want to balance their budget by making payroll cuts
 - ✓ Cuts to pension plans
- ▶ Transfer deficits to municipalities and government agencies such as universities who in turn ask the government to legislate to help them control their payroll
- ▶ Social crisis where pension plan participants want to protect rights accumulated in their plans