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Pension *Pulse*

Three Pillars: Ten Questions

Federal Government Continues Consultations on Pension Reform

The federal government announced yesterday that it is starting another round of consultations on pension reform. The consultation is brief, lasting only until April 30, 2010. Townhall meetings will be held in various locations across Canada.

Yesterday's announcement was accompanied by a helpful summary of Canada's retirement income system and the government's recent activities, entitled "Ensuring the Ongoing Strength of Canada's Retirement Income System." Members of the public are invited to participate in on-line consultations, using the following link: www.fin.gc.ca/actvty/consult/retirement-eng.asp. Written submissions are also being accepted at the following e-mail address: ris-consultations-srr@fin.gc.ca.

Canada's system is described in the government's paper as a "three-pillar" system, mind you the pillars have shifted over time. In the past, the pillars were described as, Pillar 1: government programs (Old Age Security, Guaranteed Income Supplement, Canada/Quebec Pension Plan); Pillar 2: employer-sponsored pension and retirement savings programs; and Pillar 3: personal tax-assisted retirement savings (RRSPs).

Perhaps on account of the claw-back of OAS benefits and structural cracks appearing in Pillar 2 on account of much lower participation rates employer-sponsored pension plans in the private sector, the pillars have more recently been moved or rebalanced. They are now defined as, Pillar 1 (OAS and GIS), Pillar 2: C/QPP; and Pillar 3: employer-sponsored retirement plans and RRSP savings.

The paper also refers to "other retirement savings," including tax-free savings accounts and other assets such as principal residences and small businesses. The paper, peculiarly, notes the tax assistance for principal residences by way of the capital gains exemption and the "non-taxation of imputed rent." These other assets have been referred to by some others as a fourth pillar of retirement savings. The shifting of the pillars and potentially creating new ones to include a broader spectrum of assets as "retirement savings," is interesting.



Pillar 1 is intended to provide a broad-based basic level of income support. However, the maximum OAS benefit is only about \$6,200 per year, and it begins to be clawed back by the government for retirees with incomes over about \$66,700. The maximum C/QPP benefit is only about \$11,000. However, a large proportion of the population will not be entitled to the maximum benefit because of periods of low earnings, splitting of benefits on account of marital break-up, periods of study, etc.

Pillar 3 is where a lot of focus has been placed, with the growing disparity between pensions in the public and private sectors and the shift away from defined benefit plans toward defined contribution plans. We have also witnessed recent high profile insolvencies in which the pensions of career employees have been decimated, onerous and complex solvency funding rules and other regulatory requirements, the changing of accounting rules for pensions, etc. Add to this the fairly low contribution rates to RRSPs among the Canadian public.

In view of the complexity of these issues, the government has decided not to act too quickly. It wants to consult further before mapping out the specific direction it will take. The government is posing the following ten questions in this consultation:

- What are the main issues/challenges that Canadians face in saving for retirement?
- What is the appropriate role of governments in supporting Canadians to achieve adequate retirement income?
- Does the retirement income system currently have the appropriate mix of public and private support?
- Are changes needed to further strengthen Canada's retirement income system?
- Should there be more mandatory retirement savings?
- Should individuals be auto-enrolled in any new voluntary savings program?
- Should increased savings, whether mandatory or voluntary, be locked-in for retirement purposes only?
- Should there be more flexibility and choice with respect to private savings options?
- How would the approaches described in this paper impact you personally and/or your business?
- How should any changes to the retirement income system be financed?

These are certainly very important and far-reaching questions. This is a somewhat unique opportunity for employers and employees to respond. We encourage participation in this process by as many of our clients as possible. Heenan Blaikie has been an active participant in pension reform discussions both federally and provincially for the past several years. Please contact any member of our National Pensions and Benefits Group if you would like to discuss or want some assistance with a submission. ■



Mark Newton is a partner in Heenan Blaikie's Toronto office and chairs its national Pensions & Benefits practice. He has over 25 years of experience in pensions and benefits.

As a member of our firm's Labour and Employment group, Mark handles all aspects of pensions and benefits law, including governance, regulatory compliance, collective bargaining, litigation, due diligence, mergers and acquisitions, financing agreements, bankruptcy and insolvency, and the tax aspects of compensation, pensions and benefits.

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