PENSIONS POLICY INSTITUTE
PPI

An International Viewpoint, Bringing the Global Pensions Community Together – Event 5 Canada

These events are aiming to reflect the approach to pensions in other counties. Sometimes the same terminology is used in other countries to describe a different concept than that which we understand it to mean in the UK. Where possible we have tried to clarify this.

The Pensions Policy Institute (PPI) held a seminar on the 27 October 2020, sponsored by **MFS Investment Management**, Gold Supporting Members of the PPI, with special guest Bonnie-Jeanne MacDonald and Keith Ambachtsheer who gave insight into recent developments with the Canadian pension system. The event took place virtually with around 45 attendees.

This is the fifth of a series of internationally focussed virtual events, exclusively for PPI Governors and Supporting Members. Each event features a leading expert sharing their country's experiences of retirement income and saving, any recent reforms, and offer the opportunity for attendees to ask questions and learn from a different perspective.

Madeline Forrester, Head of Global Consultant Relations, MFS Investment Management & PPI Council Member, chaired the event.

Following welcoming remarks and housekeeping from the Chair, **Darren Patrick CFA, Managing Director, Relationship Management, MFS Investment Management** formally welcomed everyone to the event. Below is his transcript:

"My name is Darren Patrick and I'm responsible for MFS' Canadian institutional client relationship management team and I am based in Vancouver, Canada. Our session today is the fifth and final event in our series of global discussions on pension policy and over the last number of weeks, we've been delighted with the amount of engagement and participation we've had to date.

Before we begin, I wanted to spend a moment for those outside of the UK who may not be as familiar with the Pension Policy Institute (or PPI): The PPI is an educational, independent research organization, with a charitable objective to inform the policy debate on pensions and retirement income provision. The PPI operate at the heart of the UK pensions policy world and they look to facilitate impactful conversations. The PPI's objective is to inform and promote the long term thinking that is vital to pensions provision, but sometimes hard for elected officials with short term mandates to achieve.

Like the PPI, MFS bases their findings on collaborative discussions and thorough, long term research and analysis. Obviously, we hope today's discussion will create an opportunity for all of us to learn more about best practice globally and how that may be helpful as we look at specific regional environments.

We'd like today's session to be interactive and encourage you to ask questions of our panel as it helps shape the conversation and promotes learning through our shared experiences. I know that we have several Canadian pension plan sponsors joining us today so am hoping we will be hearing from them as we proceed throughout the time have together. Speaking of our panel, joining us today are:

Keith Ambachtsheer, Director Emeritus, International Centre for Pension Management and Bonnie Jeanne MacDonald, Director of Research for financial security at the National Institute on Ageing.

My colleague Maddi will engage Keith and Bonnie Jean in a conversation around some of Canada's challenges and recent developments to improve retirement financial security, based on the research underway at the National Institute on Ageing, Ryerson University.

So with that, thank you very much for attending again. I'll now hand it back to Maddi so we can get started!"

Expert presentation

The Chair then invited the first guest expert, **Keith Ambachtsheer, Director Emeritus, International Centre for Pension Management (ICPM) Rotman School of Management, University of Toronto** to give his presentation.

Keith thanked the Chair and host and gave a brief introduction to the Canadian retirement system. He set out the tiers of the Canadian pension system and how they sit within the similar framework of pension systems around the world. The Canadian retirement system has three pillars, with two sub-pillars.
Keith presented the pillars:
Pillar 1 is the State pension provision,
Pillar 2 is workplace pension savings
Pillar 3 is personal retirement savings

Pillar 1 consists of the Old Age Security (OAS) a residence-based pension payable by the government. It provides an income of around CA$7,370 a year, from age 65 but may be delayed if desired by the individual in return for an increase. It is also tapered for people with incomes over CA$77,580, such that those with incomes of CA$128,149 or higher receive no OAS. There is also the Guaranteed Income Supplement (GIS), a means-tested benefit that provides a minimum level of income. In addition, in what Keith described as Pillar 1.5, there is an earnings-related element called the Canada Pension Plan (CPP) (or the Quebec Pension Plan in Quebec). Keith noted that the CPP had started as a Pay-As-You-Go system in the 1960s, but following sustainability concerns in the 1990s, has been transitioning to a part funded benefit. In 2017 the benefit was increased, with a further increase to the contribution but this enhancement is pre-funded. Currently the CPP/QPP have assets of about CA$500bn.

Pillar 2, the workplace pension consists of Defined Benefit and Defined Contribution and hybrids workplace pensions, which while significant in coverage is mainly available on the public sector, with less coverage in the private sector. Keith also described what he referred to as Pillar 2.5, a Group Registered Retirement Savings Plan (GRRSP), where employers essentially facilitate their employees being enrolled into a Registered Retirement Savings Plan.

Pillar 3 includes individual pension savings through tax advantaged retirement accounts, both Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs).

Keith looked at where Canada ranks in international terms in retirement income provision, noting that Canada is 9th out of 39 countries in the Mercer CFA Institute Global Pension Index, and received a B grade. Canada received the advice to increase saving rates while reducing debt, and to increase labour force participation rates for older workers, advice that Keith noted is common to most countries. He then highlighted the third piece of advice as being more specific to Canada; to *"increase the Pillar 2 coverage for private sector workers with collective 'fit-for-purpose' retirement savings plans which provide 'income for life' payment streams"* Keith said that this third point is the focus for Canadian pension policy discussion.

He presented the questions that Canada is currently trying to answer to improve its retirement income provision. These questions consisted of how to address the three points made in the advice to Canada, as well as trying to identify what the appropriate Pillar 2 provision would look like and where responsibilities lie for designing, distributing and managing such plans.

Keith then handed over to the second guest expert **Bonnie-Jeanne MacDonald, PhD FSA FCIA is the Director of Financial Security Research, National Institute on Ageing (NIA), Ryerson University (Toronto)** to discuss her research in trying to address these issues. Bonnie-Jeanne gave her background and that of the NIA, which, she explained, works to look at ageing, wealth, and health issues from a holistic approach.

Bonnie-Jeanne reviewed the Canadian Retirement income system highlighting that the government system enables the lower earners to achieve a replacement income and avoid poverty. But Bonnie-Jeanne pointed out that the relatively low coverage of workplace pension plans (at around 38% of employees) means that middle to higher income employees are at risk of not being able to continue their standard of living in retirement.

Bonnie-Jeanne then listed some of the benefits of workplace pension schemes as opposed to individual savings, including the tax advantages, employer contributions, lower fees through economies of scale, and financial security. Bonnie-Jeanne then described the biggest benefit as being the level of savings, and that those without workplace pension savings just do not tend to have enough in private savings. She explained that the median retirement savings of families nearing retirement without workplace pensions is only CA$3,000.

Bonnie-Jeanne then remarked on the reasons why employers may not provide pension plans, such as the cost, administrative duty and governance burdens being too high for them or a recognition that their employees may prefer money in their pocket today. Bonnie-Jeanne also pointed out that some employers recognise that for their employees, the Canadian tax and means-testing system serves as a disincentive to save for retirement because the pension may both increase their tax liability and reduce their social security income to the extent that they would end up being worse off by saving. Bonnie-Jeanne said that Canada's current Exempt-Exempt-Taxed (EET) system, which levies tax on the retirement income rather than contributions or investment returns, is beneficial to higher income people (who tend to be in a lower tax bracket in retirement), rather than lower paid people (who tend to be in the same tax bracket pre and post retirement), and that the retirement income cancels out the means-tested GIS payment.

Bonnie-Jeanne introduced a paper she had written that advocates for a Taxed-Exempt-Exempt (TEE) workplace pension plan where contributions are taxed, but thereafter investments and the retirement proceeds are tax free, and in addition, the retirement proceeds do not count as income when taken, and therefore also do not count against the means-tested GIS payment, meaning it is not a source of disincentive for the lower income people to save. This has been picked up by a number of publications and Bonnie-Jeanne said she had heard rumours that the Canadian Government are considering introducing these kinds of plans.

Bonnie-Jeanne then addressed the issue of individuals having to manage their own withdrawal of money from their pension pot arising out of the switch to Defined Contribution pension plans in the workplace. She noted that people are expected to manage a pot of money that can grow in an unknown way, to cover unknown expenses, whose cost can also change in an unknown way over an unknown time horizon. Bonnie-Jeanne then made the point that if people do run out of money, it would be at the time when they are least able to take action to correct it. She gave the example of a 90-year-old, they cannot curb their spending or go back to work. Bonnie-Jeanne suggested one answer to this might be Pooled-Risk Pensions, which she described as variable life annuities, similar to the pay-out period of a Collective Defined Contribution plan. These enable members to collectively share risk and thereby reduce the uncertainty of their pension income. Bonnie-Jeanne outlined the advocacy efforts they made to get pension stakeholders interested in these type of annuities and how the government then announced within their Federal Budget of 2019 that these annuities would be permitted.

Bonnie-Jeanne then moved on to the issues around long-term care in Canada, which is expected to be an increasingly pressing issue as demographically there are more people who will require care. Public care costs are paid for from general taxation, rather than an accumulating fund, so the increasing cost (expected to increase from around CA$22bn in 2019 to around CA$71bn by 2050) would become a more significant strain on government resources. Bonnie-Jeanne also pointed out that current spending on care is significantly lower than it could otherwise be because the majority (around 75%) of caregiving is performed by unpaid family carers. She explained that because the baby boomer generation had fewer children and more divorces, there may be fewer family members available to care for them as they need it, again increasing the strain on the government. The work she has done on long-term-care illustrated to Bonnie-Jeanne that these issues are not just financial issues around senior citizens, but affect younger people who may be called on financially in the form of increased taxes for care, but also may have to make decisions prioritising their relatives to provide the care they require which may be at a much higher level than in the past.

Bonnie-Jeanne then presented on a piece of upcoming research around how Canadians can make a meaningful increase to their retirement income by delaying payment of their social security benefits. She noted that this may be something that is accessible to more people than other measures and does not have as large a cost, for those who are in a position to be able to do so. Currently only 1% of Canadians take advantage of delaying their income for a higher amount.

Bonnie-Jeanne then handed back over to the Chair.

Question and answer session

Madeline Forrester then opened the session to the audience to ask questions of the guest speakers, Keith Ambachtsheer and Bonnie-Jeanne MacDonald. This portion of the event was held under the Chatham House Rule.

Questions included expanding further on some of the issues raised in the presentations. Topics that were discussed included:

- The extent of individual choice for members within the reform proposals for the Canadian pension system.
- How much support there is for self-employed people within the Canadian pension system and whether that is likely to change after the reforms.
- How the CDC experience operated as something of a conditioning stepping stone from the certainty of Defined Benefit to the less certain Defined Contribution.
- Whether there are any further transparency issues that may arise as a result of the solidarity reserve.
- How the introduction of a lump sum option into the Canadian system may have an impact on tax treatment.
- Whether the presence of pension issues on the front page and knowledge of funding ratios means that the average person is more informed on pension issues in Canada.
- Trustee knowledge requirements and how they compare with British requirements.

Closing remarks

Madeline Forrester then invited Keith Ambachtsheer and Bonnie-Jeanne MacDonald to make closing remarks then, handed over to Chris Curry, Director of the PPI who made closing comments on the series as a whole, then handed back to Madeline who closed the event.

Event series kindly sponsored by:

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