Part Three: Pooled plan proposal gets mixed reviews

Critics call for CPP expansion instead

Ottawa is addressing the significant gap in access to private-sector workplace pensions for Canadians, but the federal plan is not being universally welcomed.

Prime Minister Stephen Harper's Conservative government introduced legislation in November to create a new pension product.

Called the Pooled Registered Pension Plan (PRPP), the new plans will be made available through regulated financial institutions — including banks, trusts and insurance companies.

Workers will be able to contribute to the plans through payroll deductions, although companies are not expected to be required to contribute.

The new savings plan is also expected to be flexible: Workers would have the ability to opt out.

Ottawa believes workers who don't have access to a workplace pension plan will be attracted to the ease of savings and the lower administration costs that are part of a large pooled plan.

Critics, which include the country's largest labour groups, say a better option is expanding the state-run Canada Pension Plan.

In announcing the legislation in November, Minister of State for Finance Ted Menzies noted that 60 per cent of Canadian workers don't have a workplace pension, and participation in Registered Retirement Savings Plans is declining.

The new plans offered by banks and insurance companies would be particularly beneficial to smaller companies that do not have the expertise or resources to oversee a pension plan, according to the federal government.

B.C.-based pension consultant Greg Hurst said the new pension product could be successful if the federal government ensures money is pooled and forces savings with automatic enrolment.

One of the difficulties of expanding the Canada Pension Plan is that two-thirds of the provinces comprising two-thirds of the population must approve changes, said Hurst, who heads up Greg Hurst & Associates in Vancouver.

With Alberta and Quebec offside, that was going to be difficult, said Hurst, who has three decades in the industry with both large international and small regional consulting firms.

Simon Fraser University economist Rhys Kesselman said the problem with the federal government's registered pooled plan is that it is still voluntary because workers can opt out. And that means the new pension product does not truly force savings, as is done under the Canada Pension Plan.

"I suspect it's not going to make a dent in the big numbers [of people with adequate pension incomes]," said Kesselman.

The federal government's new pension idea has angered labour groups.

Communication, Energy and Paperworkers Union president Dave Coles said the new pooled plans will simply line the pockets of financial institutions with the fees they will collect.

And because the new product is a defined-contribution plan, there is no guaranteed income in retirement, such as that provided by an expanded CPP, said Coles.

As a defined-contribution plan, the return from workers' contributions will depend on financial markets and the management of the plan.

Labour is also critical that employers will not be mandated to contribute, and that low administration fees will not be guaranteed.

"It's just a dumb scheme," Coles said.

Pension managers, insurance companies and the investment industry, however, support the new pension product.

Frank Swedlove, president of Canadian Life and Health Insurance Association Inc., said the pooled plans will guarantee low fees that are only seen in the largest workplace pension plans in the country.

Swedlove said administration costs would be well under one per cent, putting them at one-third or half that of mutual fund fees.

But to increase participation and reduce costs, Ottawa will need to require employers to offer the new plan and include automatic enrolment with an option to opt out, he said.

"I guess what's still open is exactly what kind of regime will it be, and will it make a real fundamental difference in the landscape. We certainly hope it will," said Swedlove.

The federal government has said provinces will need to introduce legislation for the plans to become fully operational.

It's not clear when that will happen.

The federal government says it won’t proceed with legislation until after Feb. 14, 2012, the deadline to comment on the new legislation.

The PRPP concept has the backing of British Columbia.

“British Columbia is of the view that pooled registered pension plans could be part of a package of reforms to make saving for retirement easier, more affordable and more secure for Canadians,” B.C. Finance Minister Kevin Falcon told The Vancouver Sun in an email.