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Better Pension Options for All

The issue of retirement incomes for Canadian seniors has been much in the news recently. A week or so ago I observed a short conversation about pensions - one that spoke volumes.

A retired civil servant – knowing with certainty the size of his pension - was speaking with a middle-aged couple who had just started a new business, hoping to earn enough money for their retirement. The discussion was pleasant and the couple's outlook was positive. But the difference in their circumstances was stark.

I often hear from people who are worried about their retirement – knowing that they should – they MUST save – but household expenses consume their entire income. They are not alone. Nationally, only 25% of workers in the private sector have an employer pension plan.

Some of these plans are "defined benefit" plans – a commitment that a retired employee will receive a specific amount of income. However a growing number of employer pension plans are "defined contribution" plans, where the income depends on how well the money is invested and the fluctuations of the stock market.

But many working Canadians have neither of these: they are on their own. Ideally they know how to invest carefully and use an RRSP or Tax Free Saving Account to supplement the government pension plans. Too many, however, are unable to save, or have been unlucky in their investment decisions.

This has left some of today's seniors working to supplement their income, and a younger generation fearing that they will be in this situation in the future.

The main government plan for all workers is the Canada Pension Plan (CPP). It is mandatory; employees must pay into it while working and employers must match those payments. The CPP is a defined benefit plan, and is secured with a huge, diverse and well-managed asset base. The pension paid at retirement depends upon the wages earned and years worked. The maximum payment for 2011 is $960 per month, the average is $504.

All long term residents of Canada 65 or over qualify for the Old Age Security (OAS) of $524 per month which is reduced if other income exceeds $67,668 per year.

Finally, Canadians with little income other than the OAS can receive the Guaranteed Income Supplement (GIS), which pays a maximum of $662 per month.

The CPP, OAS and GIS are all indexed to inflation and together they give Canadians a basic retirement income. However, they do not provide the retirement income most of us want.

Liberals propose to give workers and employers the opportunity to contribute more to the CPP. Companies and workers could choose to use this secure vehicle to increase the size of the workers' defined benefit pension. This is an efficient approach for both workers and employers, since they already participate in the CPP and this would require only the addition of an optional component.

Most provinces support this approach. It would provide a good option for those without an employer pension plan.

However, recently the Conservatives have rejected this approach in favour of creating yet another way for Canadians to save and invest in the market, with uncertain payouts and increased administrative costs.

The Liberal Party aims to create equal opportunity for middle-class families through an optional supplement to the CPP, to give the 75% of private sector workers with no work-place pension access to a secure and efficient way to save for their retirement.

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