

Presidents Forum: Pensions in Canada and Actuarial Input on Public Policy

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Will Cover

- ▶ Overview of Canadian pension situation
- ▶ What CIA has proposed
- ▶ Challenge of impacting public policy and developing member support
- ▶ Discussion – impacting public policy by actuarial organizations

CIA in the Pension Space

- ▶ Are pension issues important to the CIA?
 - ▶ Yes. Many members' primary or secondary practice areas are pensions

Primary Practice Area	1,390
Secondary Practice Area	260
Total	1,650 or 32.1% of CIA Members (5,137)

- ▶ Important, even in an environment where the coverage provided by workplace Defined Benefit Pension Plans continues to shrink

Retirement Income for Canadians: Three Pillars

- ▶ Retirement income may come what we call the 'Three Pillars' of retirement income protection
- ▶ **Pillar 1:** Federal Old Age Security (OAS) and Guaranteed Income Supplement (GIS)
 - ▶ OAS: Universal basic pension/supplement aimed at poverty reduction (PAYG). Claw back at 15% at higher incomes
 - ▶ GIS: Income-tested component of the OAS. Claw back at 50% for alternate sources of income
- ▶ **Pillar 2:** Canada/Québec Pension Plans (C/QPP)
 - ▶ C/QPP – mandatory earnings -related DB plans aimed at providing basic retirement income (partially funded)
 - ▶ Provincial plans: Ontario adding new DB plan. Saskatchewan has DC plan
- ▶ Pillars 1 and 2 replace about 40% of pre-retirement earnings for an individual with average level of earnings (\$50-55,000)

Retirement Income for Canadians: Three Pillars

- ▶ **Pillar 3** consists of income generated from private retirement savings plans. Many vehicles including:
 - ▶ Employers sponsored defined benefit and defined contribution pension plan and other savings plans
 - ▶ Individual savings plans - most common are Registered Retirement Savings Plans and now, Tax Free Savings Accounts
- ▶ Challenges facing Pillar 3:
 - ▶ Longevity: Life expectancy, age 65, M=22.1 years, F=24.4 years
 - ▶ Low interest rates
 - ▶ Volatile markets
 - ▶ Mark to market funding and accounting measures
 - ▶ Multitude of federal and provincial regulations
 - ▶ How to deal with shared risk plans
- ▶ Result is fewer DB pension plans. More responsibility for individual

Comments on Canada's Current Retirement System

- ▶ Little coordination between provincial and federal governments
- ▶ No agreement on whether Canadians are saving enough or how much savings is needed
- ▶ Confusing array of choices for consumers
- ▶ Lack of financial literacy among Canadians
- ▶ Challenges around a mobile workforce
- ▶ Lack of political leadership
 - ▶ Third Rail – deadly issue for politicians



CIA Activity on Pension Issues

- ▶ CIA strategic plan created in 2013 calls for CIA to be active and engaged in public policy in areas of actuarial competence
- ▶ CIA researches and publishes its current thinking on pensions and retirement income in Canada:
 - ▶ Troubled Tomorrows – from 1990's
 - ▶ Planning for Retirement: Are Canadians Saving Enough
 - ▶ CIA Prescription For Canada's Ailing Pension System
 - ▶ Retooling Canada's Ailing Pension System Now, For The Future
 - ▶ White Paper—Government-Facilitated Retirement Income Plans
 - ▶ Submissions including target benefit plans and CPP voluntary expansion
- ▶ First Canadian mortality table with new projection scales
- ▶ Public position issued in April 2015. Met with three major political parties. Further release to build upon April position

CIA Position:

Canada Needs National Pension Champion

- ▶ Federal and provincial governments must act now to develop a shared, long-term vision and collaborate on co-ordinated activities to ensure Canada's retirement system meets future needs
- ▶ Canadian retirement system has a short window of opportunity now to put in place system for those who retire in future
- ▶ Current suggested changes are piecemeal and disjointed and will not lead to efficient or effective outcome
- ▶ Without change, confusing and burdensome 'rearrangement'
- ▶ Requires effective use of public, employer and personal funding
- ▶ Enhancements must be made through co-ordinated activities
- ▶ CIA's approach is sensible, efficient, and implementable with public and private sector planning and co-operation.
 - ▶ Focus on meeting the needs of future retirees at reasonable cost



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Canada Needs National Pension Champion

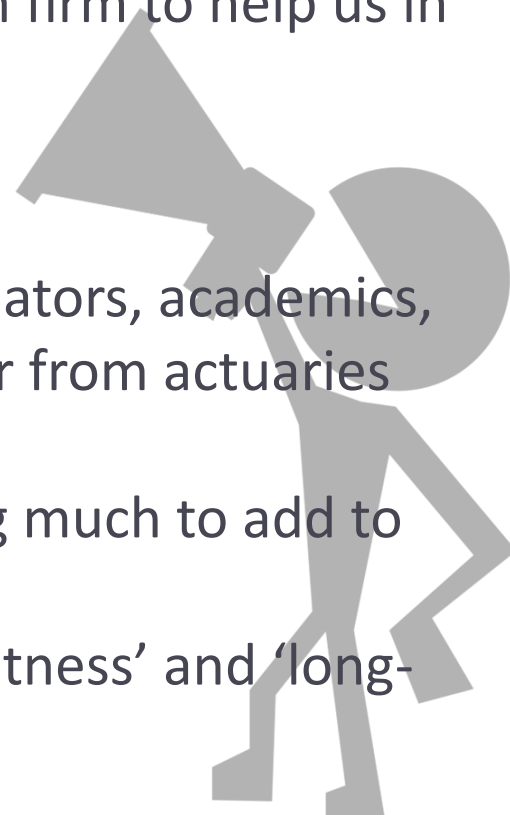
- ▶ Pillar 1: No significant changes though the 50% claw back rate for the GIS could serve as a deterrent for people to seek additional sources of income
- ▶ Pillar 2: CIA could support modest expansion of C/QPP if any expansion targeted those with the greatest needs. Avoid intergenerational transfers
- ▶ Pillar 3: Requires fixing in areas such as funding rules, regulations to encourage shared risk plans and harmonization of regulations



Perspectives of the CIA in Canada

Conducted impression audit by an outside research firm to help us in strategic planning

- ▶ What we learned:
 - ▶ Government officials, elected politicians, regulators, academics, the media, businesses and others want to hear from actuaries
 - ▶ Canada is facing serious long-term challenges
 - ▶ Due to their skills, actuaries are seen as having much to add to solving the nation's issues
 - ▶ We have strong permission to be an 'expert witness' and 'long-term sage'
 - ▶ We need to be bolder and more responsive
 - ▶ Revamped approach to policy engagement can reinforce the CIA's public interest responsibility



Member Reaction-Not so Fast

- ▶ Recently there has been some pushback by a small but vocal group of members who do not agree with CIA involvement in public policy during an election campaign
- ▶ Strong interest in modifying CIA policies to allow much greater member input on public policy
- ▶ Debate over what are areas of actuarial competence and whether CIA should be active in public policy
 - ▶ Avoid being political



Discussion

- ▶ Canadian pensions intended as an illustration of how actuarial organizations can impact public policy
- ▶ Should actuarial profession be actively involved in public policy in areas of actuarial competence?
- ▶ If so, how best accomplish?

