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Submitted via the form on <https://www.ic.gc.ca/eic/site/116.nsf/frm-eng/LCOE-B6KKX6>

**Re: The Segal Group's Consultation on Enhancing Retirement Security**

Dear Madam or Sir:

The Segal Group is pleased to offer its consultation on enhancing retirement security.

Thank you for the opportunity to express our views in this submission.

Sincerely yours,

A handwritten signature in black ink that reads "R.O. Olsen". The signature is written in a cursive, slightly stylized font.

Ronald O. Olsen, FSA, FCIA  
Senior Vice President

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## The Segal Group's Consultation on Enhancing Retirement Security

The Segal Group applauds this initiative to seek input from Canadians on how the Government can help enhance retirement security. We welcome the opportunity to submit a consultation on that topic, which we believe is of utmost importance.

We agree completely with the Government's statement that, "All Canadians deserve a safe, secure and dignified retirement." As a private, employee-owned consulting firm that has been advising sponsors of Canadian benefit plans since 1975, we, like our clients, appreciate the vital role that having a well-funded workplace pension plan plays in ensuring a secure and comfortable income in retirement. While employer insolvency and underfunded defined benefit (DB) pension plans are very serious issues in some instances and are certainly worthy of attention, we believe the greater challenge to our Country is this: **how to help the large number of Canadians who are not currently covered by any workplace pension plan to retire with dignity.**

The sad reality is that the overwhelming majority of Canadians who work in the private sector will not receive a pension when they retire because they are not members of any employer-sponsored plan. Moreover, most do not have sufficient personal savings to draw upon during retirement. Even if their personal savings were substantial, the inherent volatility of global capital markets means that any individual is very poorly positioned to manage the risks.

**The Government could recognize and address this enormous hole in our retirement security system by enacting legislation to encourage the establishment of target benefit plans to ensure that all Canadians can enjoy the retirement they deserve, while maintaining a competitive business environment.** Many of the serious issues that plague our current retirement system — and are the focus of this consultation — are addressed by target benefit plans.

### What Are Target Benefit Plans?

Target benefit plans are an alternative to traditional DB plans and defined contribution (DC) retirement plans that combine the employer cost certainty of DC plans with the pooling of risks characteristic of DB plans.

Employer contributions are fixed by a formula. The contributions are made to the plan, not allocated to individuals. Benefits are targeted by a formula that may increase or decrease to reflect investment, mortality and expense experience. Another advantage is that assets are professionally managed.

All target benefit plans share the same basic feature that appeals to employers: a de-coupling of costly employer benefit “guarantees” from risk pooling. Costly guarantees have proven problematic both for employers to maintain well-funded plans and for employees and other creditors in bankruptcies and insolvencies. Tax reporting and accounting is simpler for target benefit plans than for DB plans, easing a regulatory burden. For employers, target benefit plans are an effective de-risking strategy.

Although there are a number of variations in the design, from the employees’ perspective, target benefit plans are an efficient way to pool investment, interest rate and longevity risks, similar to DB plans. That makes them more attractive than DC plans where individual employees bear those risks alone. DC plans, or any individual account-based plans, require that individuals receive substantial advice to make effective decisions, particularly with respect to increasingly volatile global capital markets that are inherently unstable and are inevitably subject to bubbles. This suggests significant fees contributing to the inefficiency of this model, that makes benefit delivery 48 percent cheaper in a pooled arrangement, according to the National Institute of Retirement Security.

## How Could Target Benefit Plans Enhance Retirement Security?

Target benefit plans address the issues raised in the request for consultations:

- **Coverage** — Target benefit plans are a way to take action for employers that want to help their employees have a secure retirement without taking on an open-ended financial commitment.
- **Transparency** — Target benefit plans are highly transparent. Members see how their target benefit changes over time, according to the formula. Continuous realignment of the benefit helps manage employees’ expectations, to largely eliminate “surprises” in the event of employer business failure.
- **Solvency** — By design, there are no deficits with target benefit plans.
- **Governance** — Under a target benefit plan’s governance policy, a board of trustees or similar administrative body ideally includes representatives chosen by the plan members in order to obtain member input and encourage employee engagement.

By encouraging Canadian employers to establish target benefit plans, corporate decision making would be better aligned with employee interests because benefits would adjust in a framework of shared employer/employee governance. Further, transparency and fairness in insolvency proceedings would be enhanced, as the effect of risk pooling is shielded by separately trusteed assets. Since benefits are not guaranteed, a federal guarantee fund is not essential.

## What Are the Some of the Challenges?

Target benefit plans are by no means a perfect design. These are two of the key challenges:

- Managing the benefit level so income in retirement will be adequate; and
- Communicating a downward adjustment due to poor plan experience so all members understand the change.

Segal's decades of experience tell us that these challenges are not insurmountable, which is why we believe target benefit plans could provide a workable and attractive way to enhance the retirement security of Canadians who work for other than very small employers. While the lack of financial security in retirement is not the cause of populist rejection of a "peaceful and orderly" society, greater certainty of retirement income is unquestionably a very desirable societal outcome.

### **What Could Be the Next Step?**

Segal is encouraged that the Government is complementing this consultation process with analysis, research and targeted outreach. We would be happy to assist with any or all of those activities, particularly if there is interest in enacting legislation to encourage the establishment of target benefit plans, steps that five provinces have already taken or are exploring. The enabling framework is relatively straightforward to implement if the focus remains on future accruals.

The target benefit concept (in the form of multi-employer pension plans) has enabled tens of millions of workers to achieve a secure and dignified retirement.

The Segal Group (<https://www.segalgroup.ca>) is a private, employee-owned consulting firm with more than 1,000 employees throughout North America. Canadian offices are located in Toronto, Edmonton and Montreal. Members of The Segal Group include Segal Consulting, Sibson Consulting and Segal Rogerscasey Canada.