New Beginnings

out with the old, in with the new is the mantra for the new year… but when it comes to pension reform, we’re facing the same old issues.

After years of consultation and debate, on Nov. 17, 2011, the federal government released the Pooled Registered Pension Plans (PRPP) Act, bringing a new pension vehicle to Canadians. The PRPP was intended to increase coverage by removing some of the barriers that employers—particularly smaller-size employers—face with offering pension arrangements, such as the significant cost and administrative burden.

“Today marks a major milestone in our efforts to ensure the ongoing strength of Canada’s retirement income system by providing a pension option for the many workers… who currently do not participate in a company pension plan,” said Ted Menzies, minister of state (finance). “Canadians work hard to realize their retirement dreams, and PRPPs will offer them a new, low-cost and accessible pension option to help meet their goals.”

Sounds good, right? But there are still so many questions left unanswered.

How will PRPPs actually work? Will the provinces enact similar legislation, or will harmonization be an issue? How will PRPP administrators be determined, and what happens when an employer wants to switch providers? Who is responsible for member communications? How can the PRPP be integrated with an employer’s existing arrangements?

Most important, will the PRPP actually increase pension coverage? That’s a concern that Ian Markham, Canadian retirement innovation leader with Towers Watson, raised at a recent ACPM Impact session.

“This experiment with PRPP: unless the provinces force employers to contribute to it—and I doubt they will do this—we’re likely to see, two or three years out, some move toward mandatory coverage,” he said. “My prediction is that the locked-in PRPP experiment will largely fail in making a dent in the number of Canadians covered by a retirement savings vehicle and the quality of their coverage, and that five years from now, we’ll see the Canada Pension Plan going up.”

Are PRPPs the answer, or are they just a stop-gap measure? Perhaps they really will improve access to pensions for Canadians. Or perhaps we’ll be ringing in the new year in 2015 with another “new” pension solution.

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