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Every Canadian Should be Allowed to Save a Million Dollars for Retirement: C.D. Howe Institute

Toronto, Nov. 6 – Access to retirement saving room is inequitably distributed between public and private sector workers, according to a study released today by the C.D. Howe Institute. In "A Pension in Every Pot: Better Pensions for More Canadians," author James Pierlot says Canada's retirement saving system serves some workers well and others not, depending on whether they have a career in the public sector or in the private sector. He offers some practical approaches to making Canada's private retirement saving system work – for everyone.

Most public sector retirees enjoy generous indexed pensions – most private sector workers do not have a pension at all and their retirement incomes are usually a fraction of what public sector workers receive.

The unfairness of Canada's private retirement saving system lies in rules that limit annual contributions to retirement savings vehicles; unnecessarily tie pension saving to employment; restrict the kinds of income that can be used for retirement saving; and discourage the creation in the private sector of the kind of large, pooled pension arrangements which serve public sector workers well.

Pierlot describes how these problems can be fixed. He argues that tax and pension legislation should be reformed to allow all workers to join pension plans and to replace the current system of annual contribution limits with a more equitable lump-sum, lifetime accumulation target of \$1 million – or more.

Pierlot identifies the challenges to retirement income security for private sector workers, and provides solutions:

- Legislation governing pension plans should be amended to facilitate participation by private sector workers in large, pooled pension arrangements. This will allow private sector workers – especially the self-employed and employees of small businesses – to gain the benefits of pension plan membership that public sector workers enjoy: risk pooling, economies of scale, and robust governance oversight.

- No workers can currently participate in a pension plan not sponsored by his or her employer. This makes pension plan participation a practical impossibility for self-employed workers and employees of small businesses, which often cannot afford to set up pension plans. Canada's income tax and pension standards should be reformed to de-link pension plan participation from employment, so that workers without a pension plan could join pooled pension arrangements, which would be offered by professional and trade associations, employer associations and private sector service providers.
- Legislation requiring employers to provide similar pension benefits to all employees and requiring employers to fund at least half the cost of defined-benefit pensions should be repealed to facilitate new, more flexible pension arrangements for workers without pension coverage, and reduce disincentives for employers to establish pension plans for their employees.
- Tax rules need to become less restrictive, allowing more kinds of taxable income to be contributed to a pension plan and to make the tax treatment of administration expenses uniform for all retirement savings vehicles.
- Inequitable retirement-saving tax limits make it difficult for many private sector workers to save enough for retirement and impossible in most cases to achieve the same pension incomes as public sector workers. To ensure all Canadians have equal and equitable access to retirement-saving room, Canada should adopt a uniform retirement-saving accumulation limit for all workers, with a target of at least \$1 million.

The C.D. Howe Institute is Canada's leading independent, nonpartisan, nonprofit economic policy research institution. Its individual and corporate members are drawn from business, universities and the professions.

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A Pension in Every Pot: Better Pensions for More Canadians, C.D. Howe Institute Commentary No. 275, by James Pierlot (November 2008). 28 pp; \$12.00 (prepaid, plus postage & handling and GST – please contact the Institute for details). ISBN 0-88806-770-4.

Copies are available from: Renouf Publishing Company Limited, 5369 Canotek Road, Ottawa, Ontario K1J 9J3; or directly from the C.D. Howe Institute, 67 Yonge St., Suite 300, Toronto, Ontario M5E 1J8. The full text of this publication is also available from the Institute's website at www.cdhowe.org.

