After the gold watch, the cake and the goodbye speeches, it’s off to enjoy the golden years. But what happens to the employer left behind? We know a demographic shift is coming as the baby boomers retire, but what impact will it really have? This special report looks at how the baby boomers have changed the benefits and pension landscape, what effects their absence could have on the workforce—and how to keep them around.

Best-laid Succession Plans

How will the demographic shift affect plan sponsors and what can they do to prepare for it?

By David Krieger

It has been proclaimed that our aging population will be of great concern for many employers because Canada will experience a significant talent and labour shortage within the next 10 to 15 years. And indeed, there is demographic evidence that this will come to pass. As a slew of baby boomers (generally meaning those born between 1947 and 1966) launch into retirement, a massive chasm will be created between the labour demands of our economic system and the number of Canadian bodies available to fill the gap.

Well, numbers don’t lie, but they don’t tell the whole truth either. Whether or not the boomer demographic is cause for genuine concern, one thing is certain: there will be no universal impact. Each employer, utilizing the talents of in-house professionals and external consultants/advisors, will need not only to examine the workforce statistics produced for general consideration, but also to determine and apply ancillary factors pertaining to its particular industry—as well as to the specific organization—in terms of structure, philosophy and practices. Although some employers may indeed suffer from the workforce trends touted in the media, many will experience little or no negative effects. In fact, for those who are prepared for these changes in workforce access, the future holds many bright lights.

For the sake of illustration and argument, let’s examine some of the most common statements regarding the impending labour shortage. It is typically argued that (a) the baby boomer generation is of, or approaching, retirement age; (b) this huge demographic segment will impact the workforce, and thus life in this country, by undergoing any significant change; (c) a massive shortage of talent and labour is imminent; and (d) employers must take action in order to survive this great demographic shift. Let’s look at each of these arguments in turn.

Regarding (a), unquestionably, individuals born between 1947 and 1966 are at, or are approaching, retirement age. If everyone in this age band retired at age 65, one-third of all Canadians would be out of the workforce by the year 2021. That’s just a dozen years away! Regarding (b), it’s clear that a shift of this magnitude would have a major impact on the Canadian workforce and the ability of Canadian employers to attract and retain the best people.

However, looking at (c) more closely, a number of mitigating factors would soften the impact of this demographic shift. A significant number of baby boomers may choose not to retire at age 65 or earlier (due, largely, to a sense of inadequate retirement income); arrange a semi-retirement status (i.e., reduced hours); or continue working on a contract basis for the same or another employer. Changing economic circumstances might also come into play.

Due to business cessation, many low-skilled jobs lost in the economic crisis will not need to be filled in the future. Furthermore, a great number of low-skilled jobs may be outsourced, drawing as necessary on foreign labour pools. And finally, the look of both domestic and foreign labourers will change. Future generations of Canadian workers will be more educated and better trained in professions and skills needed in the new economy, and better direction of immigration strategies will ensure that demanded skills and short-supply services remain available to Canadian employers.

With regard to (d), no matter what demographic swings actually do occur, the impact will not be universal, and it will not affect all employers to an equal degree or in the same way. Some industries will be affected less than others—some very little or not at all. Companies with a younger workforce will be less stressed than those with a greater percentage of boomer employees, and certain organizations may suffer more from secondary effects (i.e., their clients or suppliers having difficulties) than from any direct impact on them.

What all of this means is, granting the validity of concerns about a potential baby boomer exodus from the workplace, each employer will need to assess the potential impact on its own workforce, as well as on its customer base and supply network. Once such research is done, steps can then be taken to deal with any problems that could arise.

Group insurance, pensions and other benefits issues are not exempt from potential concern. Consideration will need to be given to questions such as the following:

Baby boomer demographic studies need to be undertaken in earnest by all employers that hope to survive and thrive over the next two decades.
Boom Times
Baby boomers have acquired significant knowledge and expertise. What HR strategies will keep them in the workforce?

BY BARBARA JAWORSKI

According to a recent Royal Bank of Canada study, 28% of baby boomers have delayed retirement, thanks to low portfolio balances and a turbulent economy. Forty-three percent said they are delaying by one to two years, 37% are postponing retirement by three to five years, and nearly 10% said the delay could be even longer.

This isn’t good news for a lot of boomers, but it’s great news for organizations hoping to hang on to skilled employees. It’s also great news for employers that want to increase their skills base and thus be ready to grow their businesses when the economy rebounds and the talent war heats up again.

Fortunately for organizations, even though older employees may be ticked at their tanking portfolios and frustrated at shelving their plans, they’re used to change and, as a result, are a pretty resilient group. They also possess a solid work ethic and are the healthiest generation in history—in many respects, healthier than their children. For many boomers, traditional retirement was never in the cards anyway. They were always planning to start their own businesses, begin second careers, continue to work part-time, volunteer in the community or become consultants.

Most boomers remain engaged and productive, but the employer can also play a role in supporting them. The No. 1 factor that will help motivate and engage mature workers is the knowledge that they are valued and appreciated.

Recognition goes far beyond traditional long-term service awards, although such celebrations are important. It means being promoted on merit and having equal access to career development and training opportunities. It means that age is not a consideration in the hiring process and that older individuals are regularly recruited. While most organizations would never discriminate on the basis of race, religion, gender or culture, many focus their career development programs on younger workers. Yet most boomers still aspire to achieve, learn and climb the corporate ladder. If they feel shut out of training or advancement possibilities, they’ll leave—possibly to a competitor—one the economy recovers.

Another way to send a clear message that an organization appreciates its over-50 employees is to establish mentoring programs. Not only do such programs enable the transfer of wisdom, industry insight and skills to younger workers, they also cost little and are a win-win situation for all involved. Older workers feel valued and respected, younger workers have the opportunity to learn and develop, and organizations reap the benefits of a large pool from which to develop future leaders and a more capable workforce.

Workers of all ages appreciate the option to work in non-traditional ways, including telecommuting, flex time and compressed workweeks. Older workers also appreciate getting information and support on preparing for retirement. Workshops, seminars, RRSPs and share purchase programs, top-ups on corporate pension plans through extra lump sum payments and investment advice are attractive offerings to older workers who are trying to recoup investment losses.

However, all of these programs are useless if workers don’t know about them. It’s essential that organizations effectively communicate what’s available and why. All employees should be aware of the company’s succession planning and mentoring initiatives. Companies should also communicate through action, demonstrating that mature employees are not just long-term staff members but are also new hires.

The recession has demolished the dreams of many older employees, but organizations can help rebuild these dreams while reaping the benefit of decades of experience. Together, both can prepare for an economic recovery.

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• What benefits will need to be extended to employees who are enticed to stay on past early, or even normal, retirement?
• What benefits programs can be set up to reward contract and part-time staff?
• And finally, what pension formulas will work best for a blended (full-time, part-time and contract) workforce?

Baby boomer demographic studies need to be undertaken in earnest by all employers that hope to survive and thrive over the next two decades. Such research is required to determine the impact on fewer workers in an economy with fewer jobs, and with major shifts to part-time and contract work.

An offshoot of all of these concepts is what might fall under the heading of succession planning. Key employees—including, in many cases, owners and other senior executives—may well be among those preparing to leave the fold, so both pension and insurance benefits will be of major concern. These issues demand early intervention and planning in order to avoid potential last-minute difficulties. Even companies with comparatively younger executive ranks would do well to begin planning for the eventual departure of the people currently in these key positions. In such cases, the luxury of ample time can be put to good use. Companies with an older key contingent need to start yesterday!

This brings us to the topic of retention, a concern in any and every organization. How do we encourage key people to stay put and remain productive? One answer is, provide superior benefits. This would include not only a pathway to generous retirement income, but also top-tier healthcare and effective wellness benefits. By keeping key personnel engaged in the total benefits and compensation process, company loyalty becomes more than a naive slogan or expectation, and retention of senior staff is maximized. This approach could include not only communication and education, but also a component of performance-based incentives that directly relate earned benefits to performance. For those organizations with a meaningful degree of social conscience in their operational philosophies, community-based initiatives might also be considered as part of the reward criteria used to determine total compensation.

Now is always the best time to start long-range benefits planning, as planning after the needs become urgent may be difficult, prohibitively expensive—or even impossible. BC

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Leaving a Legacy

Baby boomers played a large role in retooling the Canadian retirement system. What challenges and rewards will subsequent generations inherit?

BY CHRISTOPHER CARTWRIGHT

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ension planning these days often involves managing the past as well as the future. Pension plans are inherently long-term creations, and the promises of our predecessors, written in plan texts, remain in effect for this generation to manage—or find a way to dismantle.

If we step back, we can view the old and new pension commitments as part of a generational conversation. As John Maynard Keynes put it, “The importance of money flows from it being a link between the present and the future.” In pension plans, money also connects us to the past. We can see the legacy of those who came before us, and we can ponder the legacy we will be leaving to those who follow us.

What Legacy Did the Boomers Inherit?

At the outset, the generation that experienced the Depression and fought a world war was more concerned with just making it to retirement age than the prospect of retirement itself. Life expectancy at birth in the early 20th century was barely age 60. The notion of a long, comfortable period of “endless vacation” was not yet a realistic goal. This was a time when there was not much of a social safety net and to live a long life was to be condemned to poverty. In the absence of the care provided by extended families, seniors—particularly widows—were among the poorest, with little opportunity to improve their lot. Our predecessors aimed to fix that problem and build a framework to prevent another generation from facing the same threat. Like a three-legged stool, the Canadian retirement system depends on three similar but separate components that we’ll define as government programs, employer-sponsored plans and personal resources. Let’s look at each pillar in turn.

The Role of the Government

Out of the Depression came a number of national institutions that we now take for granted: the Bank of Canada, a national unemployment insurance program and deposit insurance. The expanding role of the government continued after the Second World War with the introduction of many new measures aimed at improving the financial security of Canadians:

- universal old-age pension (1952);
- lowering the age for Old Age Security (OAS) eligibility from age 70 to age 65 (1965);
- the Canada and Quebec Pension Plans (CPP/QPP) (1966);
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- medicare; and
- indexing of OAS (1972).

The launch of the CPP was an exceptional example of government intervention. With benefits covered by incoming contributions on a pay-as-you-go basis, it contrasted vividly with the then-prevailing notion that you don’t live on credit: if you want something, you save for it. 1966 may have been a turning point, as this was also when credit cards first began to appear.

Occupational Plans

The creation of the CPP instantly relegated employer-sponsored plans to supplementary status and cast doubt on the viability of private pensions. Nonetheless, the second leg of the retirement stool also underwent a major expansion. Large employers, in particular, did their part during the economic boom times, fueling the growth of the defined benefit (DB) pension plan.

It’s worth examining the thinking underlying the approach to retirement planning in the pre-boomer days. Private pensions were often regarded as a reward for long service, at a time when it was not unusual to spend an entire career with the same employer. The regulation of vesting standards reflected this view, with benefits secured by law only upon attaining age 45 and 10 years of service.

In an era of tight regulation and “Father Knows Best,” it was expected that plan sponsors would make all of the decisions, take all of the risks and enjoy the benefits of any risk-taking. It was assumed that employers had deep pockets and were not taking any chances that they couldn’t easily handle.

It may be an oversimplification, but the unspoken expectation was that growth never ends, profitable businesses can continue to expand forever and benefits programs can always be improved in the next round of collective bargaining. In short, there was a mindset that things always get better. No one imagined that employers’ pension promises could imperil their balance sheets.

As for personal resources dedicated toward retirement income, the significant milestone came in 1957 with the creation of the RRSP—a way to defer current income taxes to the lower-income retirement years. Until then, the primary tax-favoured personal investment vehicle was the family home. In an era of light regulation and “Father Knows Best,” it was expected that plan sponsors would make all of the decisions, take all of the risks and enjoy the benefits of any risk-taking. It was assumed that employers had deep pockets and were not taking any chances that they couldn’t easily handle.

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If we step back, we can view the old and new pension commitments as part of a generational conversation.

SPECIAL REPORT

Another Piece of the Puzzle

How the Canada Pension Plan fits into the retirement planning equation.

BY IAN DALE

ow more than ever, Canadians—especially the baby boomers and others who are nearing retirement—are concerned about their financial prospects. Weathering the worst financial crisis since the Depression, they want to know if their retirement income will be safe and secure through this volatile period. What’s important for Canadians to know is that the CPP fund is sound and sustainable, and is designed to navigate through difficult market cycles.

The Canada Pension Plan (CPP) is one piece of Canadians’ retirement savings puzzle—yet CPP retirement benefits are meant to replace only a portion of the average industrial wage and are not designed to be the only source of income. Canadians also rely on other vehicles to save for their golden years. Choices such as personal savings, employer-sponsored pension plans and RRSPs, for example, should be used together with CPP benefits when saving for retirement.

In the Beginning

Up until the mid-1990s, the sustainability of the CPP was in question—perhaps the main reason why some Canadians believe the CPP won’t be there when they retire. If the recent market volatility and upheaval add to their concerns, they should feel more secure knowing that the CPP fund is managed with a long-term investment horizon of decades and generations in a broadly diversified portfolio. Canadians’ concerns over the CPP can be put to rest because the money managed by the CPP Investment Board today is not being used to pay current benefits. It will be another 11 years before the first dollars of the CPP fund will be used to help pay a small portion of CPP benefits.

A little more than 10 years ago, the CPP was facing a funding crisis. However, bold measures enacted by the federal government and nine provinces resulted in a reform package that put the plan back on track for the long term. Part of that reform package was the creation of a fast-growing pool of capital to help partially pre-fund the plan to be managed by the CPP Investment Board, a professional investment management organization operating at arm’s length from governments. Further, changes to the CPP Investment Board’s legislation require a level of consensus that is even higher than the hurdle required to change the constitution: consent from the federal government plus two-thirds of the provinces representing two-thirds of the population.

The CPP Today

While the CPP Investment Board cannot take credit for the reforms, we can be proud of what our political leaders did more than 10 years ago, which can serve as a national model for others. As recently as July 2009, Canada’s chief actuary reaffirmed that the CPP is sustainable throughout the 75-year time frame of his 2007 report. As well, on May 25, 2009, the federal and provincial finance ministers who oversee the CPP confirmed at the conclusion of the triennial review that the CPP is financially sound.

The CPP fund now stands at approximately $116 billion, and approximately $21 billion of added capital will be used in the first round of pre-funding. The CPP Investment Board, with its strong governance model, has delivered approximately $31.8 billion in investment income since its inception in 1999. Ultimately, the CPP remains an important part of the pension puzzle in Canada, and the CPP Investment Board will continue to fulfill its mandate to help secure the CPP for 17 million contributors and beneficiaries.

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Plan sponsors should be on the lookout for signs of ageism in their pension plans.

BY DOMINIQUE MONET

In many respects, a pension plan represents the archetype of age discrimination. By its very definition, a pension plan consists of contractual and trust arrangements designed to provide working Canadians with a fixed source of income upon reaching a certain age. The notions of normal retirement date or early retirement, for example, are primarily age-driven. The rights and benefits of participants in pension plans are typically tailored to the age category to which they belong. And age 65 is still largely considered a magic threshold under pension legislation, and in numerous private and public plans.

For the most part, pension plans appear to be immune from attacks based on age discrimination in this era of the Canadian Charter of Rights and Freedoms. Today, we have seen the rapid progression of human rights laws, the steady enforcement of anti-discrimination provisions and the rise of the duty to accommodate. Pension plans have managed, by and large, to coast freely in this complex legal environment.

Parliament and the legislatures have generally sheltered the legislative framework that supports pension plans from challenges based on age discrimination. Another reason may be that tribunals understand that pension plans fulfill a vital economic function in society and that age plays a pivotal role in their stability. In 2004, the Supreme Court of Canada stated that “the voluntary nature of the private pension system requires the interventions in this area to be carefully calibrated. This is necessary to avoid discouraging employers from making plan decisions advantageous to their employees.”

Plan sponsors today can safely conclude that the legal concept of age discrimination has not disturbed the fabric of pension plans. However, two recent cases illustrate that determined participants—and their creative lawyers—are using age discrimination to attempt to nibble away at certain features in pension plans and advance novel age discrimination claims.

**Case #1** – In Welk v. McGill University, a group of eight McGill professors argued that the university pension plan was discriminatory. They alleged age discrimination because no amendment was made to allow plan participants to continue to make contributions and accrue benefits until age 71. (In late 2007, the federal tax rules were changed to increase the mandatory age at which participants must start collecting their pensions from 69 to 71.) Plan sponsors could henceforth amend their plans to allow employees to continue their participation in plans from age 69 to age 71 without adverse tax consequences. McGill University, however, decided to leave the mandatory pension commencement age at 69.

In essence, the professors argued that by not changing the pension plan to reflect the new tax rules that permit them to accumulate two additional pensionable years of service beyond age 69, the university was maintaining an unlawful exclusion based on the age of 69. The Superior Court ultimately dismissed these arguments on the grounds that distinctions based on age were justified under provincial legislation and that it was not discriminatory to refuse to give two years of additional benefits. The court also pointed out that, historically, the age of mandatory pension commencement had actually been increased from 65 to 69 without any opposition by professors at the time.

**Case #2** – Two lawyers in the federal Ministry of Justice went even further than the McGill professors. In Gill v. The Queen, the lawyers challenged the federal civil service pension plan regulations, which fixed the mandatory pension commencement age at 71, in line with the new tax rules. However, given that the federal civil service plan otherwise allows eligible civil servants to accrue 35 years of pensionable service, these lawyers argued age discrimination because they reached age 71 before accumulating this maximum length of service. As a result, they were deprived of the possibility of obtaining the full pension benefits available under the plan. The Federal Court of Appeal rejected the challenge in February 2009, citing the earlier Supreme Court of Canada precedent in McKinney v. Guelph University (1990) and stressing that it is necessary to make distinctions based on age in a pension plan.

While the outcomes of these two cases are not surprising, they indicate that age discrimination remains on the radar screen for pension plans. As society and demographics evolve in Canada, we can expect further attempts to test the boundaries of age discrimination in benefits. Sponsors and administrators may want to re-examine the age limitations within their plan documents, validating their purpose and legality.
The Boomers

As the boomers settled into their careers, conditions were already changing quickly. Women were taking their place in the labour force, and the baby bust was unfolding as fertility rates fell. After averaging less than 3% through the 1950s and ‘60s, inflation doubled to average more than 6% through the 1970s and ‘80s. For a time, double-digit bond yields made DB liabilities look unusually cheap. Over time, some would begin to see the discounted cost of liabilities and the ever-rising value of stocks as normal.

Rapid change in the economy was a challenge to the long-term assumptions on which the Canadian retirement system had been built. New initiatives and new solutions were called for. Thus, we saw the rise of defined contribution (DC) plans, which allowed for more investment flexibility, cost predictability and benefit portability in tune with volatile capital markets and a more mobile workforce.

“Deferred compensation” was the new concept that displaced the idea of rewards for long, loyal service. Vesting standards moved in the direction of immediate vesting. Investment risks and rewards shifted to the plan member—perhaps reflecting a distrust of paternalistic employers and a preference for the do-it-yourself approach.

Of course, the first wave of DC pension plans and group RRSPs coincided with a time when a 10% return could be earned “risk-free” by investing in five-year GICs. Later, “GIC refugees” would discover that such guaranteed returns were far from the historical experience of “normal.”

As managers of the legacy plans, boomers discovered that if conditions change or if the assumptions underlying the retirement system are overtaken by events, then the system itself could be in danger of collapse. Being in charge means being proactive.

For example, the CPP started with a 3.6% total contribution rate that was sufficient to cover a shortfall. The next generation of pension plan managers may have an easier time administering relatively simple capital accumulation plans. However, they will likely face bigger challenges in setting expectations and delivering adequate retirement payouts in an era of uncertain investment markets and ever-increasing longevity. Retirement in the 21st century will call for more heavy lifting by individuals, as companies reach the limits of what they can realistically do.

The core lesson to pass on may be adapted from a slogan the boomers embraced, back when every word from “The Establishment” was questioned: “Never trust anyone over 30… even when you are over 30!”

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