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The Association of Canadian Pension Management

L'Association canadienne des administrateurs de régimes de retraite

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Contact:

Vanessa Wilson Public Affairs and Communications Officer
(416) 964-1260, x223

WORKPLACE PENSION PLANS FACE BLEAK FUTURE WITHOUT MAJOR REFORMS

(Toronto, Canada, August 24, 2005) – Fewer Canadians will be covered by defined benefit (DB) pension plans in the future and many plans will be under-funded unless governments make significant changes to the rules governing workplace pension plans. These are the conclusions of a major report released today by the Association of Canadian Pension Management (ACPM).

The report, titled "*Back From the Brink: Securing the Future of Defined Benefit Pension Plans*", concludes that Canada's current rules and legislation do not encourage employers to continue offering DB plans as a retirement savings option for their employees. The report analyzes the many obstacles facing company-sponsored DB plans, which typically guarantee members a retirement income based on a pre-set formula and a member's years of service with a company.

According to the report, the future of DB plans in Canada is in jeopardy. "Existing rules do not encourage the adequate funding of DB plans—which results in under-funded plans offering less benefit security." says Paul Litner, Chair of the ACPM's Funding Issues Task Force.

He also notes that the number of Canadians covered by workplace pension plans is declining steadily. "From 1992 to 2003, the percentage of Canadian workers covered by DB plans dropped from 44% to 34% of the labour force. The decline in coverage has been most significant in the private sector," he added.



The ACPM report urges governments to review current funding rules for DB pension plans and to remove the barriers to rational plan funding. A key barrier is that plan sponsors are often responsible for funding shortfalls but are prevented from accessing excess funds. The ACPM believes that this can lead to minimum funding strategies which put benefit security at risk.

The report makes a number of recommendations, including strengthening disclosure requirements around plan funding and ensuring that plans have a written funding policy. The report specifically recommends amending the *Income Tax Act* to enable plan sponsors to better manage the funding of their DB plans.

Implementing the recommendations will create a better, more secure environment for DB plans, says Litner. As a result, plan funding will be improved and employers will be more confident about offering DB plans to their employees.

Continued sponsorship of workplace pension plans is critical, says Litner, pointing out that these plans are a positive economic force and are part of the Canadian social fabric. “They mitigate risk by helping employees save for a financially secure retirement.”

The ACPM believes that it is not too late for Canadians to reverse the trend to lower DB plan coverage. Reversing this downward trend will require significant changes to current laws and regulations. Without active stakeholder participation and government leadership, the DB environment in Canada will continue to deteriorate and fewer and fewer working Canadians will have the option of financing their retirements with the help and support of a DB plan.

About the ACPM

The Association of Canadian Pension Management (ACPM) represents private and public pension plan sponsors, administrators and related stakeholders. The ACPM currently has 700 members across Canada, representing 400 pension plans covering approximately 3 million plan members.



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ACPM's mission is to promote the growth and health of Canada's retirement income system by championing the following principles:

- Clarity in pension legislation, regulation and arrangements
- Good governance and administration
- Balanced consideration of stakeholder interests

For more information, please contact:

Vanessa Wilson, Public Affairs and Communications Officer, 416-964-1260 x223