

Retirement Income Adequacy

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The Summary Report on Retirement Income Adequacy Research authored by Jack M. Mintz that formed part of the basis for the deliberations of Finance Ministers in Whitehorse in December of last year gave little encouragement to the efforts of the pension industry for pension reform, especially in respect to pension coverage. Nor was there much encouragement for an increase in permissible tax-deferred savings or the introduction of new savings vehicles.

The Report indicates that the lower income group is adequately served on a replacement income basis by current government programmes, without occupational pensions. This seems reasonable as long as the retirees don't live in a city, don't require care services that are not covered by provincial health plans and perhaps have adult children who are able to help them. And it is true that there is a low poverty rate among the elderly (much to Canada's credit).

The Report also describes a study that shows, surprisingly, that people with occupational pension plans may have less retirement income than those without pension plans. This indeed is worthy of more detailed analysis. Are any of these people in receipt of career public service pensions, the richest pensions in Canada? The report does not show this breakdown. Do people with pensions (other than government pensions) save less because they are mistakenly relying on inadequate workplace pensions? Is it relevant that RRSP contribution room is severely curtailed for pension plan members?

The Report indicates that 600,000 retirees have inadequate retirement income (below 60% of after-tax working income). This is surely a significant number, whether or not they have occupational pensions. Mintz suggests that adequate retirement income is achieved by most in the face of low workplace pension coverage and limits on tax-deferred savings by the following:

- Later retirement
- Avoidance of job loss before retirement
- Decrease in consumption after retirement
- Purchase and occupation of home

- Downsizing home
- Purchase of long-lasting consumer durables before retirement
- Savings outside tax-deferred vehicles
- Investment in index funds with low management fees
- Avoidance of investment losses

Not all of these factors are within one's control. It is also helpful if retirees are able to avoid high non-government insured medical and dental costs, if they do not need to help pay for the post-graduate education of adult children or otherwise support them, and if they do not need to help support their even more elderly parents. But these expenses, plus job loss after age 55, plus investment losses, are the realities of retirees in 2010.

There are a number of proposals under discussion in the industry and with governments that would actually help Canadians save for retirement on a tax-assisted basis. Government-sponsored defined contribution plans by way of a Canada Pension Plan defined contribution top up, and the development of large multi-employer industry managed defined contribution plan are some ideas. There are also pension reform measures that have been proposed by various jurisdictions that would ease the funding obligations and the administrative costs of employer-sponsored defined benefit pension plans and it is to be hoped, slow down their disappearance.

Strangely, the immediate response of the Government of Canada to the Whitehorse discussions has been to propose to decrease pensions for public servants who take early retirement, which, while perhaps giving some perverse satisfaction to those without government pensions, gives little real comfort to anyone.

The pension industry had great hopes that the Whitehorse meeting, a historic meeting in that it was the first meeting of Ministers called to expressly address retirement income, would lead to positive results on a national basis. It is to be hoped that governments, including Ontario, will not now be lulled into complacency and cease their interest in pension reform.

This article is intended for general information purposes only and should not be relied upon as legal advice.

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