Live Long and Prosper

WILLIAM ROBSON RECOMMENDS A NEW SOLUTION TO AN AGE-OLD PROBLEM.

Chances are, you’ve never heard of Edna Parker. But her claim to fame is noteworthy. Born on April 20, 1893, she is the oldest living person in the world, at 114 years of age.

Now, most pension plan members won’t live past the century mark. But life spans are increasing, and plan sponsors are waking up to the spectre of longevity risk, as Ian Markham and Andrew Fung point out in their article, “Forever Young,” on page 41. Don’t get me wrong: living longer is a good thing. But if your an actuary, it can be downright scary.

What’s even scarier is that capital accumulation plan (CAP) members don’t have actuarial looking over their shoulders, and few have a good understanding of whether they’re likely to outlive their money. In a paper published last month by the C.D. Howe Institute, president and CEO William Robson notes that CAP members can also be their own worst enemies. They don’t always join the plan, they don’t save enough, they invest unwisely, and they cash out ineptly.

As millions of baby boomers head into retirement, CAP sponsors are realizing they need to act now to prepare their members. Our retirement survival guide on page 25 looks at some of the products plan sponsors can choose from and steps they can take to help ensure a smooth transition from the accumulation to the payout phase.

The problem is, even if CAP sponsors take prudent steps to help members, they’re still vulnerable to lawsuits if members fall short of their retirement goals. While the CAP Guidelines serve as a useful checklist for plan sponsors, they fall short of providing any real legal protection.

Robson argues that Canadian CAP sponsors need a “safe harbour,” similar to that provided to their U.S. counterparts. South of the border, The Pension Protection Act shelters plan sponsors from liability if they automatically enrol employees in the plan and/or automatically raise their contribution levels over time.

Robson’s recommendation? Make the CAP Guidelines a safe harbour for Canadian plan sponsors, at least for the short term. “Giving the Guidelines such a standing would mean they no longer raise the fiduciary bar without providing protection,” says Robson.

A bold suggestion, to be sure. But with the number of defined benefit plans on the decline and CAP members closing in on retirement, something needs to be done—and soon.

After all, we’re not getting any younger.

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