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Bring the pension majority in from the cold

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The frigid blast of financial crisis and economic slump has blighted Canadians' retirement savings. Frustratingly, government responses highlight the contrast between the insiders and outsiders in our pension system. Defined-benefit pension plans, whose members mainly work for governments and established industries, are getting lots of attention. Not so the majority of Canadians - the outsiders - who save in defined-contribution pensions and registered retirement saving plans, or draw income from registered retirement income funds. They're hurting, too, and next week's federal budget needs to help them.

The advantages enjoyed by DB insiders go beyond their plans' promises of specific payouts. Take the ability to build wealth - pensions in the federal public service's plan, for example, are worth about 30 per cent of pay. Savers in DC plans and RRSPs, whose plans will pay whatever the assets they accumulate can afford, can contribute no more than 18 per cent. An Ontario teacher in her mid-50s builds pension wealth of about \$32,000 a year, and gets more than \$3,400 worth of RRSP contribution room to boot. DC and RRSP savers earning the same are capped at \$15,300.

Moreover, should a DB plan's funds fall short of its obligations, sponsors can (indeed, must) fill the gap, with no annual or cumulative limits. Should losses gut the retirement plans of DC or RRSP savers, too bad - annual and cumulative caps still apply. Not to mention the ready access to sophisticated investments that gives insiders more cost-effective and tax-efficient portfolios than individual savers.

Outsiders, particularly RRSP holders, also face a chillier environment at retirement. DB insiders simply start their pensions. DC and RRSP savers must decide whether and when to buy annuities, or transfer funds to a RRIF and take their chances managing their own retirement savings.

The dismal contrast continues in later years. DB insiders are covered for life, and governments allow unlimited reinvestment of funds not needed for their benefits. Individual savers often cannot find annuities at reasonable cost, while tax rules force RRIF holders to withdraw funds at a rate that threatens serious depletion of tax-deferred savings before they die.

The financial deep freeze has made things worse. Asset values in all types of plans have withered, while lower interest rates make both DB promises and the retirement incomes sought by RRSP savers and RRIF holders more expensive. So far, however, governments have offered comfort almost entirely to the insiders.

The minority in DB plans have the ear of policy-makers. When public-sector plans (the ultimate insiders) have deficits, regulators typically treat them gently, knowing their sponsors can get taxpayers to prop them up. Private-sector sponsors of DB plans in deficit have federal and provincial governments working to help them recover. And if a sponsor fails? Quebec has just announced a partial backstop, Ontario is mulling expanding its already overexposed guarantee facility and union-backed groups are pressing Ottawa for a national bailout.

The majority who save in DC plans and RRSPs or draw income from RRIFs are, as usual, shivering outside. The fall economic statement tossed them a scrap with its promise of 25-per-cent lower mandatory RRIF distributions this year. But this tiny, temporary patch is far short of what DC and RRSP savers need to achieve the kind of retirement security most insiders take for granted.

How can we open the door to the outsiders? Ottawa could lift the limits on tax-deferred contributions - either across the board, or by more for older savers, as is the case in Britain - to give people more scope to rebuild their savings. Letting withdrawals from RRSPs before wind-up restore contribution room, like the new tax-free saving accounts, would remove another obstacle to recovery from financial distress. Extending the dividend tax credit, which eliminates double taxation when people get dividends from tax-paying businesses, to retirement savers would let RRSP and RRIF holders invest as tax-effectively as the sophisticated managers of large pension plans.

Ottawa could let DC plan members and RRSP holders save longer by delaying the age when they must stop building funds and start drawing them down (currently 71). The schedule mandating distributions from RRIFs and similar funds should likewise apply later in life. If mandatory RRIF distributions were smaller (the equivalent requirement in the United States is only about one-half Canada's), retirees could keep reinvesting funds they don't need now, but might later.

Some may object that help for retirement savers does not provide enough fiscal stimulus to merit inclusion in the Jan. 27 budget. But crude stimulus-to-spending criteria neglect the critical role of confidence in bolstering demand. Few prospects are bleaker than destitution in old age. Better opportunities to rebuild retirement wealth will cheer millions of Canadians.

The insiders are getting help. DC participants, RRSP

savers and RRIF holders also need a warmer environment to regrow the retirement dreams blighted by this crisis. It's time to bring pension outsiders in from the cold.

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