RETIREMENT INCOME SECURITY: THE PRIVATE SECTOR

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AGENDA

- Existing Private Pension Landscape in Canada
- Why have Workplace DB Plans Declined?
- Better outcomes are possible

The Existing Private Pension Landscape

Only 37.5% of workers have workplace pensions

DB
25.2%

DC
6.7%

"Other" (e.g. Hybrid Plans)
5.6%

In 1977, coverage was 52%

Public Vs. Private Sector Coverage

Public Sector Coverage is 88% of workers

- 80% have DB

Private Sector Coverage is 23.0%

- 9.5% DB
- 7.5% DC
- 6.0% “Other”

Leads to Pension Envy

Integration of Private DB Plans with C/QPP

- C/QPP Tier I pays a 25% pension after 39 years
- Stops at Year’s Maximum Pensionable Earnings
- YMPE is approx. the Average Industrial Wage
- A Common Integrated DB plan accrued 1.3% to YMPE and 2% above that per year of service
- With C/QPP Tier II, many plans now going to flat constant accrual rate (not integrated)

Why have Workplace DB Plans Declined?

Why the Decline in DB Coverage?

- Increased Longevity
- Low rates of investment return
- New Accounting Standards
- Including Mark to Market

All Create Volatile & Higher Costs

Private Sector Response is sub-optimal

- DC Plans including Group RRSPs
- Assistance in setting up Individual CAPs
- Nothing

Problems with most Individual Capital Accumulation Plans (CAP)

- Increased Longevity
- Low rates of Investment Return
- Volatility of Investment Returns
- Two Market Crises
- Expensive Life Annuities

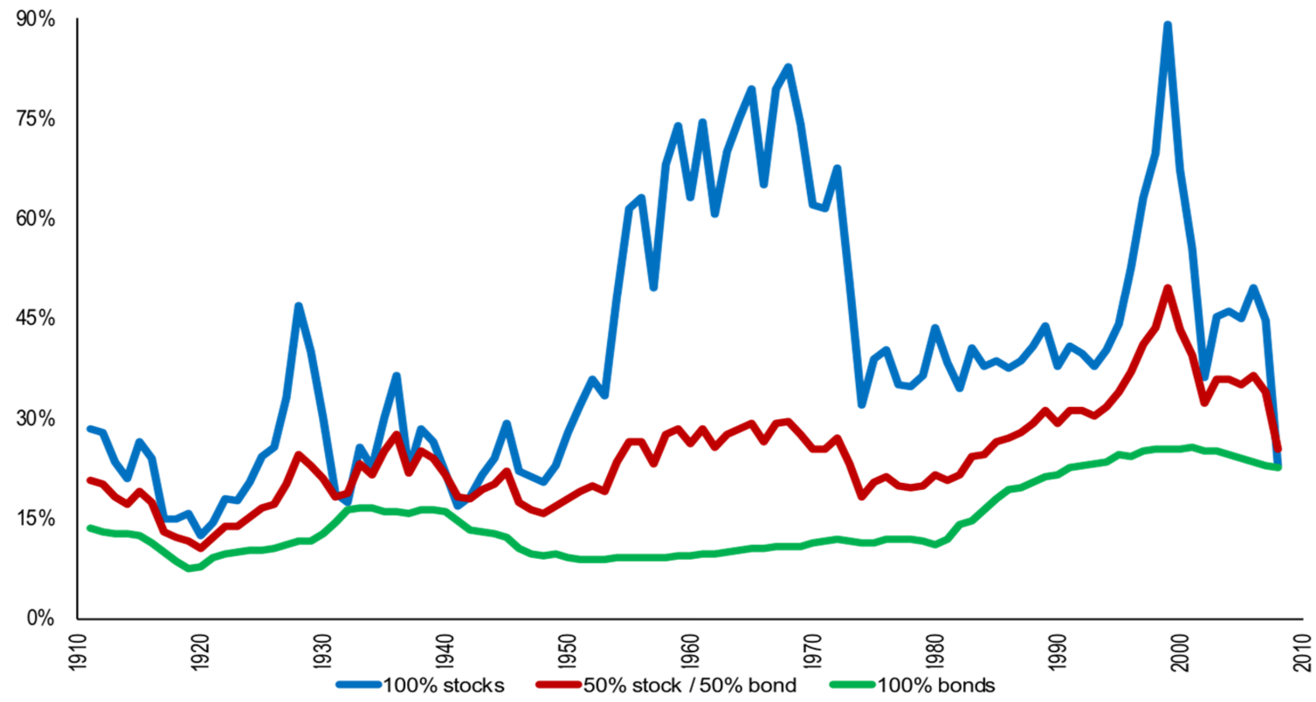
CAP plans
Registered Retirement Savings Plans (RRSPs)

- Contributions are Tax Deductible
- Investment Gains are not taxable until taken
- Money when Withdrawn is Taxable Income
- The RRSP Contribution Limit is $27,830 (2021)
- You must start withdrawing funds at age 71

CAP plans
Tax Free Savings Accounts (TFSAs)

- Contributions are After Tax
- Investment Gains are not taxable until taken
- Money when Withdrawn is not Taxable Income
- The TFSA Contribution Limit is $ 6,000 (2021)
- TFSA Withdrawals do not affect GIS benefits

Replacement rate obtained from personal account savings of workers who invest in alternative portfolios



Problems with Self-Directed Individual Account Plans

Can seek an Investment Manager

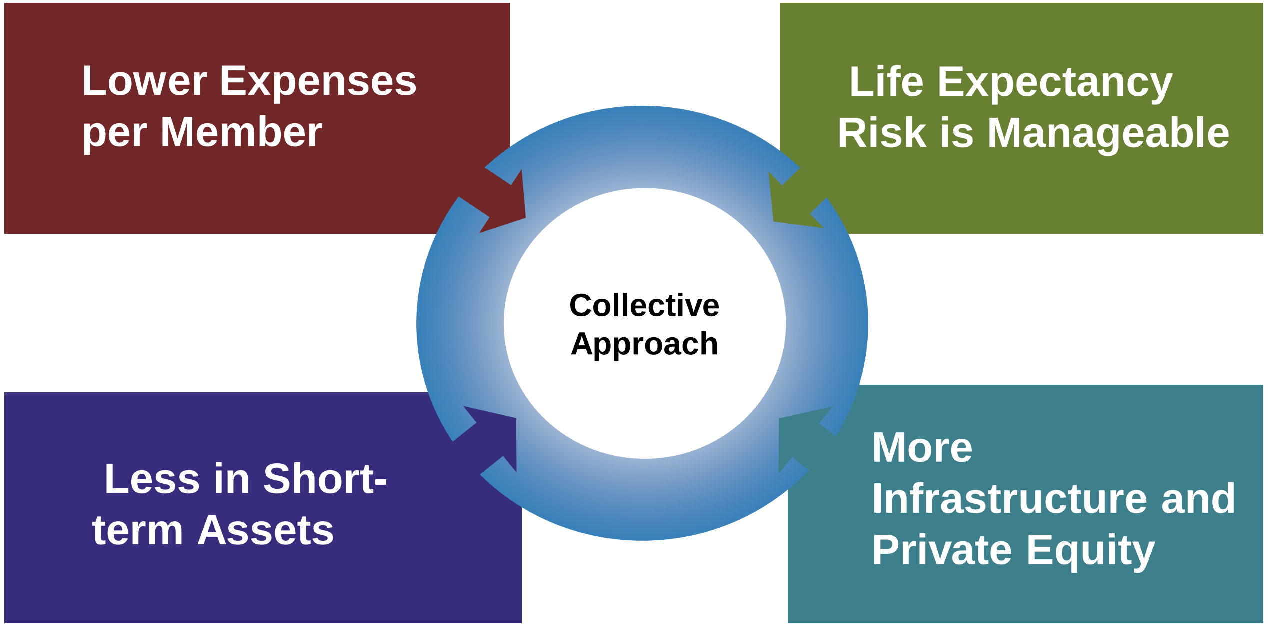
But that just shifts the Risk to the Expense Risk (MERs)

Impact of Investment Expense Ratios on Pension

Expense Ratio	0%	0.4%	1.5%	3%
Acc. Value (,000) After 40 years	$777	$707	$551	$400
Annual Pension	$45,000	$41,000	$32,000	$23,000
Replacement Ratio	90%	82%	64%	46%

(Much) Better outcomes are possible

Providing Better Retirement Income Security Requires a Collective Approach



Lots of Other Models

- Contingent COLAs
- Target Benefit Plans
- Risk Sharing Plans of New Brunswick
- Collective DC
- Defined Ambition Plans
- UBC Variable Payout Life Annuity

Much better outcomes are possible

Research Indicates that a large DB plan can get

3.1 times as much retirement income as a Self-Directed Individual Acct with the same contribution

Plus carry the Longevity Risk

(and with no benefit volatility)

Finding Common Ground

- Plan assets should be large (> $1B)
- Managed by an Independent Board of Experts
- Plan can run Economically
- Plan can buy Alternative Assets
- Plan can carry the Longevity Risk
- Laws and Regulations should allow SMEs to Join

Q & A