

Decline in Private-Sector Pensions Prompts Retirement Planning Headaches

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(CEP News) Ottawa - The number of workers with pensions in Canada is growing but isn't keeping pace with hiring. As the proportion of those with pensions versus those without is shrinking, Canadians are increasingly asking themselves how they can secure a comfortable retirement and how much they should save.

Statistics Canada's most recent survey of registered pension plan (RPP) members showed a 1.4% increase in memberships compared to 2005. However, the statistical agency's Labour Force Survey showed employment growth between those two years at 1.9%. Only 25.7% of private sector employees can lay claim to a pension while 83.2% of public sector employees have a pension. A year before, both private and public sectors had slightly larger percentages of workers covered by pensions.

The declining proportion of those with pensions has led some commentators to call for new government programs or expansions of existing programs to supplement retirement savings.

"The problem on the pensions front today is that public pensions replace only about 40% of the previous earnings of an average worker, and much less for those higher up the income ladder. Meanwhile, and this is a big problem, fewer and fewer workers are covered by workplace pensions, especially defined benefit plans which provide a secure and adequate replacement income in retirement," wrote Andrew Jackson, national director of social and economic policy with the Canadian Labour Congress on the Progressive Economics Forum blog (www.progressive-economics.ca/). "Only about one in five workers in the private sector are now covered by a defined benefit pension plan, meaning that they have to save as individuals - mainly through RRSPs - to have any prospect of a secure retirement."

But Jackson writes that the median assets of RRSPs of persons aged 55-65 sits at \$60,000, and only "the prudent affluent" who max out their RRSP contributions.

"The fundamental fact remains that many workers in their 40s and 50s today and, especially, younger Canadians can expect a much less comfortable and secure retirement than those who are now in their 70s and 80s," he wrote.

The amount necessary for someone to retire comfortably varies from person to person, although many experts would put that figure in the \$500,000 to \$1 million range, says Assante Wealth Management's senior financial adviser David Phipps.

"Most people are so far behind, it's not a question of what is the optimal amount of savings, it's usually a question of whatever they do save they're still short," he said. "Most people are so far away the simple answer is to save as much as possible."

Phipps cautioned that there is in fact no true generic answer for a retirement savings target as goals and lifestyles vary, and that people would be best to track their spending, identify their goals and seek out a financial adviser for help in planning.

"Certainly the absence of a defined benefit pension plan ultimately means Canadians are now much more responsible than they used to be for their own financial well being," he said, adding that firms have been moving away from defined benefits pensions for at least the last 15 years, fuelling the growth of the financial planning profession. He says companies are looking at defined pension plans as a huge potential liability given the lengthening lifespans of workers. "The whole transition away from defined benefit pension plans is not just a Canadian problem, it's occurring throughout the western world," he added.

He said a good rule of thumb for people who are able to do so is to max out their RRSP contribution each year.

But Ram Balakrishnan, a software engineer and self-described "average investor," who pens the popular Canadian Capitalist blog (<http://www.canadiancapitalist.com>), said often people make a contribution to their RRSPs at the last minute in February in an effort to minimize their taxes, and aren't able to lay their hands on sufficient money to maximize their contributions.

"It's very difficult to find a huge chunk of cash just at the last minute," he said, adding that people are better to set up a routine contribution with their bank and arrange to have their contribution taken off by their employer's payroll department before taxes are applied so they can minimize the any over-payments and maximize the time their RRSP contributions garner interest. He said investors need to watch management expense ratios carefully to ensure they don't eat into retirement investment returns and he advocated using index funds as a means of minimizing some of those costs.

Balakrishnan said he had worked as a full-time employee at a number of different firms and said a defined benefits pension is "almost unheard of." He said he aims to save 8-10% of his gross salary and wants to retire by the time he is 55.

"It's simply because of the cost. It's just too expensive for these companies to offer defined benefit plans," he said.

Phipps said those workers with a defined benefits pension would "almost certainly" be in a better financial position than those without, but that many younger workers simply can't fathom the idea of staying with a firm for 35 years.

In his blog posting, Jackson advocated the expansion of CPP and OAS as a means of addressing the problem of retirement income replacement and dwindling availability of private-sector pensions. He also pointed to a C.D. Howe Institute-sponsored paper by Keith Ambachtsheer advocating a "Canada Supplementary Pension Plan" - a sort of national group RRSP.

"What is interesting is that at least some of the pension experts have begun to break ranks with the financial sector in order to advocate new, collective savings vehicles," Jackson wrote. Collective savings vehicles have the advantage of realizing large economies of scale-spreading management fees across a large number of beneficiaries, Jackson said.

Phipps agreed that large plans do save members money on fees, but he added pension members should still save for a rainy day.

"When we talk about the privatization of health care, with the demographic changes that are happening in our society, I find it almost impossible to imagine a scenario where that doesn't happen," he said. "If you have extra money, you are going to be in a better scenario than those who don't."

However, Phipps cautioned that saving money isn't always the best thing to do, particularly for someone with low income nearing retirement age who finds themselves still in debt. Paying down a \$100,000 mortgage at age 60 and saving on interest might be a far better investment, he said, adding that getting a house paid for can be a big step toward retirement. However, he also said there are also non-monetary things people can do to secure their retirement, like improving their health.

"It sounds cutesy, but people can stop smoking and improve their diets," he said. "Most people would rather be healthy and poor than sick and rich."

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