When it comes to addressing the many challenges facing pension and benefits plans, we already know many of the solutions. Taking action on them, however, is often a different matter.

As Benefits Canada reported in its annual report on drug plan trends last month, many plan sponsors have reached a crisis point around escalating costs. But as writer Karen Welds noted in the article, many of the solutions under consideration aren’t new. Rather than taking specific aim at specialty drugs, for example, many plans are turning to existing tools, such as mandatory generic substitution and tightening the criteria for prior authorization.

When it comes to pensions, many of the solutions have also been on the table for some time. On the topic of defined benefit plans, the need for solvency reform is fairly clear. But despite talk of reform in some provinces, little has happened outside of the very significant changes last year in Quebec.

As participants at Benefits Canada’s Defined Contribution Plan Summit in February heard, there are lots of options to improve the pension picture in that area as well. Robert Merton, a professor of finance at the Massachusetts Institute of Technology, emphasized the need for the defined contribution industry to focus on income in retirement, rather than simply accumulating a pot of money. In that way, plans would look towards members’ funded ratios according to the income they want in retirement. Customizing plans, a topic that often arises in discussions about defined contribution pensions, is a significant part of the approach Merton advocates for. But how often does that actually happen?

Some organizations are, in fact, doing just that. Participants at the summit heard about ATB Financial’s pension changes that allow employees to accumulate to up to 18 per cent of their income. And interestingly, they can direct some of the money, in addition to putting a large chunk into their pension plan, to other areas such as their mortgages.

Besides such interesting changes on the accumulation side, it’s also important, as Merton noted, to address how plan members can manage their funds in retirement. But while other countries, as readers will see in this month’s issue, have come up with some options to address decumulation, Canada has been slow to act. Deferred annuities, for example, are something the industry has been advocating for. But what have we seen in terms of pension changes recently? The big change was enhancing the Canada Pension Plan. That was a welcome move, but it’s also important to consider ways to improve how the retirement system works, as opposed to simply putting more money into what already exists.

It has been good to see the various individual and piecemeal changes to some plans and pension rules. But what’s really necessary is a broader reform effort in Canada. It’s a challenge to make that happen given the jurisdictional complexities, but with the CPP battle now dealt with, the issue can hopefully advance to broader and more concrete action more quickly.

By Glenn Kauth

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