Perhaps the most absurd moment in 2013 in terms of pension and retirement savings reform in Canada was Ontario’s threat to start its own pension plan if the Canada Pension Plan was not enriched. Frustrated by the federal government’s footdragging on the issue, the Ontario government said it would launch its own complementary plan to help avert what it sees as a looming retirement savings crisis in Canada.

The absurdity is not that there is a retirement savings crisis in Canada. It is that the vehicle is already at hand, the much-maligned pooled registered pension plans (PRPPs). All Ontario needs to do is make them mandatory to effectively create an Ontario pension plan. The province seems to be moving ahead with PRPPs. It has released a consultation framework, ‘Securing Our Future Strengthening Retirement Income in Ontario Through Pooled Registered Pension Plans,’ which provides background information on the federal model and sets out discussion questions on specific parameters for Ontario. Hopefully, some of the discussion will centre around making PRPPs mandatory.

Low Contribution Rates

The other problem with PRPPs is the low contribution rates. In Quebec, for example, the initial contribution rate is two per cent. And there is no provision for any matching contribution from employers.

This ties in with one of the other absurdities of 2013, the unrelenting attack on so-called ‘gold-plated’ public sector pensions. In fact, many public sector employees end up with a pension of around $20,000 a year. To get that pension, they are contributing around nine per cent to the employer plan which, when added to their CPP contributions, means they are setting aside almost 20 per cent of their pay for retirement savings. Frankly, if every Canadian was setting aside almost 20 per cent of their pay, we would not be talking about a retirement savings crisis. There would be no need for retirement savings reform. Even reform to save defined benefit plans may not be as urgent an issue.

Those critics that charge that these are ‘gold-plated’ are sadly misinformed. More important, they are directing the focus away from the real issue – Canadians who have not saved for retirement. And we would argue it is not that Canadians don’t want to save for retirement, it is that given the choice, they must spend that money on things they need like a house or their children’s education.

In fact, there is, was, and will continue to be a clear of majority of middle class, working Canadians who have no access to an employer sponsored plan of any kind. Aging boomers who will be retiring en masse over the next couple of decades have likely left it too late.

Pay-as-you-go

And no government plan launched now will mitigate this and put them in a position to retire with adequate savings, short of enhancing the CPP and grandfathering in these enhanced benefits as we did when the program was launched in the mid-’60s. Of course, that means reinstating the pay-as-you-go system which was deemed unsustainable in the 1990s which prompted the phased in increase in contributions.

So while we hear lots of rhetoric about increasing CPP benefits, so far there has been no word on how this will help those retiring tomorrow.