CPP a model for fixing private pensions

One study shows that millions of Canadians are not saving enough in their RRSPs

May 10, 2009 04:30 AM

JEAN-PIERRE LAPORTE

Ontario, Nova Scotia, Alberta and British Columbia recently set up expert commission panels to review how well their private-sector pension systems fared in turbulent economic times, and the panels have now reported back to their political masters.

One reform concept that has cut across provincial lines is the idea of creating a large-scale pension plan that would cover the 75 per cent of private-sector workers who aren't participating in a registered pension plan.

In fact, B.C. Alberta and Saskatchewan are teaming up to set up a regional plan for private-sector workers who have no pension coverage.

There are good policy reasons to expand pension coverage: people live longer, require more expensive health care and, to the extent Canadians can accumulate enough to retire comfortably, the need to resort to publicly financed social programs is minimized.

There are those who don't see the lack of pension coverage as an issue, pointing to the existence of registered retirement savings plans (RRSPs) as a simple, pension-like substitute for those not covered by a pension plan.

The unfortunate reality is that, according to one study, more than 3.5 million Canadians are not saving enough in RRSPs for their golden days. The status quo, therefore, cannot be the solution.

In an October 2004 *Benefits and Pensions Monitor* article entitled "Reforming the Canada Pension Plan," I suggested that Canadians could fix the pension coverage issue very simply, quickly and inexpensively by building on the existing Canada Pension Plan.

The core idea was that an arm's-length-from-government pension fiduciary organization or pension board, patterned along the lines of the highly successful and independent Canada Pension Plan Investment Board (CPPIB), would administer strictly voluntary, supplemental contributions made by employees and employers on a defined-contribution basis (without a government guarantee) for the benefit of employees.

Once collected through the existing tax system, supplemental plan assets would then be invested in age-appropriate life-cycle funds. These funds are designed to become more conservative as one approaches retirement age.

Along the lines of the CPPIB, the pension board's sole guiding principle would be to grow the assets under management in the most prudent manner possible. This simple investment structure would allow the private sector to play a critical role in the investment of these various life-cycle funds.

The pension board would organize transparent and competitive auctions for parts of the supplemental plan's investment business and would act solely in the best interests of the plan members by retaining, monitoring and replacing private-sector service providers.

The best that the private sector offers in terms of innovation, technology and competitiveness on the investment side would be coupled with the existing public infrastructure that the CPP has refined over 43 years in administering benefits and collecting contributions.

In order to protect the public purse, while contributions to the supplemental CPP would be tax-deductible, they would remain integrated with the RRSP deduction limits already in place.

This new structure could provide immediate relief to millions of Canadians who worry about their defined-benefit pension plans.

For example, companies with underfunded plans on the verge of insolvency could be given the option to transfer pension assets to individual accounts within the supplemental plan, subject to employee and regulatory approvals.

Such transfers would enable otherwise healthy companies to preserve cash flow for operations and salaries, and thus maintain employment, while ensuring that the pension monies growing within the supplemental CPP continue to be professionally invested at the lowest possible unit cost.

Conceivably, companies such as GM, Chrysler, Air Canada or Nortel might thrive under this model. This solution would not require government tax-assisted bailouts.

Canadians need to know that their hard-earned money is invested professionally and prudently for a rainy day. The CPP model can be expanded to allow for this in an extremely cost-effective manner that is respectful of the private sector.

Back in 1966, Canadians saw fit to create the CPP. It was voluntarily stunted in its scope to give the private sector a chance to fill in the gap. Four decades later, only approximately 25 per cent of taxpayers in the private sector benefit from a registered pension plan.

Perhaps it is time we debated the merits of a supplemental CPP solution to provide immediate relief to floundering companies and long-term prosperity for our children.