Canada can lead the world with smart pension reform, says pension expert

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(PhysOrg.com) -- Toronto - The time has come to turn Canada's supplemental pensions jumble into a coherent system with a clear goal and a clear plan to achieve it, according to Keith Ambachtsheer, Director of the Rotman International Centre for Pension Management and an adjunct professor of finance at the Rotman School Management at the University of Toronto.

In the 2009 Annual Benefactors Lecture, published today by the C.D. Howe Institute, Prof. Ambachtsheer sets out the goals of such a system and the principles on which it should be based. After reviewing current shortcomings, he proposes a two-pronged plan for turning supplemental pension arrangements into an integrated, effective system.

In Pension Reform: How Canada can Lead the World, Prof. Ambachtsheer says the following principles should guide reform:

1) Pension plan designs should target a post-work standard of living that is adequate, achievable, and affordable;
2) all workers should have a simple, accessible, portable opportunity to participate in pension plans that have explicit post-work income-replacement targets;
3) all forms of retirement saving should receive equal tax, regulatory, and disclosure treatment across all sectors of the Canadian workforce; and
4) pension management and delivery structures should be expert, transparent, and cost effective.

To turn these principles into practice requires doing two things:

1) bring the outdated rules and regulations governing supplementary pensions into the 21st Century, and;
2) create a simple, low-cost pension plan for workers without a pension plan.

His proposed Canada Supplementary Pension Plan (CSPP) would set a default, inflation-indexed, income-replacement target of 60 percent for middle-income workers. This would imply a default contribution rate of 10 percent on income over $30,000, up to the current maximum income with respect to which tax-deferred savings may be deducted. All Canadian workers without workplace pension plans could be auto-enrolled in the CSPP, with an option to opt out. Contributions would be deposited into personal pension accounts, with automatic partial annuitization between ages 45 and 65. Finally, a new arm's-length agency would be created to manage the CSPP.

More information: The study is available online at www.cdhowe.org/pdf/BenefactorsLecture_09.pdf

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