Session 4A: Public Pension Reform
Discussant: J. Bruce MacDonald, FSA, FCIA, MAAA

Presented at the Living to 100 Symposium
Orlando, Fla.

January 5-7, 2011

Paper Presented:

Pension Reform in Canada—An Actuarial Perspective

By Robert L. Brown

A long time ago, Rob and I agreed never to speak at the same session, as we were in agreement on virtually everything. Now I get a chance to discuss his paper. The only criticism I have, and it applies to the various reports attached as appendices, is that there a lot of acronyms whose meaning will be unclear to many non-Canadian readers. It is a criticism I also made of a couple of papers I reviewed by American authors—acronyms that would be unclear to many non-Americans. Either Rob or I can supply the meanings.

The basic problem of the paper is that any paper on pension reform in Canada is incomplete virtually the day it is published as things are moving so fast. As I am writing this so close to Christmas, there is a fighting chance that my discussion will still be current in early January!

In the paper, concern is expressed that a widening of the Canada Pension Plan could lead to cancellations of private plans. This indeed happened when the CPP was first introduced, even though no sensible person could believe that the CPP and Old Age Security Pension (OAS) by themselves would provide an adequate pension. In these cases, the private plans were cancelled, and members received a refund of their contributions. Rumor has it that in at least one case representatives of management and the union head office, after failing to convince the local employees to keep their plan in effect, went out and got drunk together.

I also find it wryly amusing that some people who a decade ago were upset by the upward trend in CPP premiums, now argue in favor of an expansion of the CPP, with premiums at levels they once considered unacceptable.

Since Rob finished his paper, changes have been announced in the Saskatchewan pension plan. This is so unimportant a part of the Canadian retirement system that neither Rob nor the Canadian Institute of Actuaries even mentioned it. I shall not bother describing it, but I can answer questions about it. Then Prince Edward Island announced it would enact pension benefits legislation. This is not the bill enacted, but never proclaimed, many years ago. The new bill will be modeled on the current Nova Scotia act. New Brunswick has announced it will enact new pension benefits legislation that will ensure greater protection to those covered than anywhere else in Canada. Details of both the PEI and NB legislation are not available as yet, and they are hardly germane to Rob's paper.

There has, however, been movement on the national scene. The federal government, supported by Alberta, Quebec and Saskatchewan, has announced this is not an appropriate time to enlarge the Canada Pension Plan as it would place an undue burden on employers. In the week of Dec. 13, the federal government announced plans for a new pooled registered pension plan (PRPP). Agreement seems to have been reached with the provinces the following week at the Kananaskis conference, although some of the provinces still want an expansion of the CPP.

Changes in the CPP require the agreement of two-thirds of the provinces with two-thirds of the population of Canada, so changes in it are not likely to be made.

PRPP is a defined contribution plan that will probably become effective in 2012. It will apparently be administered by the private sector. It will be mandatory for employers without a pension plan to establish a PRPP, but not to contribute to it. Employees must join and contribute to it, but they may opt out. The self-employed may also contribute to it. There are obviously a lot of features still to be determined.

Obviously such a plan will not have much of an effect for many years. It is hoped that PRPP will have much lower administrative fees than RRSP, and so more will enroll in them. Whether this will actually happen is moot. At any rate, there is bound to be lively, if not acrimonious, discussions over the next year. In fact, the acrimony has already started with criticisms from labor groups.

A number of years ago, some members of the Reform Party argued for the privatization of the CPP, which was really a proposal to convert it to a defined contribution plan. I was one of those who successfully fought this proposal. The Reform Party subsequently merged (some say took over) the Progressive Conservative Party to form the Conservative Party, which currently forms the minority government in Canada. I wonder if the old proposal is resurfacing as PRPP.

On Dec. 20, the Canadian Institute of Actuaries issued a communiqué on PPRP, which is reproduced below.

The Canadian Institute of Actuaries calls on all governments to provide Canadians with the pension reform they deserve.

> Ottawa, Dec. 20, 2010—The Canadian Institute of Actuaries (CIA) regrets that expectations for today's meeting of finance ministers in Kananaskis were not achieved. As experts in pension issues, the actuarial profession remains committed to working with provincial, territorial and federal governments to find common ground for real and meaningful reform in Canada's pension system.
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> "Extensive change has been needed for many years. Unfortunately, governments have resisted moving forward, opting instead, for more consultations and tweaking at the edges of the system, rather than addressing fundamental problems affecting employer pension plans," said Institute President Micheline Dionne. "With the countless studies, consultations, commissions, submissions, expert panels, hearings, presentations and reports over the years, expectations were high that governments would finally take coordinated action on simple measures to allow pension plans to flourish."
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> The Canadian Institute of Actuaries has been stressing the urgent and important need to create an environment conducive to maintaining and strengthening occupational pension plans, including allowing innovation in pension plan design such as new employer/employee risk-sharing arrangements. Critical to this effort would be the harmonization of pension and other legislation across the country. The Institute is disappointed finance ministers have failed once again to reach a consensus on an issue so important to the future well-being of Canadians.

Finance Minister Flaherty announced agreement among the provincial, territorial and federal finance ministers on a framework for Pooled Registered Pension Plans (PRPPs). While in the estimation of the actuarial profession, the proposal, in and of its self, is not sufficient to resolve the country's retirement income issues, but it holds some promise, if it was part of a comprehensive solution geared to tackling the ever-growing pension problem.

"Keeping fees and administrative costs low for these new programs will be a serious challenge, as will working through the precise definition of the lock-in features. Equally important, harmonization of related legislation is essential for success. Unfortunately, recent decisions such as Ontario's pension reforms, federal pension reforms and Québec's pension legislation changes, indicate that harmonization is not on government agendas," said Dionne.

"In the current economic recovery, there are many competing priorities for governments. And there is no single cure for our ailing pension system. However, we need to be sure that coordinated action to safeguard Canadians' financial futures is at the top of our governments' priority lists. The Canadian Institute of Actuaries is calling on all governments to redouble their efforts to implement practical and effective measures. That's what Canadians need and deserve."

The CIA fully understands that there are many competing priorities for governments, especially in a period of economic recovery. However, basic common sense requires that coordinated action to safeguard Canadians' financial futures is at the top of our governments' priority list.

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The Impact of the Automatic Balancing Mechanism for the Public Pension in Japan on the Extreme Elderly

By Yosuke Fujisawa

This is an interesting paper and shows that Japan is not a country like all others. Japan controls the cost of the public pension system by reducing the indexing on pensions in pay.

I shall not comment specifically on the mathematics, and shall rely that they passed the scrutiny of my colleagues who reviewed the paper before accepting it. What did strike me, however, is that there is no allowance for migration. This was noticeable to me as I, and others, had spent half a day at the New York meeting of the society, discussing the effect of migration on social security schemes. On reflection, it isn't a matter that concerns Japan, at least as yet. Japan is not subject to migration of any magnitude at present, so it can be ignored. This might change, if, for example, North Korea collapsed, or Japan required immigrant workers to keep its industries going because of the changing demographics. Or if more Japanese decided that the grass was greener elsewhere, as is the case in many other Asian countries.

I was also surprised to see how little private pension plans contribute to the income of the elderly. This is because they usually pay a lump sum at retirement, as is done is some other countries, which is used to pay off a mortgage. This is obviously a good thing. I wonder what the difference would be if mortgages were designed to be paid off at or before retirement. I also wonder how much of a Japanese worker's income goes toward the mortgage during his/her working life.

The idea of reducing income appears to be rather painless, and certainly doesn't provoke the demonstrations that the favorite way in the West, increasing the retirement age, does. (Admittedly some of the retirement ages in the western world are too low.) Whether a continuous reduction in indexing will be sustainable in the long term is doubtful, but the paper does demonstrate that it should work for the next generation or so.