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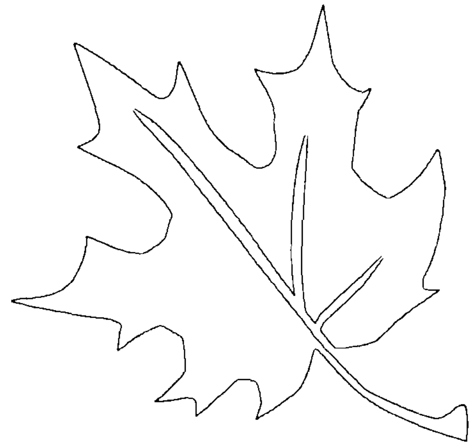
Canada makes fundamental pension change

by W. Paul McCrossan



Like the U.S. Social Security system, Canada's national pension arrangements have been under intense public scrutiny. Experts, including actuaries, on both sides of the border have warned that reforms are needed to keep the countries' pensions on a sound financial basis. North America's demographic changes include baby boomers retiring in record numbers around 2011, with relatively fewer younger workers to support the pension costs. The number of Canadians over 65 is expected to more than double by 2030, from 3.7 million today to 8.8 million.

Recent actions

In a third round of major revisions in the past 30 years to Canada's pension system, the Chretien government on March 6, 1996, gave five years' notice that the Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) plans would be abolished and replaced by a single income-tested, tax-free Senior Benefit. (The OAS is universal but clawed back from upper-income taxpayers, and the GIS is given to low-income seniors.)

In Finance Minister Paul Martin's March 6 budget, he announced the new Seniors Benefit would begin in 2001. Eligibility would be based on retirement income, which the government says will make 75% of retirees and 9 out of 10 senior women better off. The 25% of Canadians who are financially comfortable will get less benefits, with the phase-out beginning when a single senior has an income from all sources of $40,000 or more (married combined income of $45,000). Single retirees with income of more than $52,000 and couples with $78,000 will receive no government benefits.

Actuaries integral part of process

Actuaries in Canada have become increasingly visible and important players in the national debate about the system's reform. Following the March 1996 budget, the press was quick to seek actuaries' comments and advice, even to the point of having a special in-depth, post-budget analysis by actuaries. For example, after the budget, the French-language national news featured a half-hour television interview with actuaries Bernard Dussault, Claude Lamoreux, and Michel St-Germain.

In February 1996, the Finance Minister released a consultation paper on the future of the Canadian Pension Plan (CPP). Public consultations by Parliamentary committees on reforming the CPP will start soon. Hearings

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will include expert witnesses, including actuaries, on the issues. Options include raising contributions and lowering or eliminating certain benefits (which could "privatize" some of or all of the plans). At the same time, the government has extended limitations on private retirement savings contributions until 2003.

Historical perspective

The first major round of pension reform took place in the mid-1960s. The focus was on securing adequate retirement incomes for the many Canadians about to retire who had little opportunity to save privately for retirement during the Depression and war years. The public pension system added the GIS and the Canada/Quebec Pension Plan (C/QPP) to the OAS, which was payable at age 70. The retirement age for all three plans was reduced to 65. At the same time, minimum funding and modest vesting requirements were imposed on private sector pension plans in most jurisdictions. Actuaries Laurence Coward and Claude Castonguay were prominent in the development of the first round.

By the late 1970s, it was apparent that public and private plans produced adequate retirement income for most Canadian males in retirement, but not for women. About 60% of unattached women over 65 were below the poverty line, due to low participation in the labor force, low rates of pension plan coverage in small business where many women worked, and low rates of last-survivor option election by retiring males.

In a series of budgetary measures in the mid-1980s, the private pension system was changed to deal with many of these problems, and the C/QPP was modified to drop out years with little or no earning during periods of child rearing for women. Many actuaries, including Yves Guerard and I, were deeply involved in the mid-1980s overhaul.

By the early 1990s, the new focus became affordability of the public pension system under rapid cost increases. In 1995, the Canadian Institute of Actuaries released its policy paper on retirement savings, *Troubled Tomorrows*. A month later, the government's chief actuary, Bernard Dussault, released projections indicating that the CPP fund could run out of money by 2015 unless contributions rose quickly or benefits were curtailed. Economic think tanks such as the Fraser Institute and the C.D. Howe Institute held conferences and released papers calling for a complete overhaul of the public pension system. Once again, Canadian actuaries such as Rob Brown, Malcolm Hamilton, Bernard Dussault, and I were featured in television, radio, and newspaper interviews.

Change in focus

The focus in pension reform in Canada has shifted from expanding government benefits to provide an enhanced social safety net to ensuring that government benefits can be soundly financed within a financially challenged government sector. This has meant eliminating universal pension plan benefits and replacing them with income-tested pension plan benefits. It probably also means that CPP contributions will rise faster than now scheduled, while future CPP benefits might be reduced from current levels. Finally, personal responsibility for saving for one's own retirement is likely to be increasingly stressed.

W. Paul McCrossan is a partner of Eckler Partners Ltd. in Don Mills, Ontario. He is a member of the Society of Actuaries Board of Governors, a past president of the Canadian Institute of Actuaries, and a past Canadian Member of Parliament. He also is serving as the first chair of the International Forum of Actuarial Associations, a new section of the International Actuarial Association.

SOA practice area VPs need member feedback

The Society of Actuaries' governing structure defines four practice areas: Life Insurance; Health Benefit Systems; Retirement Systems; and Financial, Investment Management, and Emerging Practices. A vice president is assigned to each of the four practice areas to lead the committees in planning to meet members' needs in that area.

Each practice area has four functional areas led by committees:

- **Practice advancement** to oversee and manage research, education, and professional development
- **Practice education** to develop educational materials for qualified candidates and established practitioners in that practice area
- **Research** to develop studies and coordinate work done by other professionals to become the central source of research for that practice area
- **Professional development** to facilitate the acquisition of knowledge and skills, including new ones, in areas relevant to professional practice

Vice presidents try to anticipate issues that present opportunities or challenges to their practice areas. Thus, their goal is to prioritize ideas and resources with an eye to the future. This means boundaries are always changing, and vice presidents need a constant flow of ideas and awareness of issues facing practicing actuaries. If you have a particular concern or idea for consideration by a practice area vice president, please contact him or her. They are:

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