

Part Five: How savings add up (or not) for retirement

There are two tiers of pension income for Canada's retired workers: one for those with defined benefit plans — these days, mostly public sector employees — and another for those without, who must rely on defined contribution plans and/or RRSPs.

A recent study by the C.D. Howe Institute demonstrates that current rules governing pension savings simply don't allow workers without defined benefit plans — even if they make a good living and are prudent savers — to set aside enough money to come close to matching the pension income provided by typical public sector plans.

In their study, authors James Pierlot, a lawyer, and Faisal Siddiqi, an actuary, cite seven examples of 60-year-olds whose career paths are similar to many representative Canadians:

- Alice, an elementary school teacher for 35 years, retires with a pension worth 59.8 per cent of her final salary. The eight years of leave she took to care for children count as pension service. Her annual salary is \$85,000 and her pension is worth \$1.09 million. Having used half of her RRSP contribution room, she has RRSP savings of \$83,000. Her annual pension income will be \$50,900.
- George, an assistant deputy minister with 35 years in government, will retire with 61.3 per cent of his final salary. His annual salary is \$150,000, his pension is worth \$2.08 million, and he has RRSP savings of \$40,000. George's annual pension income will be \$91,900.
- Candace, who worked for 35 years as an administrator in a provincial government department, will retire with 58.1 per cent of her final salary. Her annual salary is \$50,000 and her pension is worth \$556,000. Having used half of her RRSP contribution room, she has \$112,000 in RRSP savings. Her annual pension income will be \$29,000.
- Paulo, an auto mechanic who immigrated to Canada at age 34, retires with a pension worth 21.9 per cent of his final salary. He earns \$50,000 and has been making the maximum allowable RRSP contributions since he began working, except for periods of unemployment totalling three years. Paulo has \$252,000 in RRSP savings, enough for a pension of \$10,900 a year.
- Sebastien, who immigrated to Canada in 1991, retires with a pension worth 15.3 per cent of his final income. He drove a taxi while working to complete licensing exams and obtain recognition of his qualifications as an engineer. In 1996, he found work in his field and began making maximum contributions to his RRSP. He earns \$75,000 a year and has RRSP savings of \$264,000, enough for a pension of \$11,500 a year.

- Sophia, who started working as a radiologist at age 35 following 12 years of post-secondary education, retires with a pension worth 11.0 per cent of her final salary. She and her employer made maximum contributions to a defined-contribution pension plan throughout her career. Her annual salary is now \$250,000 and her retirement savings are worth \$631,000, enough for a pension of \$27,400 a year.

- Anjani, who launched a software firm in 1995, will retire with a pension worth 4.7 per cent of her final salary. By the time her business became profitable in 2001, she had used all her personal and RRSP savings to pay living expenses. With 25 employees and expanding sales, Anjani now draws an annual salary of \$200,000. Having made maximum contributions to her RRSP since 2001, she has \$218,000 in RRSP savings, enough for a pension of \$9,500 a year.

Pierlot and Siddiqi believe the federal government should set lifetime RRSP limits rather than annual contribution limits. The amount should be sufficient to let people set aside enough money for a retirement pension comparable to what defined benefit plans provide to workers with comparable earnings over their careers.