

Benefits, pension plans face sustainability issues

Canadians are genuinely worried about their financial security as they face potential age-related health issues combined with the prospect of retirement at possibly the worst time in history.

Continued health benefits for retirees and healthy generous pensions are from another era. The retiree of today faces an uncertain future. This is what the second half of life looks like, folks. Generation X should pay attention.

As aging boomers approach retirement after a financial crisis that was one of the worst since the Great Depression, some of the paradigms to which they have become accustomed are now frayed at the edges.

Historically, employer-sponsored benefit plans were considered the corner-stone of a person's financial security. Much like having a good satisfying job, we felt lucky to have a benefit plan, and luckier still if we also had access to an employer-funded retirement savings plan.

The employee benefits industry has been quick to adapt to new conditions. What we've seen during the past four decades, has been a series of adaptations to counter a number of pervasive forces like aging workforce, increased longevity, uncertain financial markets, low interest rates, low economic growth, and high government deficits.

In a sense, the benefits industry has adapted to ensure sustainability against a tide of economic realities and medical advances that almost guarantee - to borrow from Mr. Spock - you will "live long" but there is no guarantee you will "prosper."

For benefit plans, the resulting cost shift from government programs to the private sector has been steady and often times hidden, but employers and their employees are feeling the pinch. Employee health and pension plans have evolved from 'fringe' add-ons to key elements of an employee's compensation and the company's human resource strategy. The benefit plan is also taking a growing proportion of employees' pay, as employees are asked to contribute more to retain existing benefit levels.

The evolution from fringe to required benefits in the workplace, fuelled product development and plan design options; critical illness insurance, long-term care insurance, health care spending accounts, health and wellness accounts, employee and family assistance programs, pay-direct drug plans and customized drug formularies.

Provincial and customized drug formularies along with higher co-pay and coinsurance are now considered mandatory plan design considerations in contemporary corporate benefit plans.

Group RRSP plans and defined contribution pension plans have essentially replaced defined benefit plans in the private sector, shifting investment risk and responsibility to plan members.

Much of this change is an effort to not only keep benefit plans relevant but also sustainable. In the end, it means we will all be paying more for our health care and retirement security.

Many of the new benefits are examples of product development to help fill the gaps left by retreating provincial health plans and the growing needs of aging boomers. But filling the gaps comes with increased cost. Prescription drugs were, for the most part, almost completely covered by provincial programs 30 years ago. But now, employer-sponsored benefit plans probably cover up to 90 per cent of your personal medications each year. The cost of providing relevant benefits for all of your medical needs may be approaching unsustainable levels.

Pension reform, which is on the front lines of the federal and provincial government's initiatives since the financial crisis of 2008, is also focused on realities of today's boomer experience. There is a perception that Canadians, especially those earning between \$30,000 and \$100,000, are not saving enough for retirement. In an environment that has caused many of the defined pension plans of the past to either wind up completely or close to new enrolments, this may be true.

Unfortunately, cash-strapped Canadians are simply not in a strong position to save more. Servicing rising personal debt is taking a larger piece of a shrinking pie so it is going to take some serious intervention to prepare people for a life without work; a life that could last another 20 or 25 years on average.

A number of proposals designed to fix a pension system that is arguably among the best in the industrialized world were discussed and reviewed during the public consultation process in 2010. These proposals included increasing CPP benefits and contributions, and the creation of a super fund much like the current CPP/QPP program. For a number of really good reasons, especially the risk of recession, CPP reform was taken off the table - for now.

The Pooled Registered Pension Plan (PRPP) that came out of that process will be launched within participating provinces in 2013 or 2014. Although the PRPP falls quite short of what many stakeholders had hoped for during the consultation process, it could address some of the perceived short-comings of the current system - especially for small business and the self-employed.

What we hoped for was legislative reforms, which would permit new types of pension plans, and a more simplified regulatory environment for registered pension plans. What we have is a voluntary plan much like the under-utilized RRSP.

Without mandatory enrolment, employer participation and automatic escalation of contributions, we just don't believe this will help the target population.

What has been proven to work in other markets is capital accumulation plans (CAP) with automatic enrolment and automatic escalation of contributions.

In this regard, if designed right, the PRPP could address some of the criticism. However, without a harmonized approach across the country there will be administrative challenges for national and trans-provincial employers.

PRPPs do have the potential to correct some of the weakness in the Canadian retirement system but they aren't going to maximize retirement savings rates for those who will need it. At the end of the day, maximizing retirement savings will ultimately come down to each of us using the current system more effectively.