S E D A P

A PROGRAM FOR RESEARCH ON

SOCIAL AND ECONOMIC DIMENSIONS OF AN AGING POPULATION

Private Pensions and Income Security in Old Age: An Uncertain Future – Conference Report

Martin Hering
Michael Kpessa

SEDAP Research Paper No. 180

For further information about SEDAP and other papers in this series, see our web site:
http://socserv.mcmaster.ca/sedap

Requests for further information may be addressed to:
Secretary, SEDAP Research Program
Kenneth Taylor Hall, Room 426
McMaster University
Hamilton, Ontario, Canada
L8S 4M4
FAX: 905 521 8232
e-mail: sedap@mcmaster.ca

Private Pensions and Income Security in Old Age: An Uncertain Future – Conference Report

Martin Hering
Michael Kpessa

SEDAP Research Paper No. 180

March 2007

The Program for Research on Social and Economic Dimensions of an Aging Population (SEDAP) is an interdisciplinary research program centred at McMaster University with co-investigators at seventeen other universities in Canada and abroad. The SEDAP Research Paper series provides a vehicle for distributing the results of studies undertaken by those associated with the program. Authors take full responsibility for all expressions of opinion. SEDAP has been supported by the Social Sciences and Humanities Research Council since 1999, under the terms of its Major Collaborative Research Initiatives Program. Additional financial or other support is provided by the Canadian Institute for Health Information, the Canadian Institute of Actuaries, Citizenship and Immigration Canada, Indian and Northern Affairs Canada, ICES: Institute for Clinical Evaluative Sciences, IZA: Forschungsinstitut zur Zukunft der Arbeit GmbH (Institute for the Study of Labour), SFI: The Danish National Institute of Social Research, Social Development Canada, Statistics Canada, and participating universities in Canada (McMaster, Calgary, Carleton, Memorial, Montréal, New Brunswick, Queen’s, Regina, Toronto, UBC, Victoria, Waterloo, Western, and York) and abroad (Copenhagen, New South Wales, University College London).

Private Pensions and Income Security in Old Age: An Uncertain Future—Conference Report

Martin Hering and Michael Kpessa (McMaster University)

Abstract: By all measures the private pension system in Canada is in difficulty. One estimate suggests that at the end of 2005 there were significant funding shortfalls in about three quarters of the traditional defined benefit pension plans that fall under federal jurisdiction in Canada. In order to discuss how vulnerable the current system is, to identify possible directions of reform, and to consider how to implement them, the conference on "Private Pensions and Income Security in Old Age: An Uncertain Future" brought together researchers, those who design and manage pension plans, and those responsible for pension policy, both from Canada and abroad. It was organized by the SEDAP Research Program and held in Hamilton, Ontario, in November 2006. This paper summarizes the presentations that were given in 10 conference sessions, covering issues such as pension regulations, poverty and income security in old age, policy options, reform obstacles, and international perspectives. Many of the conference presentations, including tables and graphs, are available on SEDAP's website:
http://socserv.mcmaster.ca/sedap/ConfPresNov2006.htm

Keywords: private pensions, public pensions, income security in old age, poverty in old age, defined-benefit pension plans, pension plan funding, pension plan coverage

JEL Classifications: G23, G28, G38, H55, I38, J14, J32, J26

Résumé: Tous les indicateurs montrent que le régime de retraite privé au Canada est en difficulté. Une évaluation suggère qu'à la fin de 2005, environ les trois quarts des régimes de retraite à prestations déterminées qui dépendent de la juridiction fédérale du Canada souffrent d'un manque à gagner important. Afin de discuter de la vulnérabilité du système actuellement en place, d'identifier les orientations de réformes potentielles, et de considérer leurs implémentations possibles, la conférence sur « les régimes de retraites privées et la sécurité du revenu des aînés : Un futur incertain » a rassemblé des chercheurs, les personnes qui conçoivent et gèrent les régimes de retraite ainsi que des responsables de la politique des pensions au Canada et à l'étranger. Cette dernière a été organisée par le programme de recherche SEDAP et s'est tenu à Hamilton, Ontario, en novembre 2006. Cet article offre un résumé des présentations qui ont été données durant les 10 sessions de la conférence, abordant des questions incluant les réglementations des systèmes de pension, la pauvreté et la sécurité du revenu des aînés, les options stratégiques potentielles, les obstacles de réforme, et les perspectives internationales. Plusieurs communications, y compris les tableaux et graphiques, sont disponibles sur le site Web de SEDAP : http://socserv.mcmaster.ca/sedap/ConfPresNov2006.htm

SEDAP Research Program
Program for Research on Social and Economic Dimensions of an Aging Population

Private Pensions and Income Security in Old Age: An Uncertain Future

November 15-17, 2006
Tanenbaum Pavilion, Art Gallery of Hamilton
Hamilton, Ontario

By all measures our private pension system is in difficulty. One estimate suggests that at the end of 2005 there were significant funding shortfalls in about three quarters of the traditional defined benefit pension plans that fall under federal jurisdiction in Canada. Warnings and calls for reform have come from many quarters including the Governor of the Bank of Canada and the Superintendent of Financial Institutions. Yet it appears at this time that neither the federal government nor most provincial governments have plans for pension reform. Since most private pension benefits are not guaranteed, the failure of firms to meet their pension obligations jeopardizes the income security of both current and future retirees. The situation is broadly similar elsewhere.

The purpose of this conference is to bring together researchers, those who design and manage pension plans, and those responsible for pension policy, both from Canada and abroad, to discuss how vulnerable the current system is, to identify possible directions of reform, and to consider how to implement them. We focus attention on issues relating to income security in retirement, and especially on the role of private pension plans. Our particular interest relates to the situation in Canada, but many problems are in common and experience elsewhere is of obvious relevance in providing guidance and informing decision making here. Among the topics that we address:

The private pension system: challenges and possible responses
- Declining coverage in occupational pension plans
- Funding problems in occupational pension plans, and the role of government guarantees
- Increasing shifts from defined benefit to defined contribution plans and their implications for individual risks

The retirement income system: current challenges and future prospects
- The changing roles of public and private pensions in income replacement
- Poverty in old age, especially among vulnerable groups
- Trends in the level, security, and distribution of retirement incomes

The international reform experience in other countries

- Designs of multi-pillar systems (e.g., US, UK, Netherlands, Sweden, Italy, Australia)
- Changes in public pension provision (e.g., notional defined contribution systems)
- Changes in private pension regulation

The conference is organized by the SEDAP (Social and Economic Dimensions of an Aging Population) Research Program, which is centred at McMaster University, with the active support of two federal government agencies – Human Resources and Social Development Canada and the Policy Research Initiative – and the Institute of Insurance and Pension Research at the University of Waterloo.

The conference organizers are: Robert Brown (University of Waterloo), Jeff Carr (PRI), Martin Hering (McMaster University), Mario Jametti (York University), Gordon Lenjosek (HRSDC), Byron Spencer (McMaster University)

SEDAP receives major support from the Social Sciences and Humanities Research Council of Canada under the terms of its Major Collaborative Research Initiative.

Private Pensions and Income Security in Old Age: An Uncertain Future
The Joey and Toby Tanenbaum Pavilion, Art Gallery of Hamilton

Program

Nov 15	Opening Session – 6:00 pm Welcome: *Byron Spencer*, Economics, McMaster Chair: *William Scarth*, Economics, McMaster University	*William Robson*, President & CEO, CD Howe Institute, Keynote Address
Nov 16	Continental breakfast – 8:00 am	
1	**How vulnerable are private pensions? Is there a funding crisis?** 8:45 - 10:45 Chair: *Steve Bonnar*, Principal, Towers Perrin	*Jack Selody,* Advisor to the Governor, Bank of Canada *Karen Badgerow-Croteau,* Managing Director, Private Pension Plans Division, Office of the Superintendent of Financial Institutions *Bob Baldwin*, former Director of Research, Canadian Labour Congress *James Pesando,* Economics, University of Toronto
2	**What should the regulations say? What should the regulators do?** 11:00 - 12:30 Chair: *Bruce Macnaughton*, Director, Pension and Income Security Branch, Ontario Ministry of Finance	*Michael Orszag*, Head of Research, Watson Wyatt Worldwide; Research Chair, International Network of Pension Regulators and Supervisors *John Por*, President, Cortex Applied Research Inc. *David Gordon*, Deputy Superintendent, Pensions, Financial Services Commission of Ontario *Diane Lafleur*, Director, Financial Sector Division, Finance Canada
3	Lunch – 12:30 Chair: *Peter Hicks*, Executive Director, Strategic Analysis, Audit and Evaluation Branch, HRSDC	*Keith Ambachtsheer*, Director, Rotman International Centre for Pension Management, University of Toronto, *Why we need a pension revolution*
4	**Income security in old age I: Where are we now? How secure is the future?** 2:00 - 3:30 Chair: *Bob Baldwin*, former Director of Research, Canadian Labour Congress	*Kevin Milligan*, Economics, University of British Columbia *Jean-Claude Ménard*, Chief Actuary, Office of the Superintendent of Financial Institutions Canada *Susann Rohwedder*, Economist, RAND *Michael Veall,* Economics, McMaster University

5	**Income security in old age II: Where are we now? How secure is the future?** 4:00 - 5:30 Chair: *Bob Baldwin*, former Director of Research, Canadian Labour Congress	*Geoff Rowe and Michael Wolfson*, Statistics Canada *René Morissette*, Assistant Director, Business Labour and Market Analysis, Statistics Canada *Tom Crossley*, Economics, McMaster University and University of Cambridge *Michael Baker*, Economics, University of Toronto
6	Dinner – 6:00 Chair: *Tom Crossley*, Economics, McMaster University and University of Cambridge	*Richard Disney*, Economics, University of Nottingham, *Encouraging saving for retirement through pension reform*
Nov 17	Continental breakfast – 8:00 am	
7	**Reforming pensions: Why is it so hard to make improvements?** 8:45 - 10:45 Chair: *Martin Hering*, Political Science and Health Aging and Society, McMaster University	*Kent Weaver*, Public Policy Institute, Georgetown University *Keith Banting*, School of Policy Studies and Department of Political Studies, Queen's University *Cliff Halliwell,* Director General, Strategic Policy Research, Strategic Analysis, Audit and Evaluation Branch, Human Resources and Social Development Canada *Bruce Macnaughton*, Director, Pension and Income Security Branch, Ontario Ministry of Finance *Joel Harden*, National Representative (Research), Canadian Labour Congress
8	**International perspectives on income security in old age** 11:00 - 12:30 Chair: *Mario Jametti*, Economics, York University	*Garry Barrett*, Economics, University of New South Wales *Michael Hurd*, Director, RAND Center for the Study of Aging *Martin Hering & Michael Kpessa*, Political Science, McMaster University
9	Lunch – 12:30 Chair: *Martin Dooley*, Economics, McMaster University	*Robert Willis*, Economics, University of Michigan, Director, Health and Retirement Study, *The Future of Retirement*
10	**Major on-going problems: What are the policy options?** 2:00 - 3:45 Chair: Brian FitzGerald, President, Canadian Institute of Actuaries	*Ken Georgetti*, President, Canadian Labour Congress *Jack Selody*, Advisor to the Governor, Bank of Canada *William Robson,* President & CEO, CD Howe Institute *Malcolm Hamilton,* Worldwide Partner, Mercer Human Resource Consulting

NOVEMBER 15, 2006

WELCOME

Byron Spencer, Economics, McMaster University

Byron Spencer identified four key challenges that defined benefit pension plans are facing: (1) financial sustainability due to a shortfall in funding, (2) the size of pensions (since Canadian trustee funds have a market value equal to half of GDP, even small reallocations have an impact on financial markets), (3) plan-level concerns about funding shortfalls and insolvency risks, and (4) individual-level concerns (most people outside the public sector have no coverage, there are uncertainties about future benefits, and inflation can erode the value of pensions).

KEYNOTE ADDRESS

William Robson, President and CEO, CD Howe Institute

Bill Robson highlighted the aptness of the term "uncertain" in the conference title, stressing the distinction between taking risks in games where we know the odds and dealing in uncertainty when the probabilities are unclear. He argued that we have tended to approach DB pensions as though we did know the probabilities, but that a review of history shows how unrepresentative data from the period when those plans grew to maturity might be. In the 1950s and the 1960s, rapid growth of population and incomes inspired pay-as-you-go public safety-net plans, while comparatively low yields on debt and revaluations that produced high returns on shares made DB plan sponsors think they could fund lavish benefits with modest contributions. Reverses on all these fronts prompted fiscal consolidations and partial funding of the CPP in the 1990s, and are subjecting DB plans to huge stresses now. He pointed out that DB plans are under additional pressure from legislation and case law that makes surpluses hard to run, but that fixing these problems would not necessarily return the DB sector to health. According to Robson, individual saving options such as RRSPs are not congenial alternatives to many people, and Canada should turn its attention in two separate directions. First, Canadians should look to pooled money-purchase plans that would provide participants with some of the security of DB plans without the agency problems and poorly understood exposures that afflict those plans. Second, he advocated that reforms to compensation, including pension plans, should focus on attracting, training and retaining labour, including the growing numbers of workers who under current arrangements will likely leave the workforce while they still have much to contribute. He closed by observing that many of the most promising solutions to the pension crisis are to be found in human resource departments, where keeping older workers engaged and productive will be a priority in the future.

NOVEMBER 16, 2006

SESSION 1
How vulnerable are private pensions? Is there a funding crisis?

Jack Selody, Advisor to the Governor, Bank of Canada

An effective pension system is important for economic and financial efficiency. A large majority of pension plans in Canada are DB plans (95%). DB plans are under stress. The proximate causes of the stress include the general trends of longevity and early retirement, low long-term interest rates, and the gradual disappearance of the equity premium. The most basic cause of pension plan stress includes misconceptions and the complexity of plans, the interdepencency of issues, and the narrow perspectives of various stakeholders that lead to only marginal changes and push the problems of funding to plan sponsors. Some of the misconceptions are that employers pay for part of DB plans, sponsors can transfer risk to members, pension funds are there to keep the plan in balance and a surplus means contribution rates were too high. DB pension plans have five vulnerabilities: (1) inappropriate restrictions on pension fund management—sponsors need control over funds in order to manage risk and guarantee promised benefits. Unclear ownership and limited access to the pension fund limits incentives to accumulate surpluses. (2) Inappropriate valuation methods—for healthy companies, the going-concern test is proper, but the solvency test is not appropriate since it creates an artifical burden for the sponsor. (3) Inappropriate accounting rules—market value accounting is very precise, but not the right concept for long-dated assets and liabilities. A better indicator of future prices is needed, one that is appropriate for when liabilities become due. (4) Inappropriate operating practices—the tendency to keep contribution rates stable is not good. If benefits remain stable, then the contribution rate needs to be flexible. (5) Inappropriate pension designs—sponsors take on an immense amount of risk, but have little insurance against these risks. In a nutshell, DB plans are complex and inter-woven with many elements. But changes are made in isolation have tended to push the burden further to sponsors. Suggestions for the way forward must be aimed at strengthening incentives to eliminate deficits, remove surplus ownership ambiguities, and give symmetric access to surpluses for credit worthy sponsors. Refine adequacy testing with less emphasis on solvency tests for credit worthy sponsors; balance accuracy and alignment with economic fundamentals in pension accounting; improve members' awareness of how DB pensions work so contribution rates can be more responsive to changes; encourage contingent elements in DB pensions and make these contingencies explicit.

Karen Badgerow-Croteau, Managing Director, Private Pension Plans Division, Office of the Superintendent of Financial Institutions

There are a number of challenges that pensions are facing. These include issues relating to the funding ratio, difficulties in predicting the future and operating in a litigious environment. This has led to the introduction of the new commuted values standards and new proposals for changes to accounting operations. These new initiatives have led a limited number of plans to seek benefit reductions. Reductions now range from 4% to 11%. There are also increases in requests for innovative approaches to funding but it is important to mention that the majority of plans continue to meet regulatory requirements. There are a number of opportunities for regulators to focus on clarifying policies and guidelines and ensuring that regulations reflect the current environment and are consistent with the legislative framework. There is also the need for regulators to provide a better understanding of risks. For plan administrators, there is the opportunity to focus on plan business but it is also imperative for them to achieve a greater understanding not only of risks but also of the necessary techniques to manage risk. Administrators must also enforce the right operating models. There are, however, few cautions: stakeholders need to avoid highlighting a few flaws at the expense of many merits. This requires an approach that would allow stakeholders to step outside their narrow perspectives and consider the point of view of competing stakeholders in order to find a win-win solution. The good news is that there are a number of new initiatives. The federal government's new 10-year funding relief, Quebec's solvency funding relief, Ontario's recently announced panel of experts and other similar initiatives across various provinces are examples of the good wind blowing across the pensions landscape.

Bob Baldwin, Former Director of Social and Economic Policy, Canada Labour Congress

The blissful 1980s and 1990s disappeared with declining stock prices and interest rates. Regular surpluses of pension funds disappeared. The percentage of DB plans in Ontario that are underfunded on a solvency basis increased from 58% in 2001, to 76% in 2002, to 83% in 2004. Current concerns about DB plans include: increases in employer DB contributions (from 6 billion dollars to 18 billion dollars), a rising conversion from DB to DC, and benefit insecurity (examples are Air Canada and Stelco). The impacts of recent changes on DC plans are a smaller asset accumulation and higher annuity prices. Despite the difficulties that DB plans are facing, Baldwin argued that they still show a strong presence: there are 7,000 DB plans with 4.8 million members, mostly among unionized private sector workers, public sector employees and executives. Baldwin indicated that both plan sponsors and beneficiaries face risks in terms of contributions and benefits. One of the main problems is that there is a strong tendency for risk-taking in Canada: the Income Tax Act limits surplus accumulation, the discount rates used imply a significant amount of risk, and many pension funds have high equity content. Possible solutions include new regulatory rules (for example the proposals from the Quebec and federal governments to apply different rules depending on the sponsor's credit-worthiness, different amortization rules, and new funding targets that are linked to funds' investment portfolios). Thus, the future of RPPs is critical, since they are an incredibly important source of income. But their coverage has seen little progress since the 1980s. Overall, there are a number of key problems that DB plans need to resolve, but there is not a crisis.

James Pesando, Economics, University of Toronto

The cases of Air Canada and Stelco show that there is real risk of company bankruptcy. Reports show that jurisdictions other than Ontario will go down the route of termination insurance for pension funds. James Pesando argued that this is absolutely the wrong path. He examined the issue of pension plan termination from the perspective of the rational decision-making model. In his view, it is unfair that workers suffer from the bankruptcy of their firms. This is because pensions are deferred wages. Using rational decision theory, he argued that workers are usually not well informed about the kinds of decision they make. In his view, workers generally do not understand the risks to which pension plans are exposed. Even if workers were well informed, policy makers would not allow them to bear the price of pension liabilities due to the nature of the political process. In his view, if workers are well informed about the details of pensions, it would be more likely that they would choose firms where pension plans are fully funded. He also argued that since the political process does not allow premiums at actuarially fair levels (premiums would have to be 20 times as high or low depending on a pension plan's funding and investments), termination insurance is not an adequate response. For example, in Ontario termination insurance has been a subsidy to declining industries, but not good public policy. During the discussion on the issue, Malcolm Hamilton argued that crises in DB plans are sometimes the result of a discovery by plan sponsors that they took on risks that they did not know about. The lack of crucial information at the time of decision-making can thus create future problems.

SESSION 2
What should the regulations say? What should the regulators do?

Michael Orszag, Head of Research, Watson Wyatt Worldwide; Research Chair, International Network of Pension Regulators and Supervisors**.**

Using data from the US and UK, Michael Orszag pointed out that risks in DB pension plans are not equally distributed: there is a huge concentration of risks in a small proportion of firms, but the majority has only medium or small risks. Governmental regulations are often not flexible enough and too prescriptive. Regulations should be targeted at high-risk firms with chronic underfunding issues. Better risk management and more education would be sufficient measures for medium-risk and low-risk firms, respectively. An important question is whether existing risk measures are appropriate. Traditional risk measures look only at funding ratios. The appropriate risk measures must be based on the following formula: benefit security equals financial security (ability to pay) plus a covenant (requirement to pay) plus governance. Other types of guidelines include:

governance requirements, funding rules, risk-based premiums for guarantee schemes, priority creditor rights in case of sponsor bankruptcy, risk controls, vesting and portability of benefits, and indexation requirements. Different exposures to risk exist not only in DB plans, but also in DC ones because there is no average individual. The question is which measures are needed for which groups. For high-risk individuals, there should be strong defaults, for medium-risk individuals, only weak ones, and for low-risk individuals, education and incentives may be sufficient. To conclude, there is a strong case to be made for segmenting regulatory and supervisory attention into different groups and for a more targeted approach to regulation and supervision.

John Por, President, Cortex Applied Research Inc.

John Por argued that we do not get to the core issues in pension plan regulation because there is too much disagreement. Because of this, we talk about other issues which are trivial (harmonization) or which should not be dealt with by regulators (governance). The slow death of DB plans is caused by over-regulation of pension plans and the fact that public policy ignores financial economics. It would be better not to over-regulate given our imperfect knowledge. The purposes of legislation and regulation should be the following: (1) creating a viable retirement regime over and above the CPP, (2) encouraging employers to run pension plans, whether DB or DC ones, (3) encourage employees to save for retirement, (4) ensure benefit security, (5) resolve the question of surplus ownership, and (6) ensure that current arrangements are intergenerationally fair. Por argued that not much thought is given to these issues. Instead, we talk only about best models of government which is not a core issue.

David Gordon, Deputy Superintendent, Pensions, Financial Services Commission of Ontario

David Gordon gave an overview of the work of the Financial Services Commission of Ontario (FSCO) whose mandate is to protect the public interest and enhance public confidence. There are about 7000 plans currently active in Ontario. It is worth noting that pensions are under provincial jurisdiction, and that 9 out of 10 provinces have their own regulations which are often contradictory and inconsistent with each other. Since most of the multi-jurisdictional plans are registered in Ontario, the FSCO tries to administer 10 different provincial pension statutes. In Ontario, some of the regulatory rules are outdated since they have not been updated since 1985. In addition, the environment has become litigious which often does not help to protect the public interest. There is a collision between trust law and pension law, and the FSCO now also has become a trust law regulator. Regulators are often highly limited in the extent to which they can act. For example, in Alberta the regulator has the power to replace administrators, but in Ontario it does not have that power. Bankruptcy and solvency of employers are a growing area of concern. One of the problems is that no one independently represents a plan throughout the process of restructuring. Thus, the plan often deteriorates further in this process. Given the experience of Ontario, it is important to review legislation on pensions. There should be more tools available to take appropriate actions, more power and flexibility to react to the changing pensions landscape, more rule-making authority delegated to regulators since law-making is slow, more harmonization across the provinces, and a change in the litigious environment.

Diane Lafleur, Director, Financial Sector Division, Finance Canada

The Air Canada case focused the attention of policymakers on the challenges that DB plans are facing. On the one hand, the government noted that it would examine extending the rules made for Air Canada more broadly to other companies in similar circumstances. On the other hand, the Air Canada case also led to a broader review of issues facing defined benefit plans. The Department of Finance Canada put out a consultation paper on the framework governing federally regulated defined benefit pension plans that raised key questions for stakeholders' views in May 2005. The paper generated a significant number of submissions, more than 130, showing that pension plan regulation is an important issue. A general view that emerged was that funding was an immediate issue affecting plan sponsors, employees and retirees. Budget 2006 proposed temporary measures to provide funding relief, with a view to re-establishing full funding while providing protection for pension benefits. The measures also allow plans to make choices as to which measure is most appropriate given its particular circumstances. The measures include the consolidation of past and current deficits in order to get a fresh start for 5 years, and extensions of the solvency funding period to 10 years, subject to various terms and conditions, for example with the use of letters of credit to protect pension benefits. Sponsors were pleased and the whole exercise was viewed as a positive first step. Diane Lafleur noted that a number of factors have contributed to a trend from defined benefit to defined contribution plans, with both employers and employees contributing to this trend. The Department of Finance will be examining the reasons for this trend, and to the extent possible, will seek to ensure that the regulatory framework is balanced so as to not create incentives or disincentives for sponsors who are trying to decide whether to set up a defined benefit or defined contribution plan. However, realistically it would be difficult to reverse the trend. In this context, it was indicated that the Department of Finance will continue to examine means to strengthen the viability of defined benefit plans and examine the framework governing defined contribution plans.

SESSION 3
Lunch

Keith Ambachtsheer, Director, Rotman International Centre for Pension Management, University of Toronto

Keith Ambachtsheer argued that Canada does not have a set of comprehensive, integrated public policies regarding private pension system design, implementation, or regulation and that Canada's pension system needs dramatic, far-reaching change. The current DB and DC pension arrangements themselves suffer from serious design flaws. Many of the mechanisms currently being employed to deliver private pensions suffer serious agency- and governance-related impediments. Canadian pension guarantees are fuzzy rather than clear and regulators are far too easy on poorly-governed plans. In addition, the Canadian system as a whole is fragmented, poorly understood, flying largely under the radar screen of Canadians at large. DB plans suffer from a fatal design flaw by socializing embedded risks. Invariably, these risks are badly defined and measured, and hence haphazardly allocated between various classes of DB plan stakeholders. DC plans also have flaws, including irrational individual decisions, high administrative fees and the absence of pooling of longevity risks.

Ambachtsheer showed that there are options for reform. There is the need to develop a broad consensus on a vision of what Canada's private pension system should look like, and align public policy with that vision. We must take into account the need to design a pension formula that combines the best of DB and DC arrangements, but avoids their pitfalls. Furthermore, there is the need to develop pension delivery organizations that are arms-length and properly governed. The existing reform approach in Canada is best described as piecemeal, fragmented, and timid. We need an approach that is focused, integrative, and bold. Robert Merton sketched the outline of the optimal pension formula some 35 years ago. Out of that first sketch has evolved the individual life-cycle pension model that morphs into a life-annuity with the passage of time. In implementing the model, the 'human foibles' problem must be addressed through auto-enrolment and auto-pilot features. The proposal for non-covered citizens made by the Turner commission in the UK has many of the features of "The Optimal Pension System" (TOPS). The Ontario Teachers' Pension Plan is a good example of a low cost pension delivery organization: it has a large scale, much expertise, aligned interests and good governance.

Canada needs a new vision for the private pension system. Significant change in Canada will require our equivalent of the UK's Turner commission and cooperation between the provinces and the federal government. Only such a holistic, integrative process will produce a new vision for our private pension system, and lead to revision of our pension laws and regulatory processes so that they are consistent with this new vision. An important reform measure is the adoption of a new, more effective pension formula. The Saskatchewan Teachers' Pension Plan is a good example, combining flexible benefits with flexible contributions. There is a window of opportunity opening in the corporate sector since DB plans are being closed. But now we must convince corporate managers to do better than just offer employees a 'plain vanilla' DC plan.

SESSION 4
Income security in Old Age: Where are we now? How secure is the future?

Kevin Milligan, Economics, University of British Columbia

Kevin Milligan showed how changes in income have changed elderly poverty in Canada. There were huge changes in the sources and composition of income for the elderly in Canada over the last 35 years. A 70-year old person in 1971 had income from OAS, the spouse's RPP and perhaps a little GIS. But in 2006, a 70-year old might have income from OAS, the CPP, possibly two RPPs and perhaps an expanded GIS. The evolution of elderly poverty in Canada shows that there was a drop in 1970s due to a real GIS increase of 41 percent and rising eligibility for the CPP. In 1970s, elderly poverty was a major issue in Canada, but in the past 35 years, both income and consumption poverty has decreased tremendously. There were some increases in relative poverty since the mid-1990s, but real incomes of the elderly were still rising across the distribution. Milligan's analysis also showed that the consumption poverty level depends heavily on housing imputation.

Jean-Claude Ménard, Chief Actuary, Office of the Superintendent of Financial Institutions Canada

The Canadian retirement system with mixed funding approaches is well recognized in the world for its capacity to adapt rapidly to changing conditions. For instance it is currently made up of full funding (RPP/RRSP); partial funding (CPP/QPP); and pay-as-you-go financing (OAS/GIS). Overall, the Canadian system is about 40 to 45 percent funded. The Canadian retirement system is more generous than the American one at the level of half median income, comparable at median income and less generous at 1.5 or 2 times median income. The number of people 65 years or older in Canada is expected to increase from 4 million today to 10 million in 2050, which represents an increase from 12 to 24 percent of the population. Canada and the US are the only countries in the advanced industrialized world to expect an increase in working age population. After the last actuarial report, the steady-state contribution rate for the CPP is 9.8 percent. If present conditions continued, the plan would be fully funded in 2307. But if contributions were increased by a small amount and the Canada Pension Plan Investment Board did well, Canada could have a fully funded plan in this century.

Susann Rohwedder, Economist, RAND

Susann Rohwedder, in a paper co-authored with Michael Hurd, sought to explain the changes in retirement resources for the elderly, focusing on private pensions and savings. Using the US Health and Retirement Study, she showed that for persons aged 51 to 56 years, there was a small growth in the median wealth between 1992 and 2000, but a significant growth in average wealth. Median non-housing wealth even declined during this period. There were big changes in the pension landscape over the past two decades. Even though the coverage of employees with workplace pension benefits stayed the same, and increased for women, there was a shift from DB plans to DC ones. A key question is what these plans are worth. The main problem is the lack of knowledge of plans, and the incomplete and inconsistent answers that many respondents give in surveys. The solution employed by Rohwedder was to ask people about their pension plan at the time of job separation. She found that there were marked increases in pension wealth from DC plans between 1994 and 2002, flat wealth for DB plans despite declining coverage, and increasing DB wealth among females. As far as pension entitlements of households were concerned, there were substantial increases in DC wealth and increases in DB wealth mainly due to increases in the labor force participation of women, a trend that is not expected to continue. Overall, there is no crisis in retirement provision because there were increases in retirement resources on average, pensions continue to be major component of retirement portfolio, and DC plans have become more important, especially because of their portability. The greatest challenge of DC plans is to manage investment risks.

Michael Veall, Economics, McMaster University

Michael Veall showed that the development of senior poverty in Canada since the 1970s has been an unusual experience internationally: Canada had one of the highest senior poverty rates within the industrialized world in the 1970s, but nowadays it has a very low one. He measures the senior poverty rate as the percentage of seniors with income below the low-income measure or LIM, that is 50% of the median of adjusted family income. The general population poverty rate in Canada is higher than the senior poverty rate, which is not the case in most other countries. The Canadian retirement income system puts persons with low incomes just over the LIM threshold of 50% of the median adjusted family income. Nonetheless, 6% of seniors fall below LIM. Veall decomposed the 6% of Canadian seniors who are poor. Some groups are disproportionally poor. The below-LIM rate for widowers and widows rises after the loss of their spouse, for example, for women from 1% to 8%. Using the Longitudinal Administrative Database, Veall showed that divorced, separated or single elderly persons have a much higher poverty rate than married persons. A group with a very high poverty rate are elderly immigrants, especially more recent ones. The below-LIM rate for non-immigrants is only about 5 percent, but that for immigrants is more than 70 percent. By contrast, the poverty rate for married, non-immigrant persons is only about 3 percent, which is less than half the overall rate.

SESSION 5
Income security in old age II: Where are we now? How secure is the future?

Geoff Rowe & Michael Wolfson, Statistics Canada

Using Statistics Canada's LifePaths microsimulation model, Geoff Rowe and Michael Wolfson studied the trends in retirement income security and risk-sharing in Canadian families. They showed that there has been a major increase in the labour force participation in the past 30 years, mostly due to an increased participation by women. Female participation rates now equal those of men, and women have disproportionally gone into the public sector where RPP coverage is highest. This has led to a gradual convergence of RPP coverage of men and women at the level of about 40 percent. An important question is whether women's expected future gains in pension entitlements will be able to offset men's losses. We can expect significant increases in RPP incomes of couples. We are likely to see a levelling-off of benefits until 2020 to 2025, but then a sharp increase. Overall, the higher labour market participation of women will lead to higher pension entitlements. Women will no longer depend on their spouse's pension. In spite of the decline in the stability of marriages, risk-sharing by couples can help stabilize future pensions.

René Morissette, Assistant Director, Business and Labour Market Analysis Division, Statistics Canada

René Morissette, in a paper co-authored with Yuri Ostrovsky, showed trends in pension coverage and retirement savings of Canadians in the past two decades. The level of coverage by DB plans for men declined from 49% to 31%. Since there was only a slight increase from 3% to 7% in DC plan coverage, the growth in coverage by DC plans since the late 1970s was not enough to compensate for the decline in workers' coverage by DB plans. Falling unionization rates and employment shifts towards low-coverage industries were strongly correlated with the drop in RPP coverage between the mid-1980s and the mid-1990s. The decline in RPP coverage has led to a downward shift in the age-coverage profile of young men. While RPP coverage fell among unmarried women, it rose among married women. Thus, wives' increase in coverage helped mitigate the decline in husbands' coverage. The percentage of prime-aged couples with at least one RPP fell from 66.5% in 1991 to 61.9% in 2004. Couples' contributions for retirement have become more unequally distributed than they were in the mid-1980s. The growth in inequality of contributions resulted mainly from growing inequality in RRSP contributions. For example, couples in the top earnings quintile have much higher RRSP contributions than those in the medium or lower quintiles. This growing inequality in families' contributions towards retirement could eventually raise family income inequality among the elderly, after two decades of declining inequality. In addition, since women with an RPP are more likely to marry men who also have an RPP, income polarization among the elderly might grow.

Tom Crossley, Economics, McMaster University and University of Cambridge

Thomas Crossley tried to assess the adequacy of financial preparations for retirement in Canada. He defined adequate preparations as preparations that allow a household to enjoy living standards that are roughly the same after retirement as prior to retirement. Financial preparations would include the accumulation of privately held assets (both financial and real) and of entitlements to public and private pensions. He considered both currently working cohorts and currently retired cohorts. In both instances, he emphasized limitations of currently available data. Those currently working should be saving towards their retirement years. National Accounts data show that there was a very significant drop in the aggregate private savings rate in Canada between 1980 and 2005. However, Crossley reported that a study of household level data does not show such a drop: the personal savings rate remained the same or even increased. The discrepancy between these data sources is an unresolved and important puzzle. The infrequency of wealth surveys in Canada mean that those surveys add little to this picture. Crossley then turned to currently retired Canadians. We know that income (relative to pre-retirement) falls at retirement. However, income is not a comprehensive measure of financial resources. Expenditure is closely related to financial resources if households are sensible and forward- looking. We also know that expenditure falls at retirement (the `retirement consumption puzzle'). However recent research in both the U.S. and Canada has emphasized that expenditure is not consumption, that there are variety of ways in which retired individuals might maintain consumption while lowering expenditures. It also appears that the expenditure fall at retirement is planned (or at least anticipated). As an alternative to income or expenditure, Crossley looked at subjective financial satisfaction in the General Social Surveys. Those survey data show that not many elderly are dissatisfied, and that among those who experience dissatisfaction with some aspect of life, the reason for dissatisfaction is mostly health, not finances. Thus, we have at least crude evidence that financial preparations for retirement have been adequate. Crossley concluded that Canada needs better data on savings and wealth, and also more frequent (and especially panel) data for retirees and near retirees.

Michael Baker, Economics, University of Toronto

Michael Baker looked at the relationship between the retirement income system and economic well-being in Canada. While a very general view of well-being could be taken, in many studies the emphasis is on income security. Other measures of well-being include lifespan, independence, happiness and financial stress. There are empirical challenges in determining the role of the income support (IS) system. The public IS system insures against income inadequacy, longevity risk, investment risk and inflation risk, but clearly not against the risk of changes to the public IS system. Studies showed that the IS system played a significant role in the reduction of low income. Surprisingly, they did not find a strong link between the IS system and low consumption. Kevin Milligan's simulations suggest that the interaction of the actuarial adjustment of the CPP/QPP between the ages of 60 and 70 and the income testing of the GIS leads low income individuals to retire too early. International studies show that any work disincentives in IS systems do influence the decision to retire. The effects of such incentives in Canada are significant and similar to those in the U.S., but much smaller than the effects estimated for countries in Europe. Regarding the private system, the RPP plans insure against income inadequacy. DB plans provide insurance against the longevity risk, investment risk and in some cases, inflation risk. There are no Canadian data that can support the analysis of the impact of the RPPs on measures of welfare or of the behavioral effects of the RPP system. Simulations suggest that many RPPs provide strong incentives to retire at specific ages. Canadian evidence suggests that the design of the RRSP program encourages participation in it. Less clear is whether these savings are used in retirement and whether overall savings are increased. The U.S. evidence is inconclusive, but suggests that total saving is increased by tax-preferred programs. Targeting of other income security programs may discourage participation of low-income individuals in RRSPs. Our three-pillar system of support (public IS, RPPs and RRSPs/private savings) operates like a one-pillar system for a significant minority. This is because RPPs are not universal and because program targeting discourages private saving. An important question is whether there is a growing dependent client base for public IS that hinders reform.

SESSION 6
Dinner

Richard Disney, Economics, University of Nottingham

Richard Disney analyzed the policies and incentives to increase retirement savings in the UK. The UK does not have a social security crisis like other EU countries. The problem in the UK is too frequent policy revisions. For individuals, retirement planning is difficult if the government changes the framework every few years, which has become characteristic of the UK's pensions policy. In addition, policy analysts are unable to analyze policy outcomes due to the frequency of change in policy arrangements. The UK pension system has a structure similar to the Canadian one. In contrast to Canada, the earnings-related component was reduced and the income-tested or means-tested components (Pension Credit) have been increased through indexation to earnings, not prices, and the reduction of extra income at a lower rate. Due to these reforms, the replacement rates for median earners will decline slightly overall, but the composition will change. Low earners will see higher replacement rates due to the Pension Credit. The public pension system is strongly redistributive. On the one hand, there has been a growth of income-testing, but on the other a decline of the contributory program (which has been stopped by the 2006 reform by indexing contributory benefits to earnings). The distinctive feature of the UK's pension system is that workers can opt out of the contributory program (S2P), or join both the S2P and private pension plans. The reform strategy in UK was to encourage people to opt out. Yet, the perception was that previous reforms did not work since too many opted for Personal Pensions, and too few for Stakeholder Pensions. Voluntarism was seen as a failure which is why the Turner commission recently proposed automatic enrolment as an alternative. Personal Pensions, introduced in 1988, are individual insurance contracts. The conditions for opt-out were made very favourable: 6

million people opted out, instead of the expected 1.5 million people. The opt-out occurred mostly among young people because of incentives like compound interest. As a response, age-related rebates were introduced in 1997. The composition of those who opted out changed after this reform. Many people also made extra savings. New Labour's Stakeholder Pensions required that all firms offer a provider of these pensions. There were ceilings on administrative charges, but no automatic enrolment. The take up was disappointingly low. Even though the policy was targeted at medium income earners, their coverage went down. An unintended effect was the increase of coverage among low earners, which resulted from tax incentives. Households with one medium earner and one low earner had incentives to contribute to a Stakeholder Pension in order to reduce their taxes.

NOVEMBER 17, 2006

SESSION 7
Reforming pensions: Why is it so hard to make improvements?

Kent Weaver, Public Policy Institute, Georgetown University and Brookings Institution

Kent Weaver gave an overview and explanation of pension regime change in advanced industrialized countries. He showed that countries hardly ever change between the three broad categories of pension regimes (universal/citizenship, Bismarckian and residual). The conventional wisdom is that pension regime change has been largely incremental (or "parametric") rather than fundamental (or "paradigmatic"). Welfare states have survived economic and demographic retrenchment pressures relatively intact. Positive policy feedbacks limit the pension reform options of policy-makers by constraining choice sets. They also create constituencies who resist any change that would make them worse off. In addition, the age and maturity of pension regimes, especially the double payment problem, constrain reforms. Weaver argued that we need to recategorize pension regimes since virtually all rich countries have multi-tiered pension systems that are organized in a variety of ways. For example, Canada has the OAS, GIS, CPP/QPP, and tax-advantaged RRP and RRSPs. He suggested to add new categories to the three existing ones: Bismarckian-light regimes (including Canada and the United States), notional defined contribution (NDC) regimes (such as Italy and Sweden), and mixed regimes (such as the UK, the Netherlands, Denmark and Switzerland). Using these categories, Weaver showed that pension regime change is more frequent than often assumed, and that pension regimes differ significantly in their durability. Bismarckian-light regimes and mixed regimes were highly durable in the post-WW II period (corresponding to the cul-de-sac model of change). Universal and residual regimes virtually disappeared after World War II, with multiple destinations (paths and forks model). Bismarckian regimes were very durable until the mid-1990s when some of them shifted to NDC. Policy feedbacks may undermine as well as reinforce existing regimes. The prospects for regime change depend on the following factors; (1) the balance of positive and negative feedbacks and the challenges they present, (2) the availability and efficacy of incremental reforms to address those challenges, and (3) the availability of regime transition options. Canada's pension system has multiple incremental reform options and a few regime transition options, but also much less need for fundamental reforms. Weaver scored the Canadian system according to a number of criteria, assigning it an A- for adequacy, a B for affordability, and a C+ for encouraging continued labour force participation, and an A- for political risk.

Keith Banting, School of Policy Studies and Department of Political Science, Queen's University

Keith Banting traced the development of Canada's pension system and addressed three key questions: why is pension reform difficult, what is the Canadian experience, and what are the prospects for future changes? In his view, two theories, path dependency and institutional complexity, explain why it is so hard to reform pension arrangements. The notion of path dependency means that the history of pension policy matters, timing and sequence shape long-term outcomes, and programs become embedded in institutions, interests, and public expectations. Thus, change is incremental and often bounded by the existing framework. Path dependency arguments assume that change to a new path is difficult and can take place only through a major shock. Institutional complexity adds to these constraints, for example, through the nature of federal institutional arrangements or the presence of veto points in the political system. The Canadian pension system is a mixture of public and private pensions. The public pillar is composed of both Beveridge- and Bismarck-style programs. The pension expenditure level in Canada is relatively low by international standards. The Canadian path of development started in the 1920s with means-tested public pensions and minimal coverage by private pensions. The first pillar was introduced in 1927, known as Old Age Pensions. In 1951, Old Age Security, a universal flat-rate benefit, was introduced. The Canadian second pillar, the CPP/QPP, was added in 1965. It was a modest program, leaving considerable room for the growth of a third, private pillar. It also allowed integration between public and occupational pension plans. But federal-provincial decision rules constrained the growth of the CPP. The Canadian system has been resilient to change even in the face of shocks. The "great pension debate" in the 1970s was a critical juncture, yet the debates ended with a rejection of proposals to double the CPP/QPP. Banting asked whether there is the possibility of a new path in the future. He argued that fiscal pressures will be manageable, Canada's hybrid model is politically flexibility and there likely is limited scope for intergenerational conflict. Even though fundamental reforms are unlikely, there are prospects for further incremental change such as shifts in the balance among the pillars, and the weakening of some pillars. The OAS is politically unchallengeable due to its poverty-reducing role, but may weaken since it is indexed only to prices, not wages. The CPP is relatively secure, especially after the reforms of the 1990s. But the private pillar is vulnerable due to declining coverage and risk shifts. Thus, the retirement system is likely to continue on its path. It is hard to foresee any exogenous shocks that will push it in a different direction. In addition, even if a critical juncture occurred, a fundamental reorientation might not result from it: in the 1970s, 1980s and 1990s Canada considered a change in direction, but decided to stay on the same path.

Cliff Halliwell, Director General, Strategic Policy Research, Strategic Analysis, Audit and Evaluation Branch, HRSDC

On the question of why pensions are hard to reform, Cliff Halliwell identified some myths. These myths include: (1) the retirement income system cannot be changed, because it is impossible to succeed, (2) the retirement income system should not be changed, because people are counting on it, and (3) the retirement income system can only be reformed through big-bang, dramatic reforms. He argued that a multi-pillared system like Canada's is complex and involves high information and knowledge demands, multiple perspectives and linked agendas, and different time horizons. Despite the claims that pension systems are hard to change, there have been a number of developments relating to private pensions and retirement savings which include: declining RPP coverage rates, a shift from DB to DC plans, under funding of DB plans, differential participation in RRSPs, and deficient knowledge of RPPs and the retirement income system as a whole. In addition, characteristics of the Canadian population and labour markets have changed due to increasing levels of educational attainment, a delayed entry into full-time employment, changes in family structures and an increased risk of union or marriage dissolution, growing non-standard employment, increased labour force participation among older adults, and greater longevity. Thus, despite the existing myths, pension systems have changed. Halliwell argued that reforms may not be easy, but are certainly possible. A requirement is that stakeholders appraise recent developments and examine various options. The greater challenge, though, is how to arrive at a consensus among the various stakeholders. But "improvements" should not be blocked by a failure to achieve consensus.

Bruce Macnaughton, Director, Pensions and Income Security Branch, Ontario Ministry of Finance

Bruce Macnaughton focused on the reform of occupational pension plans, especially on the issue of pension funding. He argued that reforms are difficult, and made four recommendations for overcoming present constraints: (1) governments, pension regulators and the actuarial profession must work together to develop funding standards for defined benefit pension plans, (2) governments must lead by example and be prepared to justify the differences in funding standards between public and private sector pension plans because reforms to pension benefit standards which apply to private sector plans will be difficult to achieve otherwise, (3) compromises among stakeholders including plan members, pensioners and employers will be essential if enduring comprehensive reforms are to be achieved, and (4) ad hoc reforms to address particular situations and reliance on courts to decide the direction of pension policy in the absence of action by legislatures is likely to lead to sub-optimal outcomes. Macnaugthon gave an overview of recent developments in occupational pension funding and raised a number of key issues questions. First, he argued that many stakeholders are involved in current debates about pension funding, and that they emphasize different goals. The stakeholders include plan members and former members, plan sponsors as the parties bearing responsibility for financing the pension system, and citizens and pension regulators who administer pension standards legislation. An important question is whether the goal of reform is to strengthen funding rules and thereby improve benefit security, or to provide funding relief since arguably benefit security depends to a significant degree on the long term financial health of the plan sponsor, or some combination of the two. Second, Macnaughton pointed out that since responsibility for actuarial standards used in funding valuations is shared between the actuarial profession and governments, it is often blurred. Even though most pension legislation requires that funding valuations be prepared in accordance with accepted actuarial practice (AAP), pension standards legislation frequently permits significant departures from it. The question thus is how we can arrange for governments, pension regulators and the actuarial profession to work together on clear funding standards in a timely manner given that guidelines are blurred. Third, he argued that the term "private pension plans" is a misnomer since almost half of all pension plan members were employed in the public sector. Since pension benefits standards legislation in most jurisdictions does not bind the Crown, private sector employers suggest that governments acting in their capacity as employers or transfer agents to public sector employers are unwilling to apply the funding standards which are applied to private pension plans to themselves. The question arises whether a reform of pension plan funding is possible without addressing the issue of the rules which govern the funding of public sector pension plans and the merits of the case for differences between the two sectors. Fourth, because provision of a pension plan to employees is desirable to governments, but voluntary on the part of employers, governments must balance the rules so as not to discourage employers from offering them. Thus, the question is what can or should be done to encourage employers to establish and maintain pension plans without undermining benefit security? Finally, where comprehensive pension reform does not occur, a system of special exemptions and regulations and "ad hoc" solutions may result. The courts often decide fundamental pension policy when legislation is ambiguous or silent. If governments intervene, they run the risk of being blamed both for the weak funding rules that contributed to the funding shortfall and for the onerous funding requirements that lead to the sponsor's demise. The question is whether compromises among stakeholders are possible, and if so, how they can be arranged.

Joel Harden, National Representative (Research), Canadian Labour Congress

Joel Harden emphasized the importance of defending workplace pension benefits in Canada. The challenges that are most frequently mentioned in the pension debate are high liabilities, low interest rates, poor investment returns, over-regulation, unaffordable costs (hence the need to switch from DB to DC), and demographic change. Harden argued that in order to identify the real challenges, we must look at the bigger picture, including poor planning, bad decisions, and unrealized goals in pension policy. What are needed are policy options that enhance and expand existing DB pension coverage. The push for DC plans should be rejected because it is not good for workers. The growth of RRSPs leads to problems. In addition, public pensions must be renewed since they lessen the burden on workplace pensions. Solid features of public pensions usually include low costs, benefit security, and progressive benefit details. There is the need for a new culture of solidarity. The costs for retirement security are not excessive if planned for properly.

SESSION 8
International perspectives on income security in old age

Garry Barrett, Economics, University of New South Wales

Garry Barrett, in a paper co-authored with Yi-Ping Tseng, gave an overview of retirement saving in Australia. Australia's retirement incomes system consists of three tiers: means-tested public age pensions, voluntary private savings, and mandated private savings. Australia introduced the Age Pension in 1909 primarily as a means to alleviate poverty. The program was subject to means-testing right from the onset, but participation has increased over time and now covers 77% of the elderly population. Thus, it has become the main source of retirement income for the majority of elders. Currently, about two-thirds of recipients receive the maximum benefit amount. Funding comes from general tax revenues on a pay-as-you-go basis. Voluntary superannuation has long been important for only a minority of Australians, particularly public sector workers and high-income earners who receive very generous tax concessions. Mandated superannuation was introduced in 1986 when the government and the labour movement agreed to split the 6% CPI increase into a 3% wage increase and a 3% employer contribution to superannuation. In 1992, the government introduced the Superannuation Guarantee (SG). At its introduction, the SG required an employer contribution of 3%, but its level was scheduled to increase gradually to 9% of earnings by 2002. Employers pay their contributions into individual employee accounts. The accounts are held in private superannuation funds, and there are no asset portfolio or minimum rate of return requirements. Benefits, typically paid on a DC basis, are fully vested and portable. Little is known about the impact of the SG on household or national savings. Pension policy reform is currently under consideration. The following three issues were seen as important: (1) the integration of various tiers, especially the increase of the superannuation preservation age to the Age Pension age, (2) adjusting Age Pension rules, such as the treatment of housing in the asset test and linking eligibility age to mortality tables, and (3) reforming Superannuation, especially securing its adequacy and addressing the governance and regulation of funds.

Michael Hurd, Director, RAND Center for the Study of Aging

Michael Hurd, in a paper co-authored with Susann Rohwedder, assessed the adequacy of resources in retirement. There are three methods for assessing adequacy: (1) the income replacement rate, (2) a comparison of wealth at retirement with earnings over lifetime, and (3) an assessment of whether households can sustain consumption (spending) during retirement. The first method has many shortcomings, and the second is methodologically difficult. Hurd and Rohwedder used the third method and looked at whether resources at retirement can maintain the consumption level or path. The life-cycle model is the theoretical background for this method: the individual knows his or her lifetime earnings path, chooses a consumption path and a retirement age, has annuities (Social Security and pensions), and at retirement continues along the optimal consumption path, using annuities and wealth. The method involves three components: (1) an observed consumption level at age 65, (2) a theoretically or empirically derived consumption path at ages higher than 65, and (3) an assessment of whether the resources are sufficient to support this consumption path. Using the Consumption and Activities Mail Survey (CAMS), Hurd compared the empirical consumption paths to that derived from their model, showing that they were very similar. With data from the Health and Retirement Study and simulations, he tried to answer the question of whether the observed economic resources shortly following retirement can sustain the estimated consumption path. Hurd found that the preparation for retirement was adequate at the population level, but that the less educated have under saved on average. Persons with a college education or above have over saved on average. Married persons are more often adequately prepared for retirement than single persons. Differences in mortality between the poor and the wealthy, and single and married persons, do not change the likelihood that a person is adequately prepared.

Martin Hering and Michael Kpessa, Political Science, McMaster University

Martin Hering and Michael Kpessa analyzed the prospects of integrating occupational pension regulations in Canada through a comparison with recent developments in the European Union. In recent years, there have been several attempts to integrate occupational pension regulations across jurisdictions. Canada proposed principles for a pension model law (2004, 2005), and the European Union enacted a pension fund directive (2003) and proposed a portability directive (2005). At the international level, the OECD formulated principles for pension regulation and supervision (2004). It is important to find out which obstacles make occupational pension integration politically difficult: in Canada, the Reciprocal Agreement among the provinces has not been updated or expanded since the 1960s, and in the EU, the single market in occupational pensions was blocked for more than 10 years. Hering and Kpessa investigated the strategies that could overcome existing obstacles and make integration politically feasible. A comparison between Canada and the EU is critical since Canada is the only advanced industrialized country in which occupational pensions are regulated at the sub-national level, and since attempts at integration have been made by the association of provincial pension regulators (CAPSA). In addition, the EU has successfully adopted a pension fund directive despite a great diversity among occupational pension systems. Hering and Kpessa argued that three strategies can make occupational pension integration politically feasible: (1) the problem definition needs to focus on the protection of the diversity of occupational pension systems, (2) the scope of regulation needs to be limited to financial regulations and exclude social regulations, and (3) methods of integration need to be different for financial regulations and social regulations. They concluded that CAPSA’s initiative for a pension model law will likely not lead to progress in occupational pension integration because it sees diversity among occupational pension systems as a problem, extends the scope of regulation to social regulations, and uses a single method of integration for different types of regulation.

SESSION 9
Lunch

Robert Willis, Economics, University of Michigan; Director, Health and Retirement Study

Robert Willis gave an overview of the Health and Retirement Study (HRS) and presented key findings based on the analysis of HRS data. He focused on their implications for retirement behavior and policy options. The HRS is designed to develop data for the U.S. to help scientific and policy researchers understand the challenges of population aging and design policies to meet them. Similar data is now being collected throughout Europe, in Asia and parts of Latin America, but unfortunately not in Canada. Willis argued that Canada needs data like these. There are changes in the demographic structure in all industrialized countries, the baby boomers are approaching retirement, and there is the divorce revolution and changes in family structure. At the same time, there are also changes in the landscape of work and retirement: a continued decline in defined benefit pensions, solvency issues, an increase in 401(k) and other defined contribution plans, a decrease in employer health insurance and disappearing retiree health insurance, and increased complexity of decisions about work, savings, health, and retirement. Finally, there are changes in epidemiological and health care trends, and changes in policies. The changing age structure is a challenge because aged individuals face decreasing health and productivity, great uncertainty at the individual level and a diminished capacity to respond to shocks at older ages. The social institutions to deal with aging are sensitive to the age distribution since intergenerational transfers from young to old people are more costly as the population ages. The pressure on intergenerational transfers would be relieved if people chose to work longer or if they were forced to work longer. People delay entry into the labor force to obtain education and training. Given the extended length of life, it makes sense to assume that people may wish to also extend the length of their working life. The alternative would be to choose lower levels of consumption at younger and/or older ages. Changes in the dependency ratio may be exacerbated or offset by the work and retirement decisions of individuals. Increases in the length of individuals' lives after 65 lead to the question of how to finance a longer retirement, or whether it is desirable to spend much of one's life in retirement. In conclusion, Willis pointed out that population aging poses many challenges to the U.S. and the rest of the world. Meeting these challenges requires advances in understanding of what determines the economic, health, family and psychological well-being and behavior of older people. The HRS and its sister studies throughout the world are creating a data infrastructure that will enable us to harness the scientific creativity of an interdisciplinary and international research community to address these challenges. A data infrastructure like this should be created in Canada.

SESSION 10
Major on-going problems: what are the policy options?

Ken Georgetti, President, Canadian Labour Congress

Ken Georgetti argued that DB plans are workers' best option for a more comfortable retirement. When the right policy frameworks are put in place, DB plans can assure a predictable and adequate income for families. Individualized pension plans are not only risky and costly; they are also inefficient in many ways. 40% of DB plans in Canada today are for corporate executives who constitute about 1% of the total workers covered by DB plans. The majority of DB plan holders in Canada are union members, and coverage by this form of retirement arrangement remains the key issue for many workers seeking union representation. The biggest challenge that DB plans are facing today is the lack of foresight in pension planning and the quick resort to a "fend-for-yourself approach". This is illustrated by the federal government's decision to subsidize the mutual funds industry. RRSPs are supported by huge government subsidies, but there are high RRSP fees. DB plans are often criticized for excessive costs. But the problem has to do with lack of proper planning to pay for these costs in the future. What are needed now are measures to enhance the benefit security of existing workplace pensions. Georgetti pointed out that the trade unions are not wedded to a single approach, but that their commitment to enhanced benefit security is beyond debate. In addition, the labour movement will insist on measures to dramatically enhance DB coverage.

Jack Selody, Advisor to the Governor, Bank of Canada

Jack Selody proposed a number of measures to strengthen DB plans in Canadian companies. Even though studies show that the Canadian pension system does not have a problem of low savings, largely avoids poverty in old age, and is politically robust, there are still reasons to worry, especially the following two. First, there is a movement from collective to individual pensions. This is a problem because not all people have the skills to manage their own pension accounts. Consequently, they may become very conservative when managing risk, which could lower the efficiency of financial markets. Second, there is a move in DB plans to asset-liability matching which leads to greater investment in bonds. This is a problem because an efficient economy requires risk-taking. Selody argued that we need to give people the mechanisms for taking on risks and managing them. People need to have choices. Even though a revolutionary change of the existing system is not possible, evolutionary change is. Five measures should be considered: (1) strengthen incentives to eliminate deficits by removing the surplus ownership ambiguity and giving symmetric access to surpluses for credit worthy sponsors, (2) refine adequacy testing by putting less emphasis on solvency tests for credit worthy sponsors, (3) balance accuracy and alignment with economic fundamentals in pension accounting, (4) improve member awareness of how DB pensions work so that contribution rates can be more responsive, and (5) encourage contingent elements in DB pensions and make contingencies explicit (e.g. indexation in the Dutch system).

William Robson, President and CEO, CD Howe Institute

William Robson argued that the first and second pillars in Canada, OAS and QPP/CPP, are in good shape. The risks of DB plans were hidden for a long time, which was a problem. One way to address the current funding problems might be to help DB plans. Bill 30 in Quebec is a good example. Robson said that the ideas about plan solvency discussed at the conference were good. He argued that we need to re-examine the problem of creditworthiness of sponsors, and obviously need to have more tax incentives for retirement savings for all kinds. The option of pooled money-purchase plans would be a great opportunity, but whether they should be national and compulsory remains an open question.

Malcolm Hamilton, Worldwide Partner, Mercer Human Resource Consulting

Malcolm Hamilton argued that there are four solitudes in private pensions: DC (RRSPs), DB-private, DB-public, and multi-employer plans. The key question that we are confronted with is who would be able to give middle income earners good advice on retirement savings. Professional advice is only affordable for rich people, and employers are not the right vehicle for education. Hamilton stressed that we need to find a way to get advice to people. Employers or financial institutions do not have the credentials. We need institutions whose interests are aligned with members' interests. Beginning with a discussion of DC plans, Hamilton argued that they need to live up to their potential. For example, they should have better default options. Private DB plans are not on the road to extinction, but to irrelevance since new industries are not creating DB plans. In mature DB plans, risks are very difficult to manage since the risk of sponsoring increases, and the organizational ability decreases. One measure that could be taken is to deal with the surplus ownership issue. Secure benefits obviously need built-in cushions, but employers face uncertainties regarding surpluses. Public sector DB plans face different kinds of problems: they are often too generous. For example, employees in correctional services are able to retire after 25 years, and the standard of living of retired teachers is double that of employed teachers. Thus, the design of these plans is not very rational, and they may not serve the interests of members. Size is also an issue. In the Ontario teachers' plan, a fluctuation of 7 billion dollars is equivalent to 70 percent of payroll in any year. Models show that the contribution rate would have to fluctuate from 0% to 35% in order to deal with these fluctuations. By contrast, the Dutch system has much more viable risk transfer model. Finally, multi-employer plans need to decide what their mission is. They look like DB plans, but if they are badly funded, benefits can be rolled back, which is not the case in traditional DB plans.

Number	Title	Author(s)
(2004)		
No. 114:	The Politics of Protest Avoidance: Policy Windows, Labor Mobilization, and Pension Reform in France	D. Béland P. Marnier
No. 115:	The Impact of Differential Cost Sharing of Non-Steroidal Anti-Inflammatory Agents on the Use and Costs of Analgesic Drugs	P.V. Grootendorst J.K. Marshall A.M. Holbrook L.R. Dolovich B.J. O'Brien A.R. Levy
No. 116:	The Wealth of Mexican Americans	D.A. Cobb-Clark V. Hildebrand
No. 117:	Precautionary Wealth and Portfolio Allocation: Evidence from Canadian Microdata	S. Alan
No. 118:	Financial Planning for Later Life: Subjective Understandings of Catalysts and Constraints	C.L. Kemp C.J. Rosenthal M. Denton
No. 119:	The Effect of Health Changes and Long-term Health on the Work Activity of Older Canadians	D. Wing Han Au T.F. Crossley M. Schellhorn
No. 120:	Pension Reform and Financial Investment in the United States and Canada	D. Béland
No. 121:	Exploring the Returns to Scale in Food Preparation (Baking Penny Buns at Home)	T.F. Crossley Y. Lu
No. 122:	Life-cycle Asset Accumulation and Allocation in Canada	K. Milligan
No. 123:	Healthy Aging at Older Ages: Are Income and Education Important?	N.J. Buckley F.T. Denton A.L. Robb B.G. Spencer
(2005)		
No. 124:	Exploring the Use of a Nonparametrically Generated Instrumental Variable in the Estimation of a Linear Parametric Equation	F.T. Denton
No. 125:	Borrowing Constraints, The Cost of Precautionary Saving, and Unemployment Insurance	T.F. Crossley H.W. Low

Number	Title	Author(s)
No. 126:	Entry Costs and Stock Market Participation Over the Life Cycle	S. Alan
No. 127:	Income Inequality and Self-Rated Health Status: Evidence from the European Community Household Panel	V. Hildebrand P. Van Kerm
No. 128:	Where Have All The Home Care Workers Gone?	M. Denton I.U. Zeytinoglu S. Davies D. Hunter
No. 129:	Survey Results of the New Health Care Worker Study: Implications of Changing Employment Patterns	I.U. Zeytinoglu M. Denton S. Davies A. Baumann J. Blythe A. Higgins
No. 130:	Does One Size Fit All? The CPI and Canadian Seniors	M. Brzozowski
No. 131:	Unexploited Connections Between Intra- and Inter-temporal Allocation	T.F. Crossley H.W. Low
No. 132:	Grandparents Raising Grandchildren in Canada: A Profile of Skipped Generation Families	E. Fuller-Thomson
No. 133:	Measurement Errors in Recall Food Expenditure Data	N. Ahmed M. Brzozowski T.F. Crossley
No. 134:	The Effect of Health Changes and Long-term Health on the Work Activity of Older Canadians	D.W.H. Au T. F. Crossley M.. Schellhorn
No. 135:	Population Aging and the Macroeconomy: Explorations in the Use of Immigration as an Instrument of Control	F. T. Denton B. G. Spencer
No. 136:	Users and Suppliers of Physician Services: A Tale of Two Populations	F.T. Denton A. Gafni B.G. Spencer
No. 137:	MEDS-D USERS' MANUAL	F.T. Denton C.H. Feaver B.G.. Spencer

Number	Title	Author(s)
No. 138:	MEDS-E USERS' MANUAL	F.T. Denton C.H. Feaver B.G. Spencer
No. 139:	Socioeconomic Influences on the Health of Older Canadians: Estimates Based on Two Longitudinal Surveys (Revised Version of No. 112)	N.J. Buckley F.T. Denton A.L. Robb B.G. Spencer
No. 140:	Developing New Strategies to Support Future Caregivers of the Aged in Canada: Projections of Need and their Policy Implications	J. Keefe J. Légaré Y. Carrière
No. 141:	Les Premiers Baby-Boomers Québécois font-ils une Meilleure Préparation Financière à la Retraite que leurs Parents? Revenu, Patrimoine, Protection en Matière de Pensions et Facteurs Démographiques	L. Mo J. Légaré
No. 142:	Welfare Restructuring without Partisan Cooperation: The Role of Party Collusion in Blame Avoidance	M. Hering
No. 143:	Ethnicity and Health: An Analysis of Physical Health Differences across Twenty-one Ethnocultural Groups in Canada	S. Prus Z. Lin
No. 144:	The Health Behaviours of Immigrants and Native-Born People in Canada	J.T. McDonald
No. 145:	Ethnicity, Immigration and Cancer Screening: Evidence for Canadian Women	J.T. McDonald S. Kennedy
No. 146:	Population Aging in Canada: Software for Exploring the Implications for the Labour Force and the Productive Capacity of the Economy	F.T. Denton C.H. Feaver B.G. Spencer
(2006)		
No. 147:	The Portfolio Choices of Hispanic Couples	D.A. Cobb-Clark V.A. Hildebrand
No. 148:	Inter-provincial Migration of Income among Canada's Older Population:1996-2001	K.B. Newbold
No. 149:	Joint Taxation and the Labour Supply of Married Women: Evidence from the Canadian Tax Reform of 1988	T.F. Crossley S.H. Jeon
No. 150:	What Ownership Society? Debating Housing and Social Security Reform in the United States	D. Béland

SEDAP RESEARCH PAPERS: Recent Releases

Number	Title	Author(s)
No. 151:	Home Cooking, Food Consumption and Food Production among the Unemployed and Retired Households	M. Brzozowski Y. Lu
No. 152:	The Long-Run Cost of Job Loss as Measured by Consumption Changes	M. Browning T.F. Crossley
No. 153:	Do the Rich Save More in Canada?	S. Alan K. Atalay T.F. Crossley
No. 154:	Income Inequality over the Later-life Course: A Comparative Analysis of Seven OECD Countries	R.L. Brown S.G. Prus
No. 155:	The Social Cost-of-Living: Welfare Foundations and Estimation	T.F. Crossley K. Pendakur
No. 156:	The Top Shares of Older Earners in Canada	M.R. Veall
No. 157:	Le soutien aux personnes âgées en perte d’autonomie: jusqu’où les baby-boomers pourront-ils compter sur leur famille pour répondre à leurs besoins ?	J. Légaré C. Alix Y. Carrière J. Keefe
No. 158:	Les générations X et Y du Québec, vraiment différentes des précédentes ?	J. Légaré P.O. Ménard
No. 159: French	La diversification et la privatisation des sources de revenu de retraite au Canada	L. Mo J. Légaré L. Stone
No. 159: English	The Diversification and the Privatization of the Sources of Retirement Income in Canada	L. Mo J. Légaré L. Stone
No. 160:	Evaluating Pension Portability Reforms: The Tax Reform Act of 1986 as a Natural Experiment	V. Andrietti V.A. Hildebrand
No. 161:	Estimating a Collective Household Model with Survey Data on Financial Satisfaction	R. Alessie T.F. Crossley V.A. Hildebrand
No. 162:	Physician Labour Supply in Canada: A Cohort Analysis	T.F. Crossley J. Hurley S.H. Jeon
No. 163:	Tax Incentives and Household Portfolios: A Panel Data Analysis	S. Alan S. Leth-Petersen

Number	Title	Author(s)
No. 164:	The Healthy Immigrant Effect and Immigrant Selection: Evidence from Four Countries	S. Kennedy J.T. McDonald N. Biddle
No. 165:	Well-Being Throughout the Senior Years: An Issues Paper on Key Events and Transitions in Later Life	M. Denton K. Kusch
No. 166:	Satisfied Workers, Retained Workers: Effects of Work and Work Environment on Homecare Workers' Job Satisfaction, Stress, Physical Health, and Retention	I.U. Zeytinoglu M. Denton
No. 167:	Contrasting Inequalities: Comparing Correlates of Health in Canada and the United States	H. Armstrong W. Clement Z. Lin S. Prus
(2007)		
No. 168:	Health human resources planning and the production of health: Development of an extended analytical framework for needs-based health human resources planning	S. Birch G. Kephart G. Tomblin-Murphy L. O'Brien-Pallas R. Alder A. MacKenzie
No. 169:	Gender Inequality in the Wealth of Older Canadians	M. Denton L. Boos
No. 170:	The Evolution of Elderly Poverty in Canada	K. Milligan
No. 171:	Return and Onwards Migration among Older Canadians: Findings from the 2001 Census	K.B. Newbold
No. 172:	Le système de retraite américain: entre fragmentation et logique financière	D. Béland
No. 173:	Entrepreneurship, Liquidity Constraints and Start-up Costs	R. Fonseca P.-C. Michaud T. Sopraseuth
No. 174:	How did the Elimination of the Earnings Test above the Normal Retirement Age affect Retirement Expectations?	P.-C. Michaud A. van Soest
No. 175:	The SES Health Gradient on Both Sides of the Atlantic	J. Banks M. Marmot Z. Oldfield J.P. Smith

SEDAP RESEARCH PAPERS: Recent Releases

Number	Title	Author(s)
No. 176:	Pension Provision and Retirement Saving: Lessons from the United Kingdom	R. Disney C. Emmerson M. Wakefield
No. 177:	Retirement Saving in Australia	G. Barrett Y.-P. Tseng
No. 178:	The Health Services Use Among Older Canadians in Rural and Urban Areas	H. Conde J.T. McDonald
No. 179:	Older Workers and On-the-Job Training in Canada: Evidence from the WES data	I.U. Zeytinoglu G.B. Cooke K. Harry
No. 180:	Private Pensions and Income Security in Old Age: An Uncertain Future – Conference Report	M. Hering M. Kpessa