Two-tier retirement
do n't expect the pension gap to get narrower anytime soon.

WHEN I HEAR THE WORDS “TWO TIER,” MY thoughts automatically jump to Cana-

da’s healthcare system. These days, the phrase immediately elicits images of

people paying cash at private clinics to bypass long wait lists for joint replace-

ments or CT scans.

Of late, however, the words “two tier” are being applied to pensions. Most recently, it was Catherine Swift, president of the Canadian Federation of Independent Business (CFIB), who adopted the phrase to unveil the CFIB’s new position paper, Canada’s Pension Predicament. The paper argues that “the gap between public and private sector pension coverage is widening.” It points to the fact that public sector employees are retiring earlier than those in the private sector and that more civil servants have a pension plan than their private sector counterparts. One of the reasons for this growing disparity, the paper states, is that private sector employers have been moving steadily away from “safer and more generous” defined benefit (DB) plans to defined contribution (DC) plans.

This exodus, while not as pronounced as in the U.S. or the United Kingdom, is being driven by a number of factors: accounting rules that require pension deficits to be recognized on the company balance sheet, court decisions that make employers responsible for funding plan shortfalls before the workplace today.” Get used to that version, they noted.

But don’t expect the federal government to rush to the rescue of private sector DB pension plans anytime soon. As managing editor Joel Kranc discovered in a recent interview with Flaherty, the finance minister doesn’t seem to think the private sector’s move to DC is a real problem (see page 52).

In fact, he sees the shift as an inevitable evolution reflecting “the nature of the workplace today.” Get used to that second tier.

Swift certainly isn’t the first one to point out this disparity. We took a close look at the issue in our December 2006 issue. And the ACPM shed light on the extent of the problem in its 2005 report, Back From The Brink. The two-tier phenomenon is well documented. The question is: what’s being done to address it?

Last spring, Finance Minister Jim Flaherty introduced temporary mea-

sures to provide solvency relief for federally regulated DB pension plans. Among the proposals were those permitting plan sponsors to extend the period for making solvency payments to 10 years from five years. At the time, industry experts said that the measures were a step in the right direction but that they didn’t go far enough. More relief would be necessary, they noted.

To fall back on to make up deficits, and you have the recipe for a two-tier system.

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