



The Next 150  
**FORTIFYING**  
RETIREMENT FOR THE FUTURE

2018 ACPM  
**NATIONAL**  
CONFERENCE



**Québec City, QC**  
**Fairmont Le Château Frontenac**  
**SEPTEMBER 11-13, 2018**

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# Opening Plenary

## Pensions and Public Policy: Canada's Retirement System from a Global Perspective

*Speakers:*

**Robert Palacios**, *World Bank*

**Benoit Hudon**, *Mercer*

*Moderator:*

**Susan Nickerson**, *Torys LLP*

# Canadian pensions in global perspective

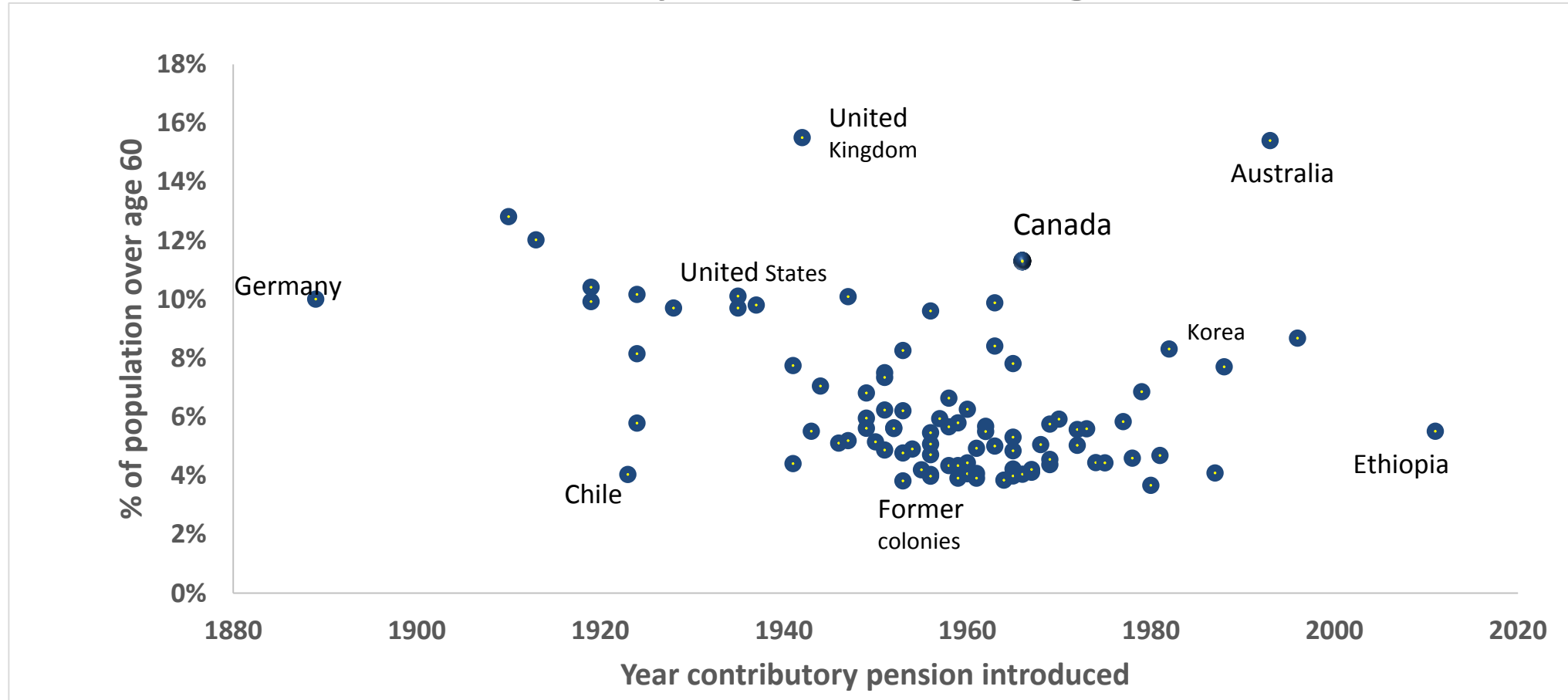
Robert Palacios, Global Lead Pensions and Social insurance, World Bank

2018 ACPM National Conference

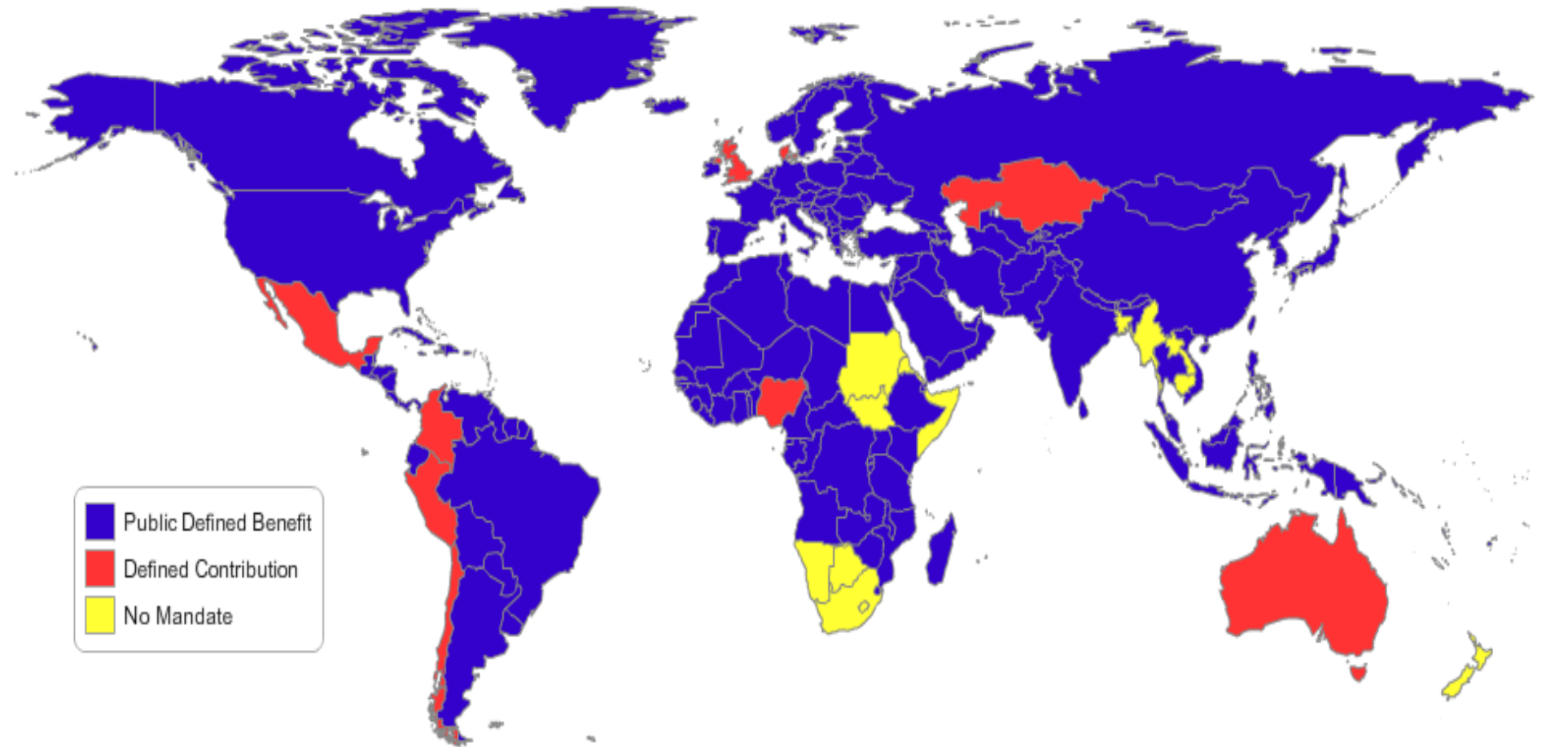
Quebec City, September 12, 2018



# Canada mandated public pension contributions relatively late in the game



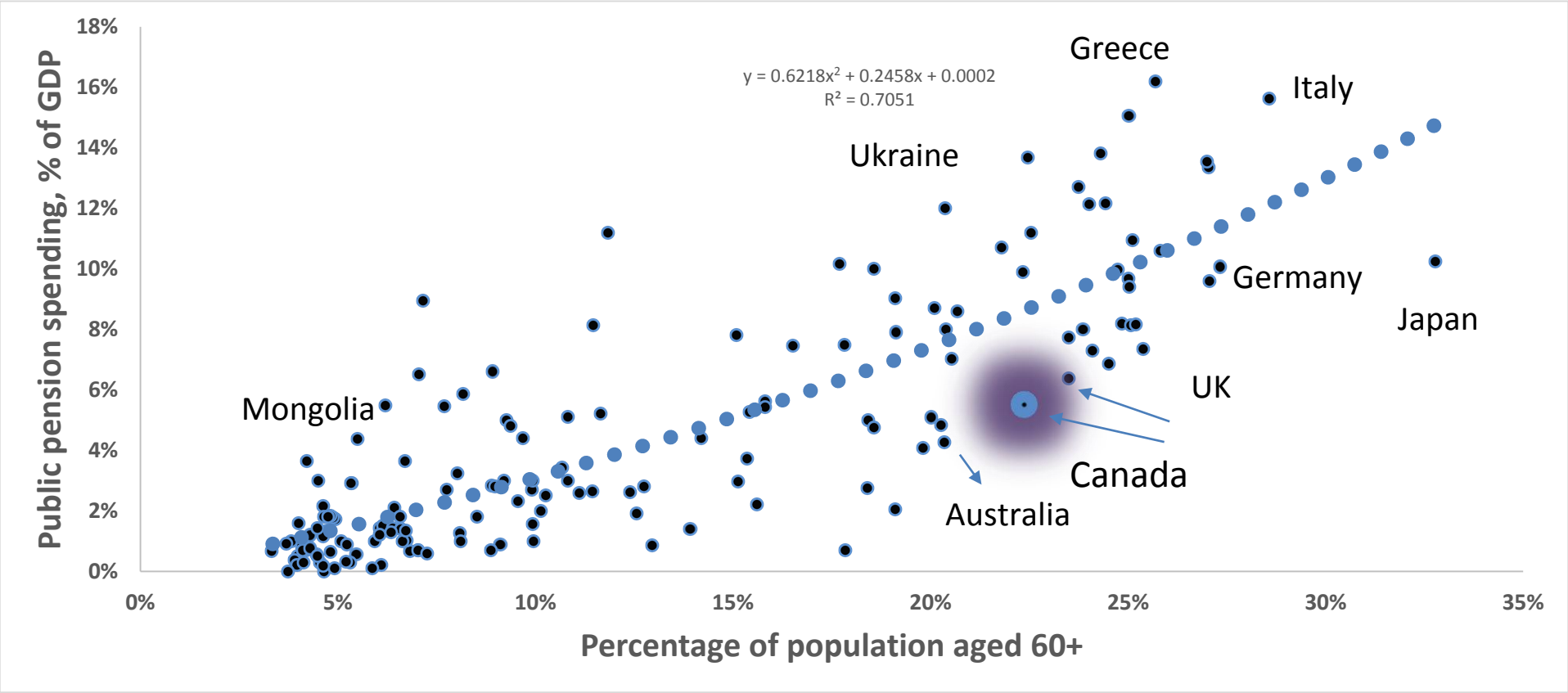
# LIKE MOST COUNTRIES, CANADA'S PUBLIC SCHEME IS DB



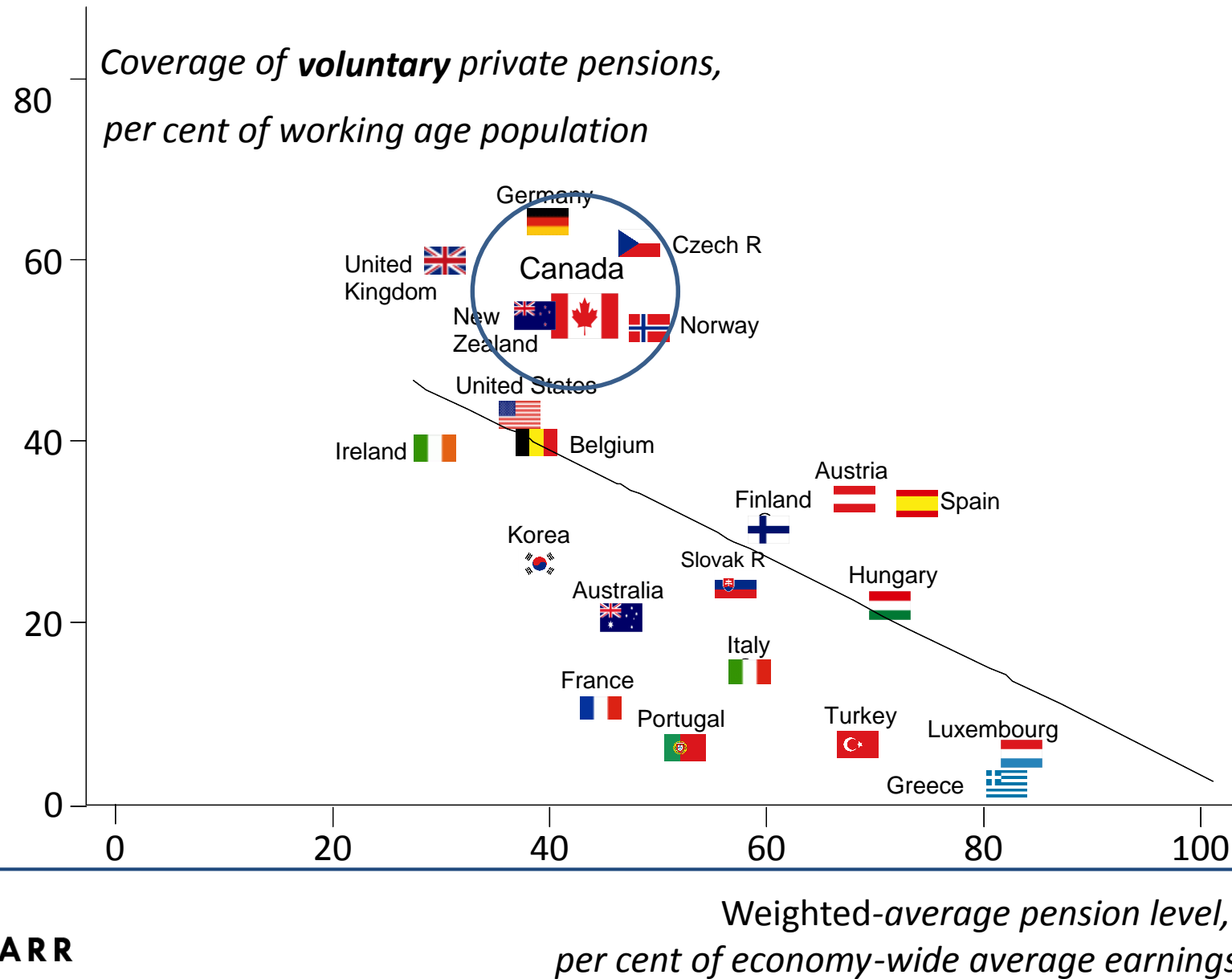
# Canada's public DB aims for modest pensions



# Which is reflected in relatively low public pension spending

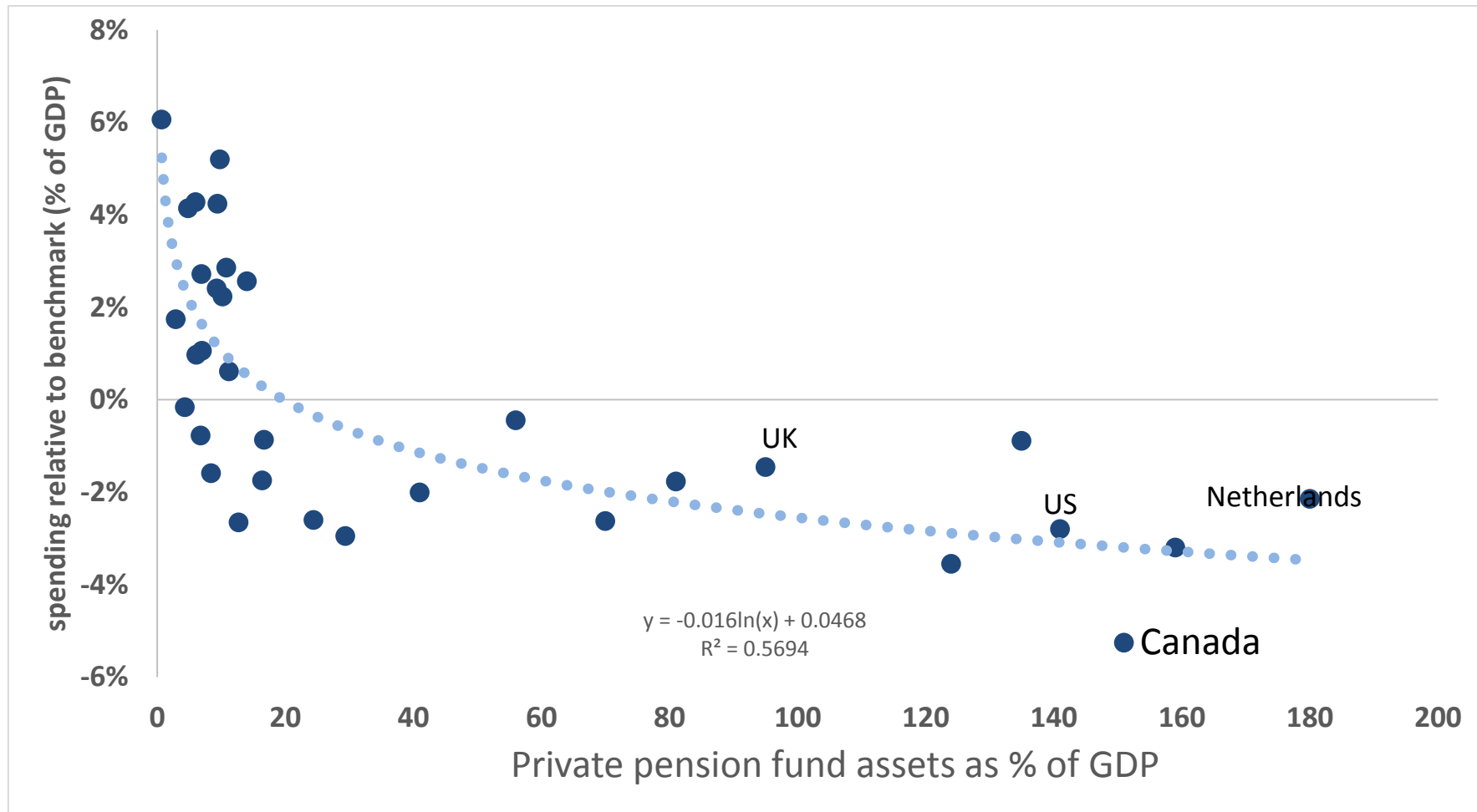


# Leaving room for voluntary private pensions

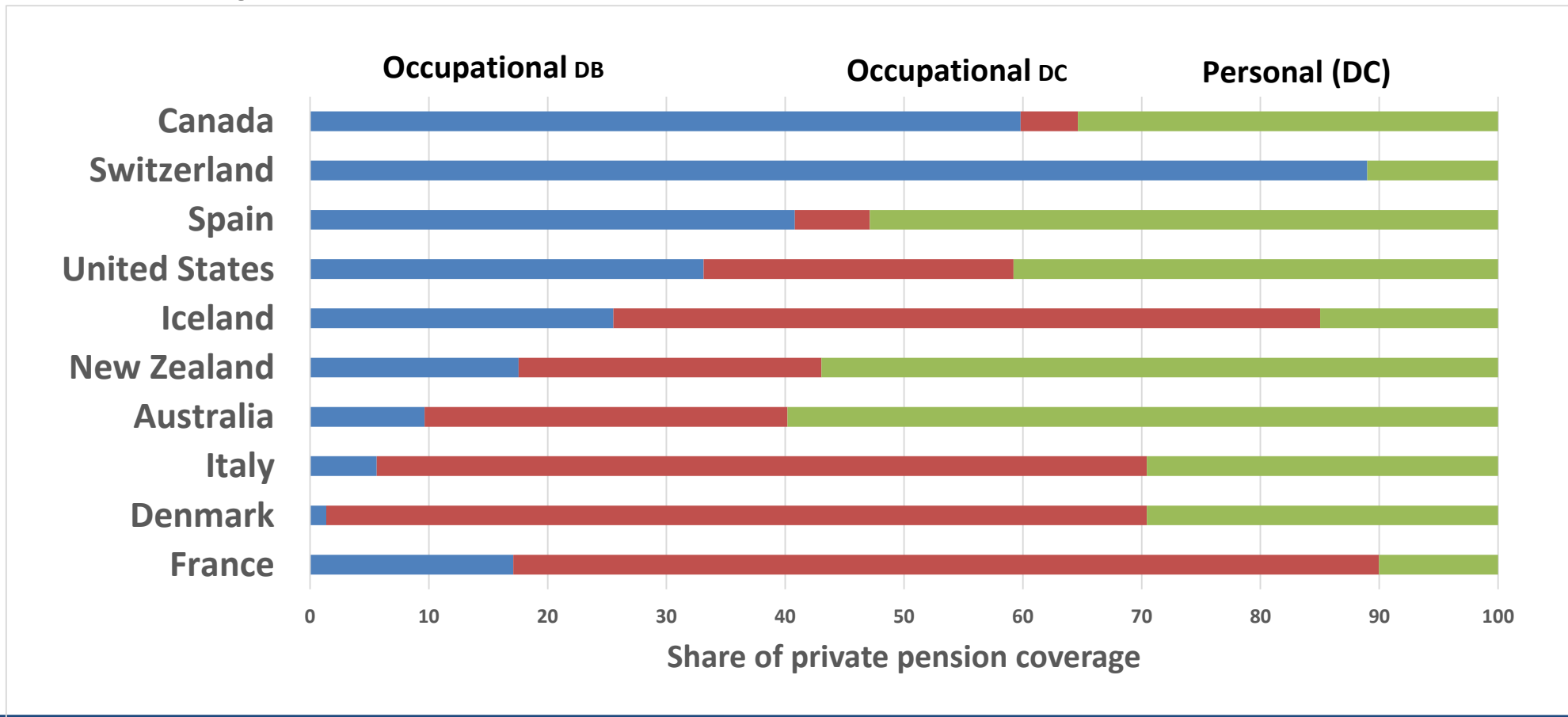




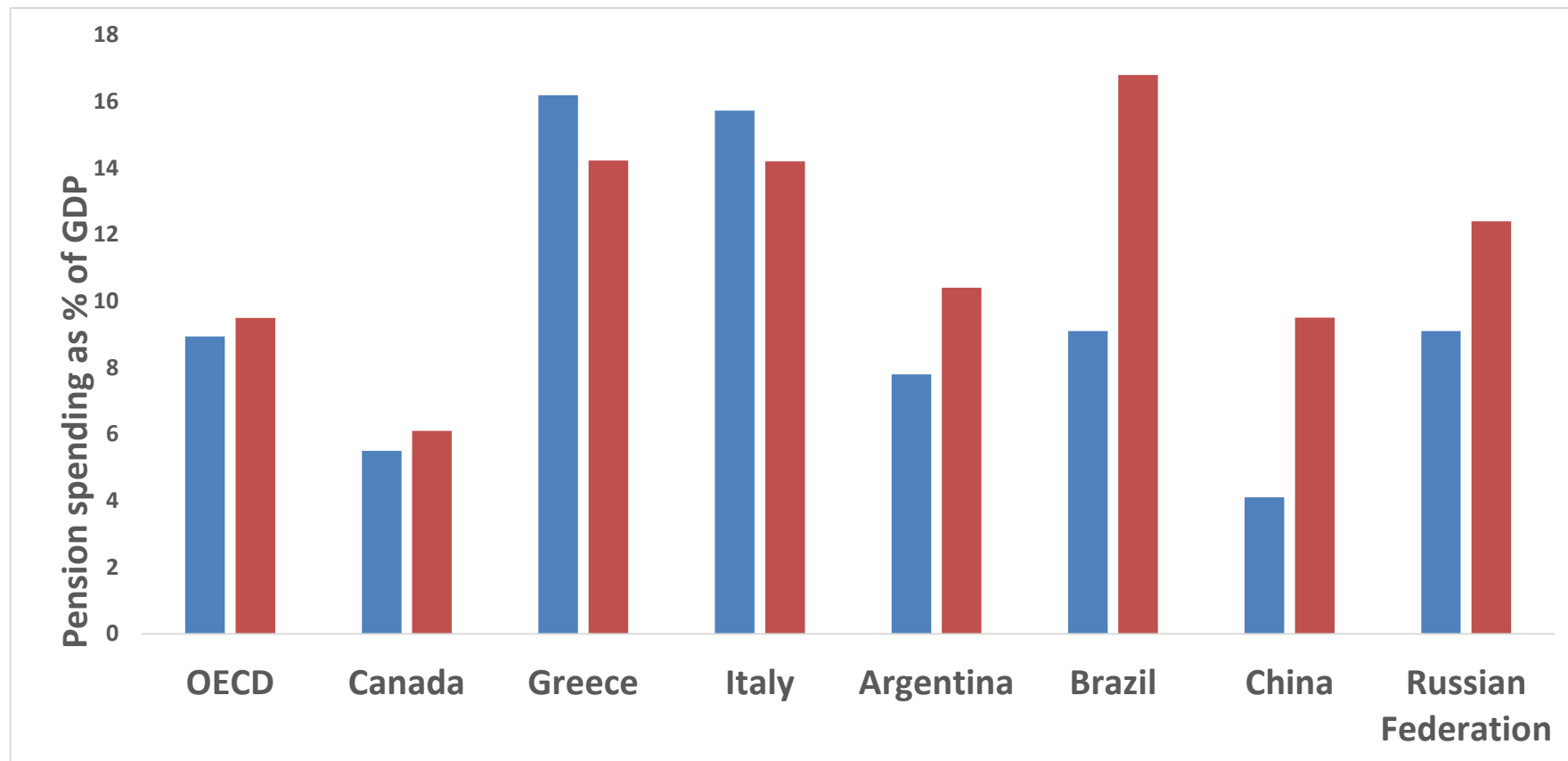
# ... and relatively large private pension assets



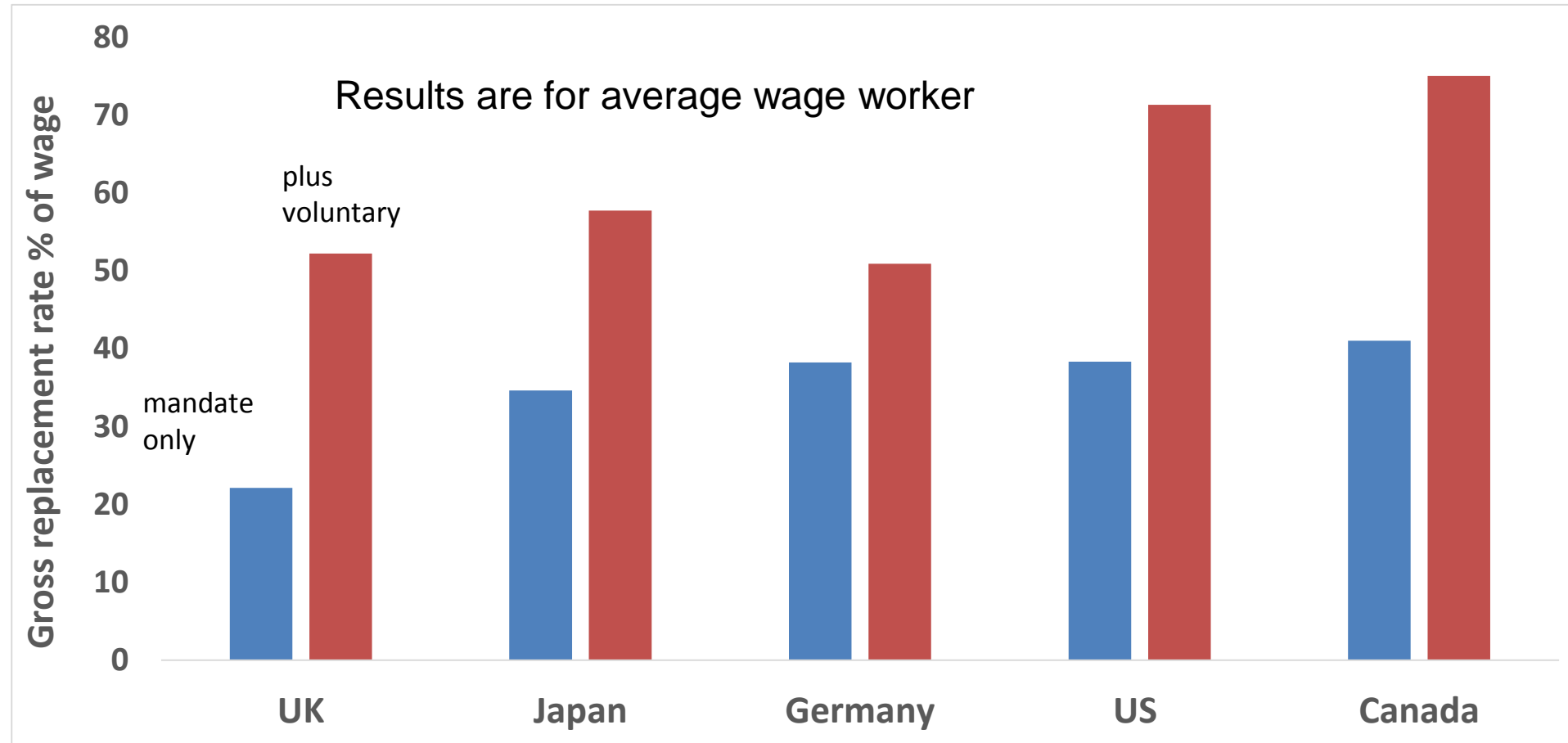
# And the role of occupational DB plans is more prevalent than in most countries



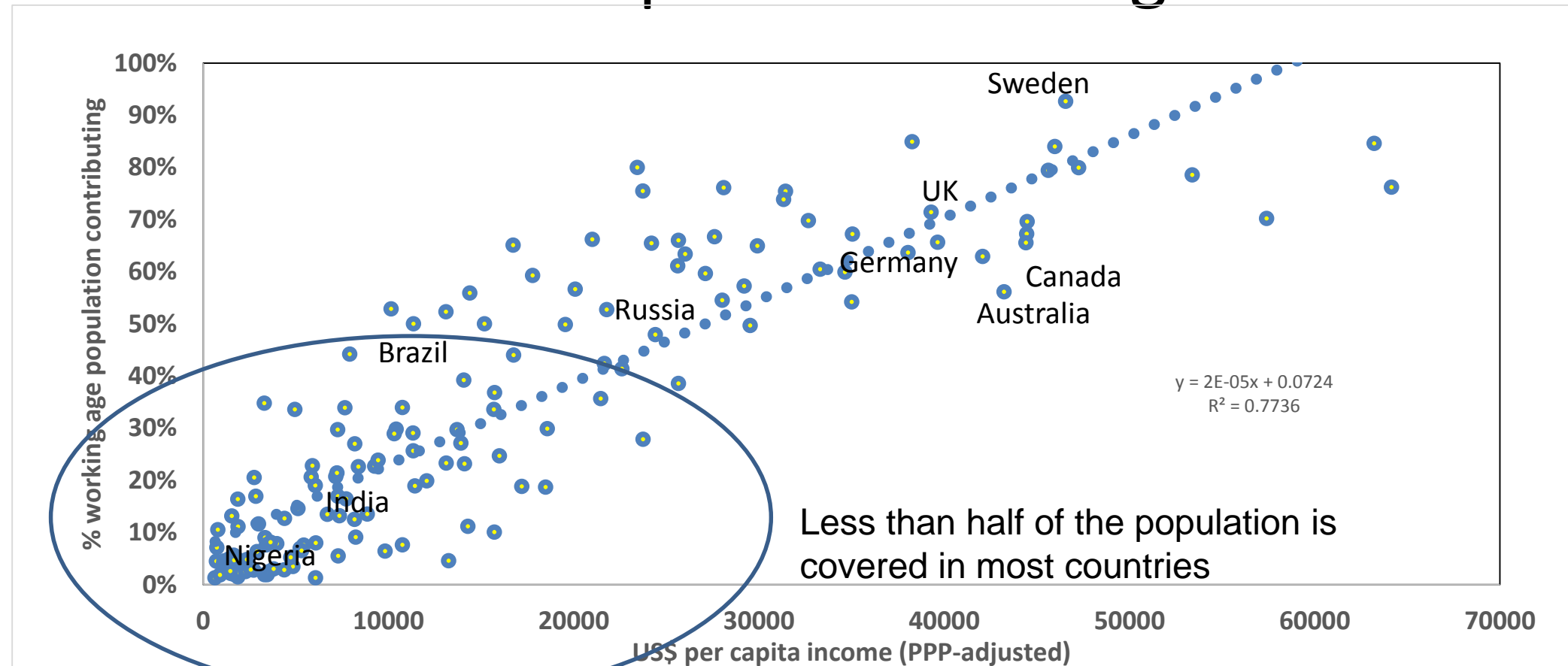
# Looking forward, Canada is among the more financially sustainable public pension systems



But sustainable systems provide modest pensions; those w/o voluntary private pensions will have low retirement incomes

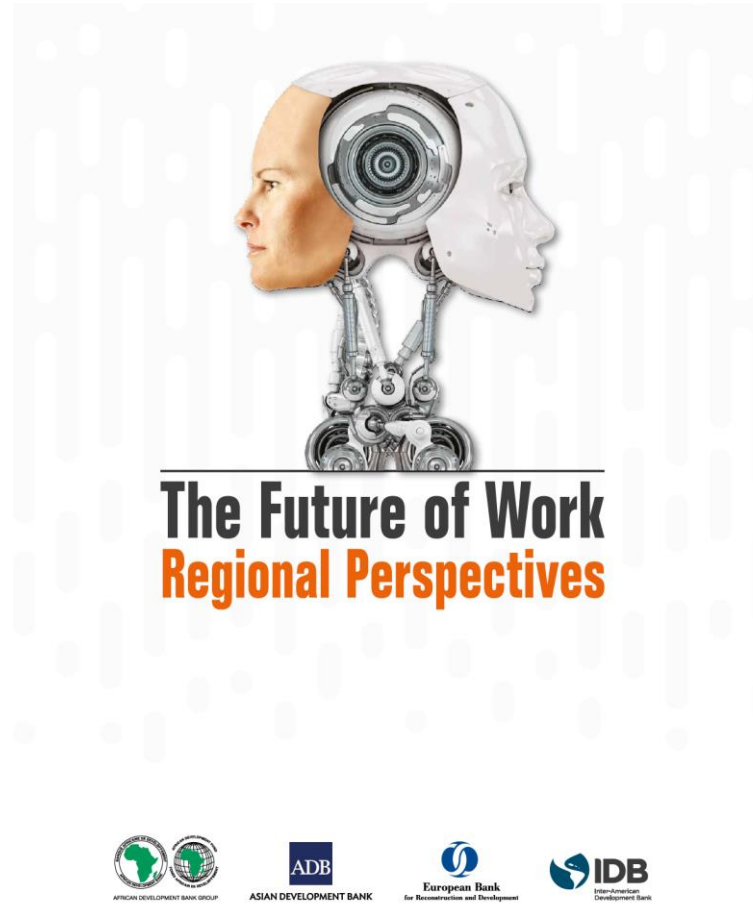
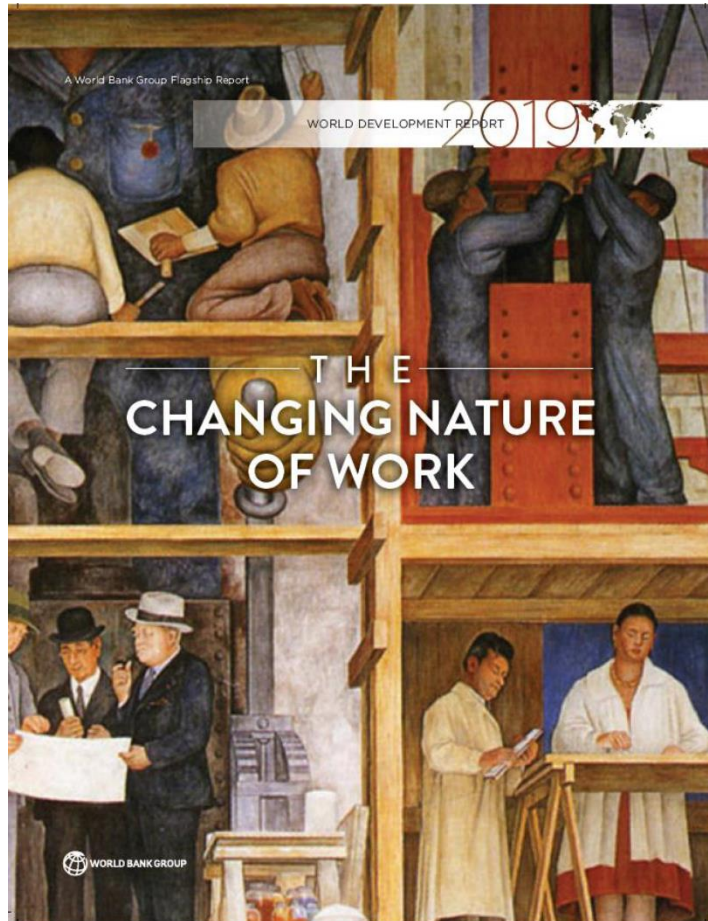


# And while most workers in developing countries will never have pension coverage...

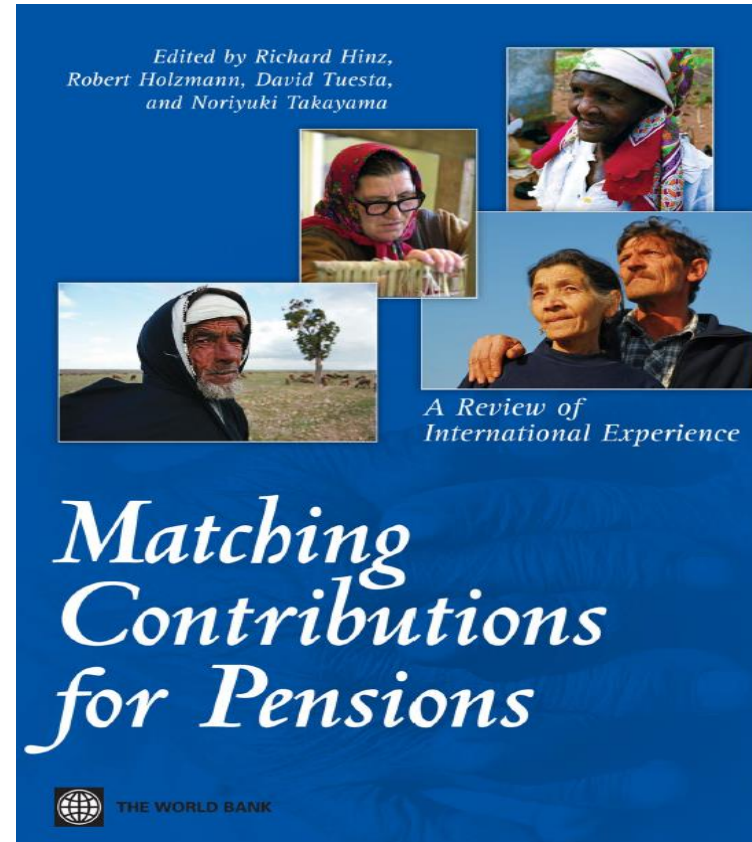
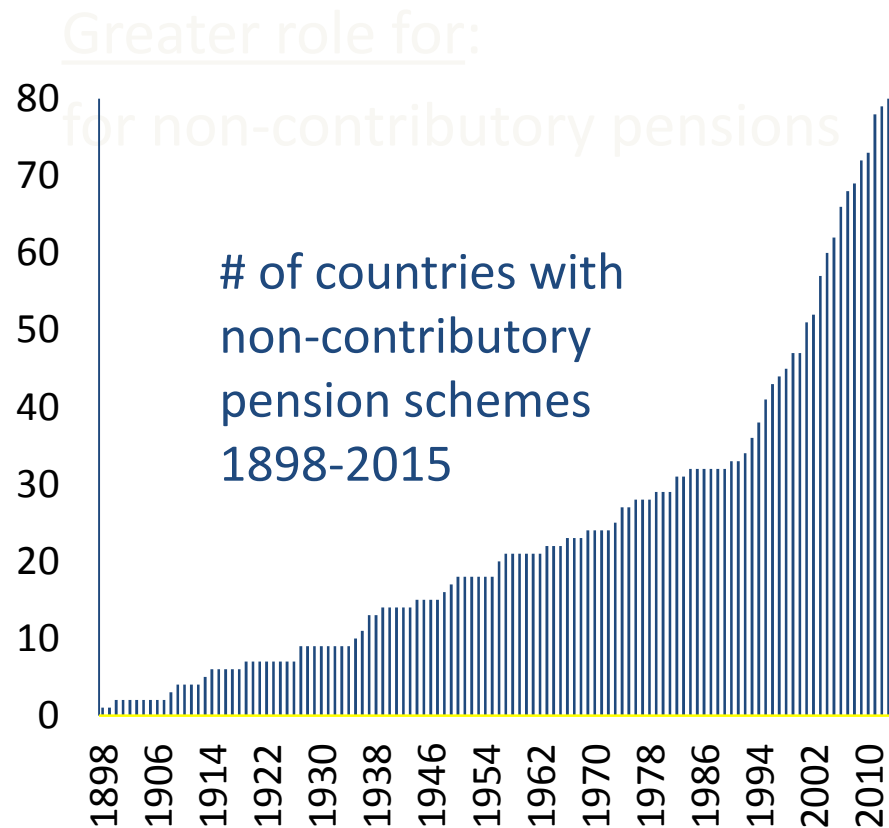




...there is increasing concern that coverage may start to decline in rich countries



# But what is the alternative to the traditional mandated payroll deduction?



Combine low cost digital transactions with behavioral economics – automatic deduction from consumption instead of wages?

# Where does Canada fit in the big picture?

- **Spends less** than the average OECD country and much less than the international benchmark given its stage of demographic aging
- As a result, there is **space for voluntary pensions** which has led to a healthy diversification and accumulation of significant assets
- The non-contributory universal pension and the modest CCP/QPP contributory pensions provide **protection against poverty...**
- But adequacy in terms of **consumption smoothing is limited to those with voluntary private pensions** and many workers don't have private pensions
- Changes to the nature of work may lead to a bigger role for the OAS/GIS and may require **new ways to facilitate voluntary retirement savings**

THANK YOU

# Back to the Future

## What can Canada learn from other countries?

Benoit Hudon, FSA, FCIA

Partner

Mercer UK

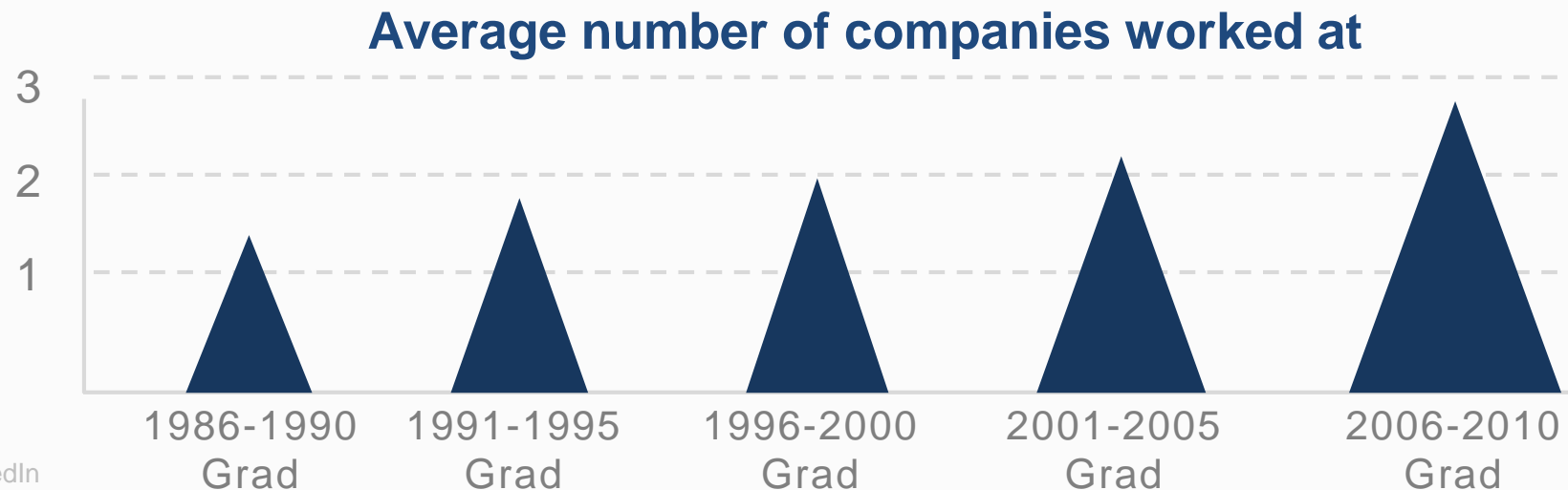


# A new reality: are retirement systems fit for purpose?



“My father had one job in his life, I’ve had six in mine, My kids will have six at the same time.”

– Robin Chase, founder Zipcar



Source: LinkedIn

# Retirement systems are challenged globally

Increasing **life expectancy** / lower **birth rates**

Higher degree of **individual responsibility**

Lack of easy **access to pensions**

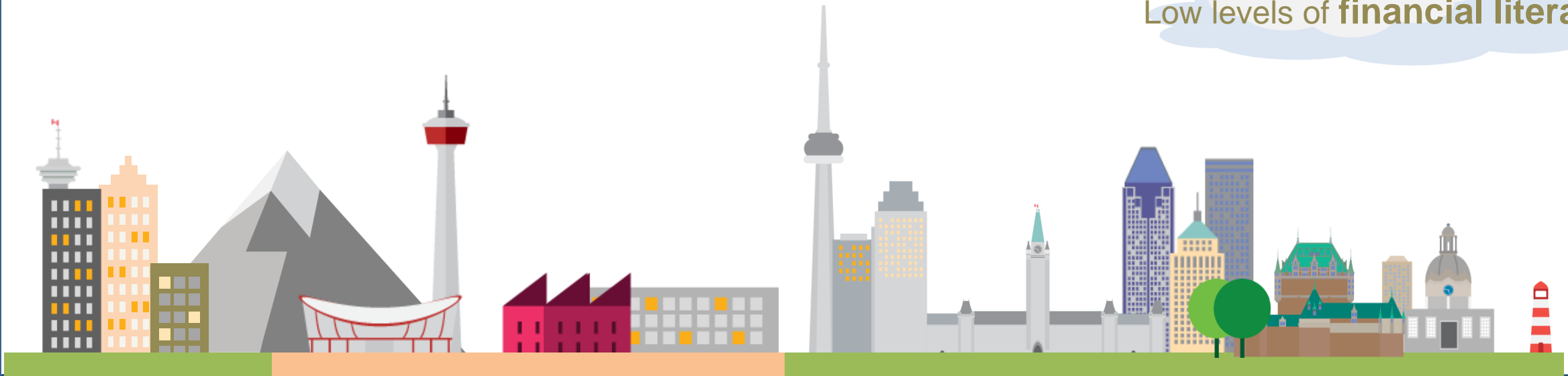
Individuals are more **mobile**

Increase in **government debt**

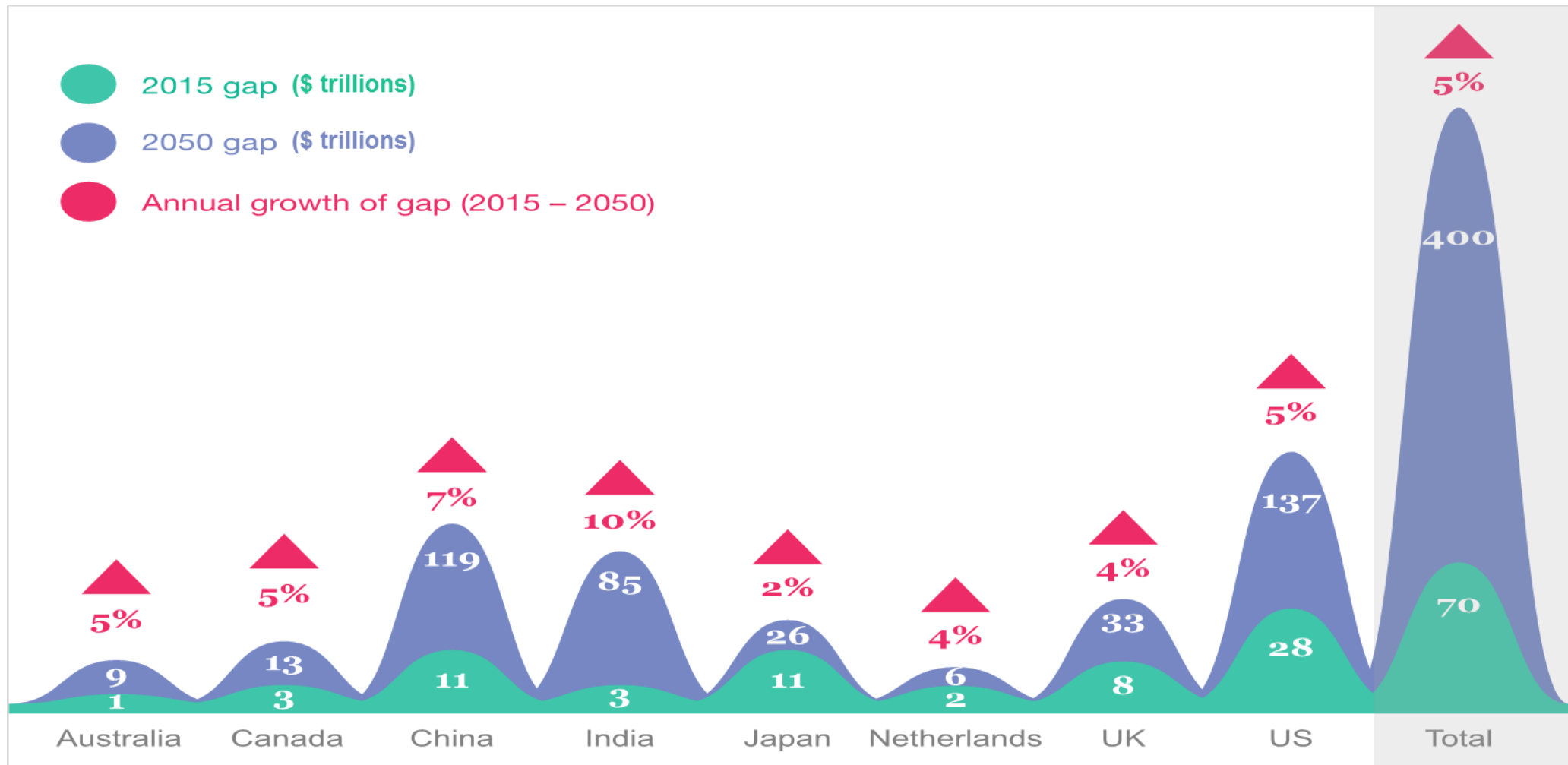
Long term **low growth** environment

Inadequate **savings rates**

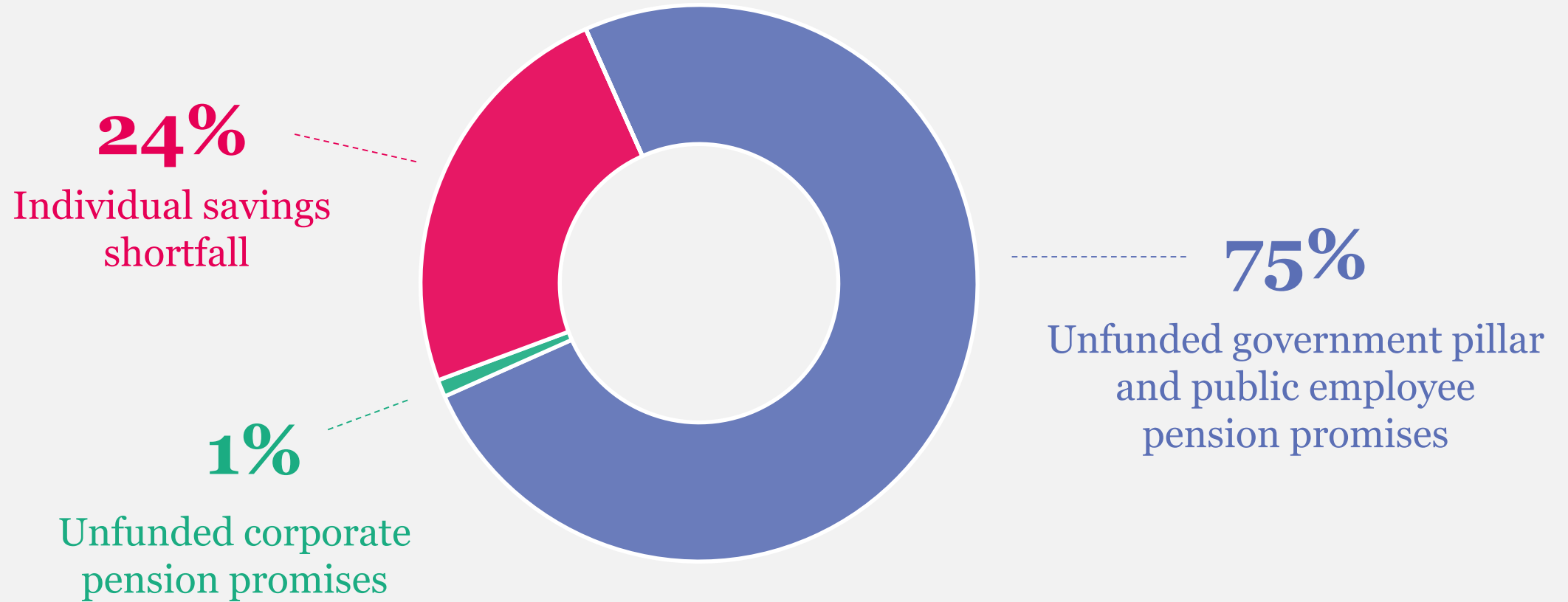
Low levels of **financial literacy**



# The global retirement savings gap will grow

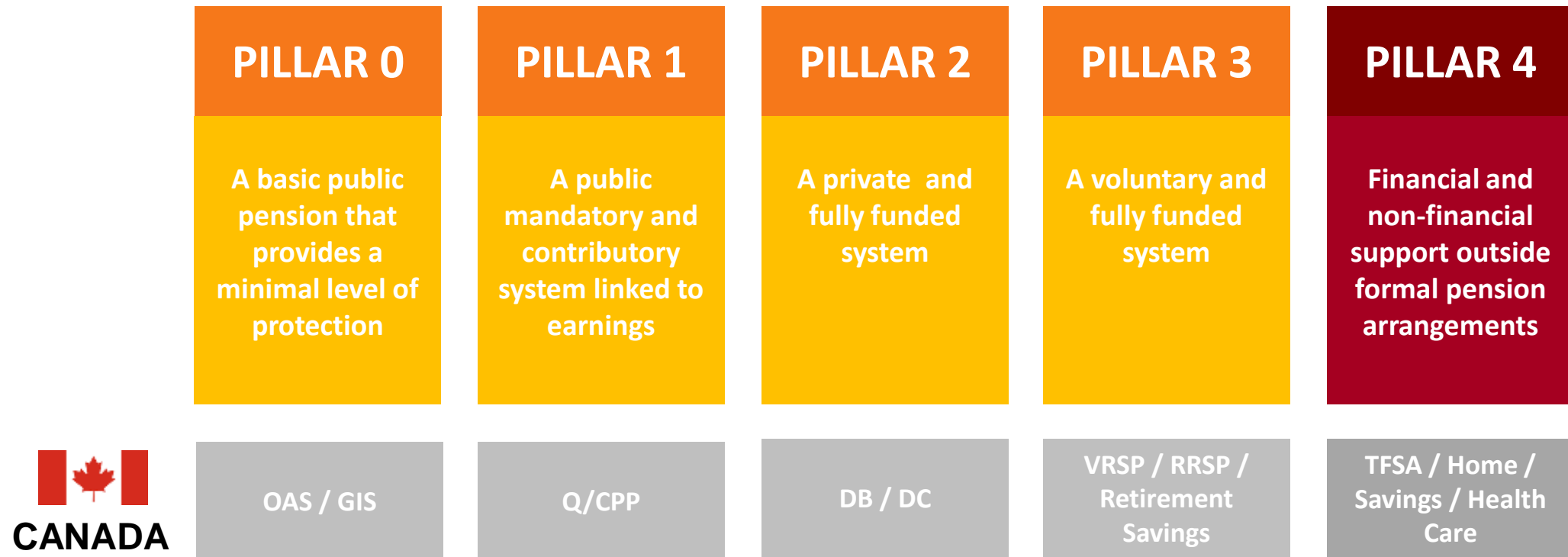


# Majority of the retirement savings gap associated with government programs and public employee plans



# The Canadian pension system

## WORLD BANK | MULTI-PILLAR APPROACH





# Canada offers one of the best retirement systems

- Diversified retirement sources
- Access to private savings
- Health care for seniors
- Protection of spouse
- Basic protection for low-income citizens
- Regulation of private sector plans
- Governance of public plans
- Government debt

# How does Canada compare?

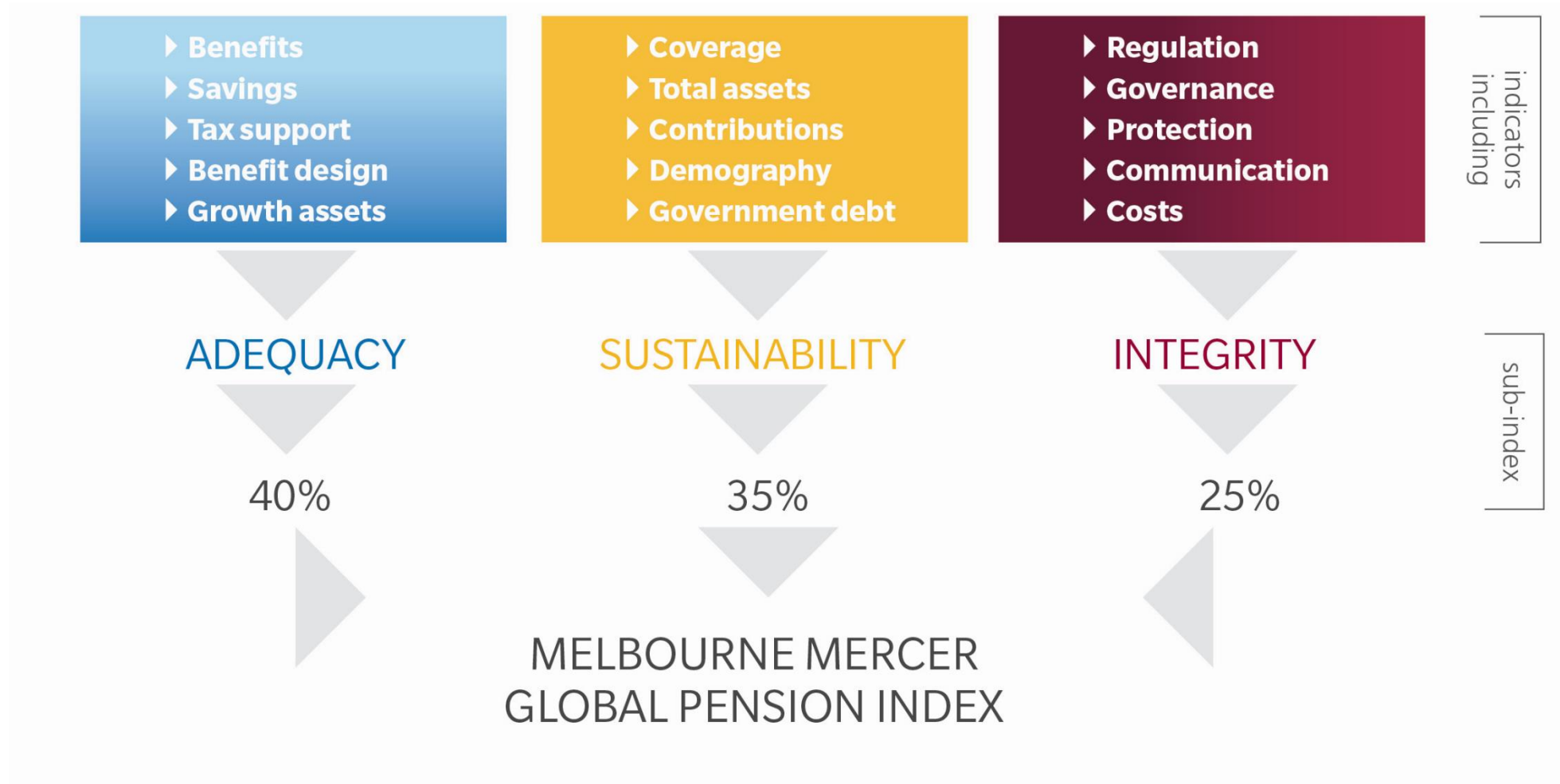


What do you get?

Can it keep delivering?

Can it be trusted?

# Methodology



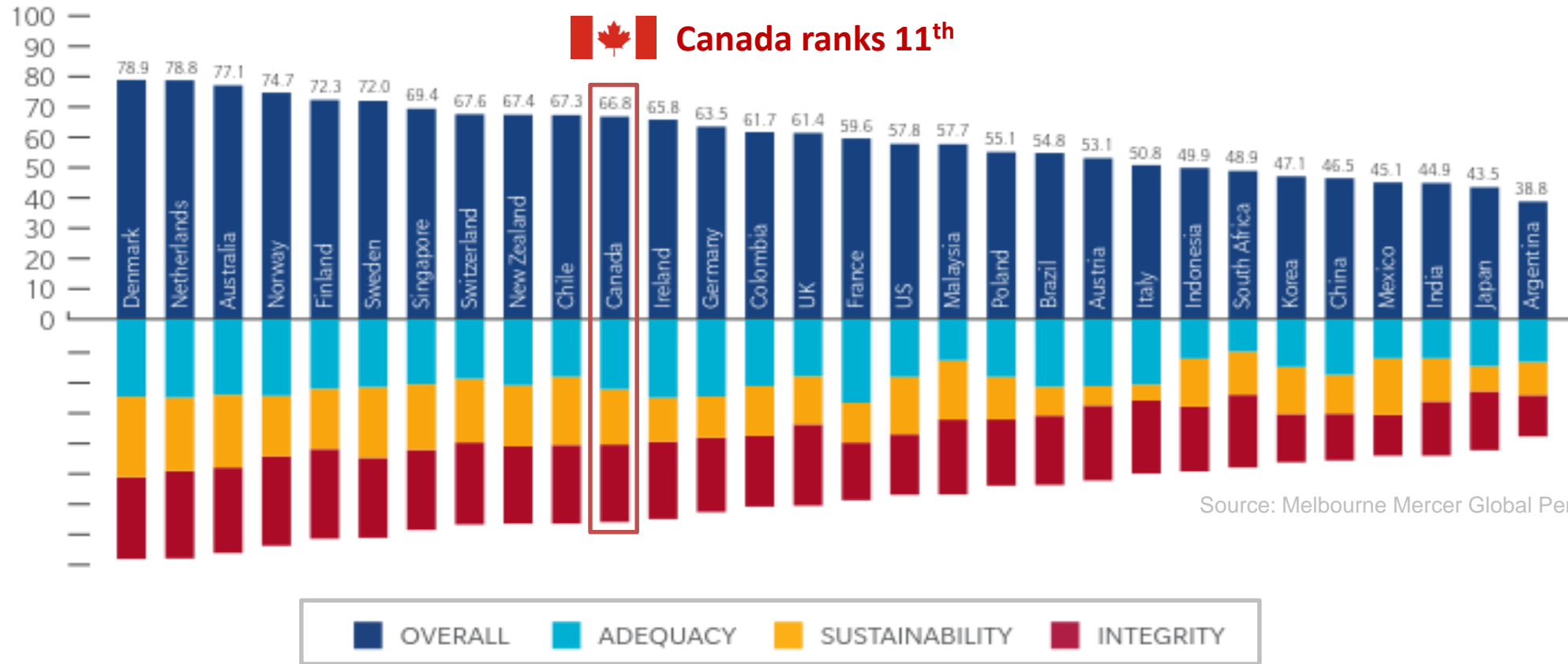
# Leader Board: Denmark, the Netherlands and Australia

#1 Overall Denmark

#1 Adequacy France

#1 Sustainability Denmark

#1 Integrity Finland



Source: Melbourne Mercer Global Pension Index

# The issues with the Canadian pension system are not so different from those prevailing globally

Low interest rates

People live longer  
(retirement age)

Guaranteed pensions  
are expensive

Private sector employers  
turn their back on DBs

Deficit of DB plans  
on bankruptcy

The new generation  
does not save much

Poor financial literacy

Efficiency of  
private savings

Decumulation  
of DC assets

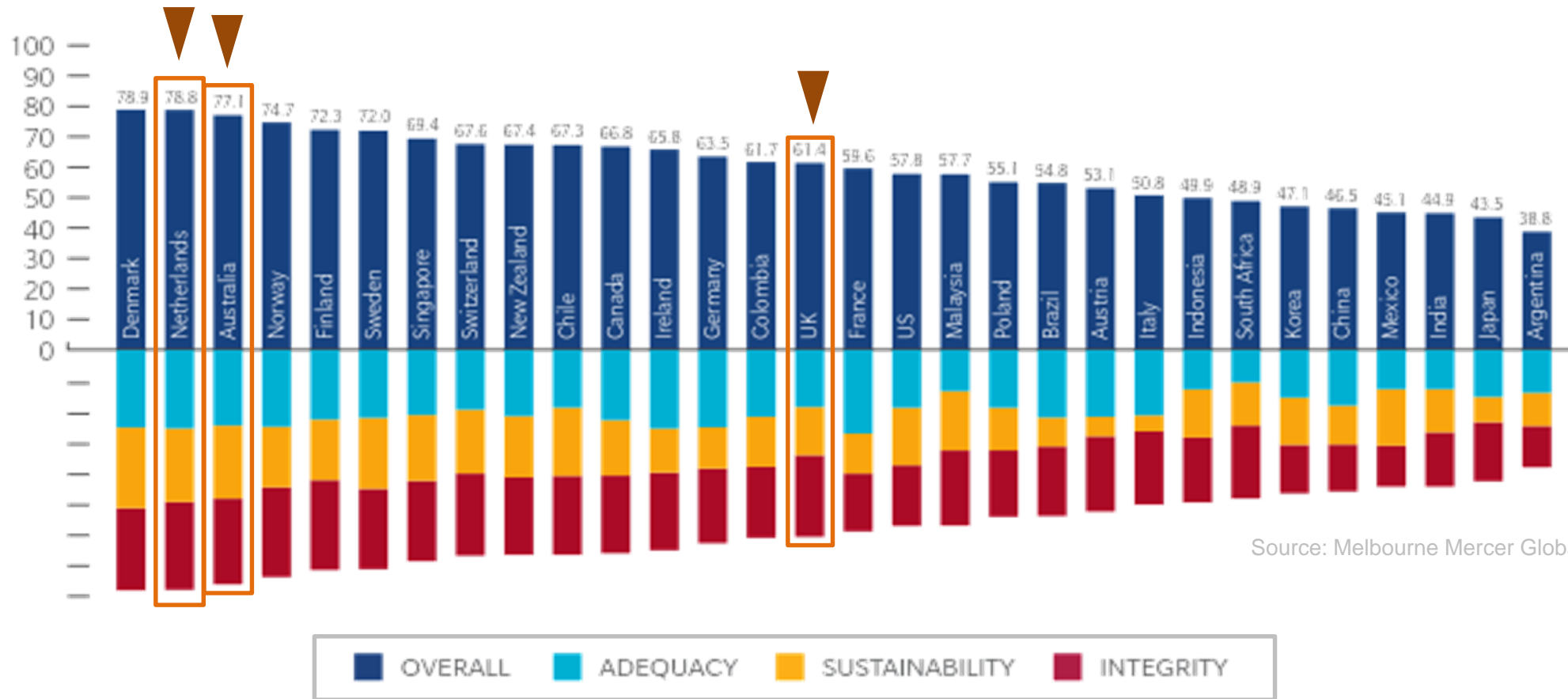
# Back to the Future

MONTH DAY YEAR AM PM HOUR MIN  
OCT 21 2015 . 04 : 29  
DESTINATION TIME

MONTH DAY YEAR AM PM HOUR MIN  
SEP 08 2011 . 08 : 30  
PRESENT TIME

MONTH DAY YEAR AM PM HOUR MIN  
OCT 26 1985 . 01 : 21  
LAST TIME DEPARTED

# Melbourne Mercer Global Pension Index Ranking







# 20 years into DC, what can we learn from Australia?



3<sup>rd</sup>

Overall

- Wide-based DC programs introduced two decades ago
- Draw down phase: withdrawal rates are... too low!
- Changes coming
  - Address conservatism in decumulation phase
  - Provide greater fiscal incentive to buy longevity protection





# UK: recent reforms to improve the system



**15<sup>th</sup>**  
Overall

- 
- Changes recently introduced:
    - Mandatory auto-enrolment
    - “Pension Freedom”
    - Mandatory financial advice at retirement
  - Plan consolidation to Master Trusts
-

# The Netherlands: a leader reforming its system



2<sup>nd</sup>  
Overall



2<sup>nd</sup>  
Adequacy

2<sup>nd</sup>  
Sustainability

3<sup>rd</sup>  
Integrity

- Issues with current system:
  - Erosion in level of confidence (complexity, deficits)
  - Self-employed workers not covered
- Proposal to migrate to collective DC
  - Pooling of longevity risk
  - Default paternalistic options
  - “One-size-fits-all” for investments

# What should Canada consider?

## Retirement policy checklist

- ✓ (Re!)increase national retirement age
- ✓ Make saving easy for everyone (leverage technology)
- ✓ Support financial literacy efforts (starting in school)
- ✓ Introduce flexible draw down options
- ✓ Address longevity risk in a DC world





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