Build on Canada Pension Plan to bolster retirement savings: Editorial

CIBC chief executive Gerry McCaughey makes a thoughtful case for promoting “a culture of savings” and financial security by allowing people to make voluntary contributions to the “tried and true” Canada Pension Plan (or a CPP-like vehicle) beyond those they already make through their salaries.

It’s hard for a young Canadian worker in, say, her 20s or early 30s to focus on putting away enough money for retirement when she’s busy trying to hold on to an insecure job with no pension, start a family and maybe scrape together the down payment for a house. Moreover, volatile stock markets, low interest rates and economic uncertainty don’t encourage saving.

So it’s no great surprise that the average 35-year-old is saving less than half of what he or she would a generation ago, according to research by the Canadian Imperial Bank of Commerce. And 60 per cent of workers have no company pension plan.

As a result, millions of young Canadians who earn less than $100,000 a year will face a painful 30-per-cent drop in their standard of living, on average, when they retire, the bank warns. For many, that’s a grim prospect.

Little wonder that a new survey by Sun Life Financial finds that 58 per cent of Canadians expect to be working full- or part-time at age 66, while just 27 per cent expect to be fully retired. The rest aren’t sure. “The economic crisis has had a very large impact on people’s retirement savings and financial security,” Kevin Dougherty,
president of Sun Life Financial Canada, told Star writer Madhavi Acharya-Tom Yew.

But it doesn’t have to remain this way. CIBC chief executive Gerry McCaughey makes a thoughtful case for promoting “a culture of savings” and financial security by allowing people to make voluntary contributions to the “tried and true” Canada Pension Plan (or a CPP-like vehicle) beyond those they already make through their salaries.

CIBC estimates that those who voluntarily double their contributions to such a plan could close 80 per cent of the standard of living gap over their working lives. **McCaughey rolled out the proposal** at the National Summit on Pension Reform in Fredericton this week. It was especially noteworthy coming from a leading banker whose sector makes money through registered retirement savings plans and related products. Of course, it rests on the premise that people can be induced to voluntarily contribute more to the CPP when most don’t make use of RRSPs and other options that are available.

This isn’t the first suggestion for CPP reform. Trade unions and most provinces, including Ontario, have urged Ottawa to consider doubling the maximum CPP payout of $12,500 a year by gradually increasing mandatory contributions by workers and employers. That sensible approach recognizes that many people don’t use RRSPs and the like. Others have called for a voluntary Supplemental CPP into which workers and employers could pay to create a solid group pension plan.

The advantages of building a better CPP are significant, and McCaughey spelled them out. Unlike other investments, a CPP-linked mechanism would be easy to understand and simple to participate in. It would encourage savings over a decades-long horizon. It would lock in contributions until retirement. It would benefit from scale, good management and a low cost structure. And it would deliver a predictable income on retirement.

In short, it’s a safe, secure option.

“We need to provide Canadians with further choice,” McCaughey told the conference. “Choice that gives them date certainty and real dollar amount certainty. A choice that will help Canadians as individuals, and Canada as a nation, reignite a culture of savings.”

This thinking is light-years ahead of Prime Minister Stephen Harper’s Pooled Registered Pension Plan initiative. While that scheme will help some self-employed people and workers at small companies gain access to a private pension plan it is unlikely to come close to filling the gaps in the system, chiefly because it does not require employers to contribute. Yet Ottawa continues to lobby the provinces and territories to support this option.

By far the better course would be to beef up the CPP, as so many credible voices are urging, and build on its strengths and success.
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