

**SPEECH TO THE INSTITUTE FOR
RESEARCH ON PUBLIC POLICY**

BY

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Check against delivery

Thank you, Mel, for that kind introduction.

I am delighted to be here today, speaking before you at this symposium. I thank the Institute for Research on Public Policy for organizing this event, which has already generated lively and interesting discussions.

I am grateful for the opportunity to be here today to discuss the future of the retirement income system in Canada. The results of symposia like this one will help contribute to the national dialogue on the future of our retirement income system as Ministers of Finance across Canada continue to work together to review the current challenges.

The recent global economic downturn has raised concerns across Canada about the adequacy of our current retirement income system. As businesses were hit hard by the downturn, so too were their pension plans. Families now have increased concerns about their futures after retirement, and retirees have added concerns about how they will maintain their current lifestyles.

Of equal concern is the changing nature of our workforce, and how that will place added pressures on the system in the coming years.

Over the next 20 years, the portion of the population aged 65 and older will nearly double from 13.5 per cent in 2009 to 23.1 per cent in 2030 and continue to increase to 26.3 per cent in 2050. Thus, the level of incomes for the older and largely retired population will have an increasing impact on the economic and social well-being of the population in general. And these challenges become more pronounced when you think of rising long-term care costs that retirees will likely face in the future.

As our population ages, and more and more Canadians reach retirement age, it is critical that we take the necessary steps to ensure we do all we can to preserve the quality of life of our seniors. This is crucial to the health of our economy, and it is what our seniors expect and what they deserve.

That is why pension retirement income issues have become increasingly a subject of public discussion across our country.

I would like to take a few minutes to summarize a number of important steps that Ontario has already taken to address challenges identified in the third pillar of our system – specifically, issues affecting the employment pension system.

Ontario introduced a temporary solvency funding relief program to protect jobs and families following the 2008 market downturn. We are working to simplify pension division when a marriage ends. We initiated the first-ever actuarial study to examine the financial health of the Pension Benefits Guarantee Fund, and established an Advisory Council on Pensions and Retirement Income.

Additionally, the 2010 Budget announced that the Ontario government will be providing a \$500 million grant to the Pension Benefits Guarantee Fund in 2009-10. We recognize that the fund provides critical assistance to plan members, pensioners, and their families during very difficult times. This grant would help ensure the sufficiency of PBGF assets to cover claims in the near term.

We also introduced the Pension Benefits Amendment Act, Bill 236. This is the first major reform to Ontario's pension law in a generation, and the first step in our pension reform process. This reform package addresses many significant issues while striking a balance among the concerns of all stakeholders.

We are purposely embarking on this reform in stages, due to the broad array of issues, the challenges presented by the current economic environment, and the need for further consultation and additional information. We will be introducing a second pension bill later this year, including a number of measures that can be implemented through amendments to the regulations.

Turning back now to the subject of retirement income system reform...

As many of you know, federal, provincial and territorial governments came together over the last year, to try to assess the challenges facing our retirement income system and its capacity to provide adequate retirement incomes for tomorrow's seniors.

We commissioned research on retirement income adequacy, directed by Jack Mintz, while Ontario also commissioned a retirement income system study by Bob Baldwin. Both concluded that Canada's system has worked relatively well for current seniors, but that a significant minority of middle- and upper-middle income Canadians may not be saving enough to maintain their standard of living in retirement.

Federal, provincial and territorial government officials are currently working together to analyze the potential effects of a full spectrum of options that

have been proposed by stakeholders. As discussed in my March Budget, the options under consideration can be broadly summarized in four broad categories:

- Expansion of public pensions to increase the proportion of retirement income provided to tomorrow's seniors through the Canada Pension Plan
- Supplementary defined contribution pension plans to provide additional options for retirement savings to Canadians without employment pension plans
- Pension innovations to expand coverage through the existing employment pension system and registered retirement savings plans, and
- Reforms to tax assistance to facilitate higher levels of retirement savings and potential innovations in the delivery of pensions.

Difficult questions still need to be answered. Let me explain with a few examples:

When considering reforms to the Canada Pension Plan, we need to look at the impact of higher income replacement rates, higher earnings ceilings or the two in combination. The potential costs to individuals and employers, the real benefit levels provided and the resulting size of the CPP Fund are all important considerations in examining this option.

When looking at supplementary defined contribution pensions, we have to carefully consider a number of important questions: whether they are provided by the public or private sector, whether participation is mandatory

or voluntary, choice in investments and providers, and who pays the cost within the various models that have been presented.

Pension innovation within the existing system, such as promoting target benefit plans or multi-employer plans run by mutual associations or financial institutions, could also be a model for expanding the retirement income system. But important questions remain about governance, affordability and predictability of retirement income, and will need to be reviewed and addressed.

Innovation in the tax system, by increasing the amounts that can be saved or by allowing greater innovation within the pension system, could also allow for improvements. But again, fiscal costs, accessibility and equity present considerable challenges.

In Ontario's view, any changes to the retirement income system for tomorrow's seniors must be made in a principled manner that ensures:

- transparency – giving a voice to all Canadians in the process
- affordability – keeping the cost of change to individuals, businesses and as appropriate, the government, reasonable
- equity – making sure the price for our retirement does not result in a cost transfer to our grandchildren
- accessibility – so that all of tomorrow's seniors can participate, and
- balance – not only between the role of the government and the role of the individual and the private and public spheres, but also between individual choice and collective participation.

The starting point for finance ministers was, first and foremost, to identify the challenges facing the system.

Researchers, pension experts and stakeholders have described a variety of challenges facing the Canadian retirement income system and have called for a range of reforms. However, we must be prudent in our approach. Design changes to the current system could have significant effects on other parts of our economy, such as household consumption, savings behavior, debt levels and business competitiveness.

Studies prepared for finance ministers indicated that about 20 to 30 per cent of middle- and upper-middle income Canadians do not appear to be saving enough to maintain their standard of living in retirement. Can – or should – reform options be targeted to this particular group only, or be more broadly targeted, as some stakeholders have proposed?

Individuals take many different career and life-time earnings paths and exhibit a wide range of savings behavior. Pension coverage only measures coverage at a single point in time. In these circumstances, effective targeting is quite difficult.

Retirement income is largely an issue for households. If an individual's household status can change several times throughout their life, what does this mean in terms of designing appropriate solutions?

Many Canadians do not save large amounts for retirement. Many of us do not consider our financial status decades in the future. Many of us lack both the investment expertise and the time to manage our savings or

investments. Is this a sufficient reason to expand mandatory approaches to retirement savings, or to improve incentives to save, or both?

In trying to encourage people to save more for retirement, should we take into account other financial priorities, like paying down education-related debts, starting a family, buying a first home and saving for children's educations?

Should young workers be expected to save regularly for their retirement? Can we agree on how to encourage savings and how much is desirable?

Should we focus on voluntary institutional arrangements that make it easier for individuals to save regular, manageable amounts e.g., defined contribution plans with auto-enrolment?

Or should we mandate the expansion of the CPP to address gaps and shortcomings in the system?

The transition from defined benefit to defined contribution plans has also raised new questions. Some pension experts have raised concerns about the ability of defined contribution plans to deliver predictable retirement income.

Given the declining rates of pension coverage in the private sector and the increasingly flexible nature of the workforce, there is an argument that the public sector should play a greater role in our retirement-income system.

On the other hand, we should not lose sight of how we can best leverage Canada's significant private-sector capacity and expertise in retirement savings – much of which is based right here in Toronto – to help further strengthen our system so that we have one that is truly world class.

We are all aware of the fact that life expectancy has risen substantially, and is expected to continue rising. We also know that longer life expectancies also carry more uncertainty about how many of those extra years might be unhealthy years of life, with associated chronic or long-term care costs.

This creates serious pressures for today's workers to plan for a significantly longer and more uncertain retirement than the current generation of seniors and near seniors. While options that encourage individual savings have a very important role in our retirement income system, they may not be sufficient to address longevity risk or predictability of retirement income.

Moving Forward

Taking all these questions into consideration, Ontario would like to move forward on retirement income system reform in a prudent, balanced approach, with a clear sense of the critical issues that need to be addressed.

And we should not overlook that there is an underlying strength to the Canadian retirement income system, and it stems from its diversity.

Under Canada's three pillar model we have, in essence, put our eggs in many baskets to develop a system that serves varied retirement needs. Admittedly, some of these baskets have become worn, in some cases from

past neglect. However, I believe there is a sense of optimism that we can reinforce the existing baskets, while taking the opportunity to consider whether to add some new ones.

And, returning back to our three pillars analogy, we may also need to consider adjusting the size and scope of each pillar within the system.

However, we have been cautioned by experts in the field that getting the design right is key. This is vitally important not only for tomorrow's seniors, but also for today's workers, families, businesses and governments – all of whom will be affected by any changes to the system. We need informed public debate, broad consultation and sound evidence before we make changes to the system.

And here is another important point: the categories of options are not mutually exclusive. It is possible that the optimal policy option – and the one on which agreement is most achievable – includes a mix of measures from across the four categories I outlined earlier.

To this end, we would like to hear from Canadians and their thoughts on what an appropriate combination of solutions might be.

Like other jurisdictions in Canada, our government will be asking interested stakeholders what they believe the issues are and their proposals to address them. The first in our series of stakeholder roundtables will be taking place on May 6th in Ottawa. This will be an ongoing dialogue as we proceed with our federal, provincial and territorial partners with analyzing proposals and preparing to discuss them at the upcoming Finance Ministers meeting in June.

Ontario will continue to encourage research and analysis of retirement income issues to increase our understanding and to support informed debate. This is happening across Canada.

We will also continue to emphasize the need for a national summit on retirement income as an important next step in this reform process. This is an issue that touches every Canadian, and it is important to have an open and transparent process to bring to the fore philosophical, conceptual and practical differences.

There are many differences of opinion on how to improve the system. The challenge will be to find areas of common ground. Through public consultations, inter-governmental co-operation and forums like this one, I know that together, we can find broadly acceptable solutions that will ensure a better future for all Canadians.

Thank you.