"Securing DB Pensions: What are the Policy Options?"

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Thanks for those kind words of introduction.

It's a pleasure to take part in this panel. Our theme is both timely and crucial.

Talking about ongoing problems and "policy options" is important for decision makers. This is the kind of focus we need going forward.

Getting to the point then, here's my key message for this panel.

Despite their current challenges, I think large defined benefit (or DB) plans offer workers the best option for a comfortable retirement.

More individualized retirement plans are simply too risky, costly, and inefficient for working families. With the right policy framework, DB plans remain unparalleled in ensuring a predictable and adequate income.

For what it's worth, corporate executives appear to agree with me on this. They typically insist on handsome, gold-plated individual DB plans for themselves.

More than 40% of DB plans in Canada today are for corporate executives only, despite the fact they comprise about 1% of the total membership in DB plans.

Outside the gilded halls of Bay Street, however, the best ticket to a DB pension is still a union membership card. Most DB holders in Canada are union members, and DB coverage remains a key issue for workers seeking union representation.

Unfortunately though, DB plans face serious challenges despite the best efforts of trade unions. We built the DB system, but many of our gains are being undermined given bad choices in pension policy.

The most significant of these is a lack of foresight in pension policy, and a "fend for yourself" approach that gets communicated to working families in the absence of sound leadership.

The best example of this is the federal government's choice in recent years to massively subsidize Canada's mutual fund industry. RRSPs are backed by enormous government subsidies over a saner, cheaper, and more cooperative approach to retirement security.

Meanwhile, Canadians get fleeced by RRSP fees, crushed by bear markets, or shut out of retirement planning altogether.

If we continue this "fend for yourself" approach in Canadian pension policy, and allow DB coverage to fall, more working families will retire into poverty, or live with substandard incomes.

The social costs are clear. More impoverished seniors using hospital beds. More needless stress, poverty, and suffering. More soaring profits for mutual fund heavyweights.

Large DB pensions, despite their current challenges, are the best policy option available for a more hopeful direction.

The record of the Canada and Quebec Pension Plans, modest as they are, demonstrates this is true. The labour movement's historic efforts to win DB pensions also shows the value of a cooperative approach to retirement security.

Both examples trump the returns of "get rich quick" experts who peddle various saving schemes, and feed on the fears of working families.

And yet, given declining DB coverage, persistent underfunding, and other dire signs around retirement security I'll touch on later, our leaders are fiddling while Rome burns.

So far, some of them have proposed letters of credit and extended solvency payments to cover funding deficiencies in DB pensions. Federal Finance Minister Jim Flaherty has said these proposals will "re-establish the full funding of pension plans, while also protecting pension benefits."

I'll be honest folks - I don't think the answer to securing DB pensions involves more flexible accounting with funding shortfalls. That may be necessary on a case-by-case basis when some plan sponsors land in big trouble, but it shouldn't be the focus of Canadian pension policy.

Instead, to truly secure DB plans, we must pose the key questions that can point us in the right direction. How can we ensure DB plans are properly funded, efficiently managed, and available to more workers?

Let's begin by assessing a common argument against DB plans: that their "excessive" and "unpredictable" cost makes them unpalatable for plan sponsors.

This claim is usually followed by discussion of how an economic 'perfect storm' in recent years has put DB plans in question. Low interest rates, recent bear markets, and related plan liabilities have apparently conspired to doom DB plans.

I don't find this argument compelling, but not because I deny that DB plans have become more expensive. Indeed, as Statistics Canada points out, employer contributions to DB plans jumped 52% between 2001-2003.

Here's the problem though: current talk about "excessive costs" in DB pensions avoids discussing how today's funding shortfalls arrived in the first place.

From listening to the debate, you'd think it's all an unforeseen crisis. Like George Clooney and his shipmates in the film *The Perfect Storm,* Canadian pensions were sideswiped by a spontaneous disaster.

Careful research, however, reveals a different picture, one that's uncomfortable for many experts to handle. In fact, the real story of Clooney's movie is closer to reality for DB pensions.

In the movie, Clooney's crew was compelled to far waters given competition in fish markets, and few job options at home. They knew that intense storms could swallow them up, but they went on despite that risk.

The Canadian pension industry, it seems to me, also set off into the high-rolling seas of equity investments, but somehow assumed it would face no substantial risk. Unlike other countries, Canada had no national system of pension insurance to cushion the fall of bear markets.

By the early years of the twenty-first century, DB pensions weren't paying for themselves anymore. Plan sponsors were asked to pay increased costs for pension promises. Unions were told that these promises were unaffordable. Workers watched with horror as some blue-chip companies slashed pension benefits in bankruptcy protection.

My point is this: lamenting the high costs of DB pensions today misses the key issue here.

Without a doubt, DB pensions cost money, but the more significant theme in recent history is the lack of planning to pay for them.

Over the last two decades, precious few safeguards were in place to put aside pension investment windfalls from bull markets. Instead, decision makers opted for massive contribution holidays, early retirement buyouts, and benefit improvements. With better planning, today's discussion around the "affordability" of DB plans would be entirely different.

As luck would have it, and I use the word "luck" consciously here, we appear to be going through another period of upswing in pension investment returns.

Statistics Canada just reported the value of trusteed pension funds approached $800 billion in the final months of 2005, and that assets in trusteed pensions have more than doubled since 1995.

In its April 2006 issue, Benefits Canada reported the value of all Canadian pensions recently eclipsed the $ 1 trillion mark. Further still, the average rate of return on pension investments in Canada has increased, hitting 9% in 2005 and 2004, double the rates during the "bear market" years of 2001 and 2002.

Corporate profits—both in international and Canadian terms—have also reached record levels as a percentage of GDP. A recent study in the April 2006 edition of the *Canadian Economic Observer* documents the growth of a massive corporate surplus in Canada, reaching a "record net lending position of $80.6 billion by 2005".

More of this kind of wealth must find its way into DB plans, not letters of credit promising funding from outside institutions. For many employers and plan sponsors, I just don't buy the argument that the cupboard is bare.

Today a new glut of cash is building in the coffers of many employers and plan sponsors. Arguments around the 'excessive cost' of DB plans ignores this fact entirely. Unlike in previous years, we must ensure that today's investment windfalls are managed wisely, and caution isn't encouraged by existing pension policy.

The problems in federal pension policy persist despite other worrying signs in Canadian retirement security. For years, Canada won international acclaim for its efforts in reducing poverty among elderly Canadians. Today, however, the National Advisory Council on Aging reports that 7% of all seniors still live in poverty, over 258,000 people. Those most vulnerable are recent immigrants, visible minorities, and women over the age of 80.

Moreover, given recent trends in employment, a majority of Canadians simply aren't prepared for retirement. In 2005, two-thirds of new jobs were created in low wage sectors (self-employment and temporary work).

In this economic context, Canada is experiencing record levels of consumer debt. As of September 2005, studies indicate, most Canadians *owe* more than they *earn;* Canada is now in the grip of a negative national savings rate, approaching 114% of earnings.

As these alarming developments unfold, Statistics Canada reports that our country's net worth reached $141,000 per person during the first quarter of 2006.

Studies suggest a good amount of this wealth is generated in the financial services industry. Clearly, when this kind of wealth exists, workers expect pension promises to be honoured.

For that to happen though, we need the right priorities, and sound political leadership. The last four federal budgets have earmarked over $114 billion in tax cuts and runaway military spending.

Most of this money, in my opinion, is better spent guaranteeing Canadians have access to good health care, public child care, and a dignified retirement.

Canada's working families need a national plan for an increasingly aging society, and a federal Minister responsible for pensions and retirement security.

Benefit levels for public pensions are inadequate, and trends in corporate bankruptcies raise legitimate fears for the 39% of Canadians with workplace pensions.

The reality of a workforce with an enormous turnover rate also poses serious challenges for pension policy, and available policy options.

Most agree that the challenges facing DB pensions are here to stay, and we must learn to deliver secure pension benefits in this environment. That means less carping about poor returns and excessive costs, because evidence suggests there is more than enough pension cash to go around.

If some plan sponsors need help in a financial pinch, you can expect the support of the labour movement. But if anyone thinks labour will tolerate a laissez-faire approach to funding pensions, they're sorely mistaken.

Instead, expect labour to insist on two general directions in pension policy in the years to come.

First, we'll insist on measures to enhance the benefit security of existing workplace pensions. We are not wedded to a single approach, but our commitment to enhanced benefit security is beyond debate.

Governor David Dodge suggests measures to create larger DB plans with better economies of scale, a proposal that makes eminent sense to me.

Others think a national pension benefit guarantee fund is needed, and point to the system of national deposit insurance underwriting the banking industry.

Some propose enhanced status for pension liabilities in bankruptcy law, and insist workers' needs should come before wealthy creditors.

Many support enhanced legal responsibility for more players in the pension industry, and better disclosure of actuarial assumptions to plan members.

I look forward to more debate on these and other options. At the end of the though, more real dollars must be put into DB plans, particularly at a time when pension assets are ballooning.

Secondly, expect the labour movement to insist on measures to dramatically expand DB coverage.

In recent years, other countries have created a new mandatory tier of workplace pensions to improve the retirement security of its citizens. The lessons from those experiments are unfolding, and we aim to communicate them to the Canadians.

At a time when more seniors (and soon-to-be seniors) are threatened with a life of poverty, we must consider using the resources of this country to everyone's benefit. That is not happening under the current approach in Canadian pension policy.

Canadians work hard. For this reason, retirement should be a reward for a life of service, and not dependent on one's luck in "playing the markets". That's why trade unionists believe that DB coverage should be expanded as a right of citizenship.

As J.S. Woodsworth, an early labour campaigner for decent pensions, once famously said: "what we desire for ourselves, we desire for all."

I look forward to your questions, and thank you for inviting me to participate in this panel.