MORNEAU SHEPELL

30,000 Feet

The biggest stories of the quarter with significant ongoing impact

Third quarter, 2016

CPP enhancement is moving forward

The CPP enhancement that will eventually increase CPP benefits by up to 50 percent is moving forward, at least in all provinces other than Quebec.

Why Plan Sponsors should care

Morneau Shepell released a report during the quarter showing that personal savings and workplace pension plans will continue to be a critically important component of retirement security, even after the CPP enhancement is fully phased in. Even so, integration of the CPP enhancement is recommended for many if not most workplace plans. Plan sponsors who have been waiting on the sidelines until governments decided what they will do should start considering changes to their workplace plans to accommodate the enhanced CPP.

Retirement readiness is a growing challenge

Factors such as low-for-long interest rates, increasing life spans and an OAS pension that is shrinking relative to the average wage mean retirement readiness will become more difficult to achieve in the future. At the same time, up to a third of middle-income employees who are covered by workplace pension plans may have excessive pensions. Retirement readiness is becoming the focus of a growing number of conferences and academic papers.

Why Plan Sponsors should care

Employers need to pay more attention to pension plan design to ensure that the long-term outcomes are aligned with corporate goals and values.

Changing demographics will affect workplaces

During the quarter, it was reported that 70 percent of non-retired Americans plan to work as long as possible after retirement. In the UK, the portion of the population 65 and over that is still working has doubled since 2000. Finally, in Germany, the Bundesbank wants to move the eligibility age for full pensions to 69 from the current 67.

Why Plan Sponsors should care

The status quo in Canada will eventually give way to later retirement. Employers need to grapple with how they deal with large numbers of older employees who want to phase out gradually and what it means for the organization's pension and benefits programs.

Other recurring themes during the quarter

- Decumulation (in respect of capital accumulation plans) is being explored with increasing frequency. The biggest issue is the need for in-plan decumulation options, which are still not permitted in DC pension plans in certain provinces.
- On-line tools for pensions and benefits are becoming a must. In one of the many stories during the quarter, a PNC survey found that investors who frequently use online tools have higher savings than those who do not. Morneau Shepell launched its own offering during the quarter (myfutureinsured.ca).
- Various providers have claimed that sustainable (or "green") investing does not have to mean inferior returns. Time will tell if this is purely because of the fall in the price of oil or if other longer term factors are at work.
- The migration of DB plans to DC plans continues to be mentioned frequently. During the quarter, GM Canada announced that new union hires would only participate in a DC pension plan. Canada Post took a DC plan off the table for two years but this issue is likely to resurface eventually.
- In a low-interest environment where fees have grown more important, ETFs continue to surge. Plan sponsors continue to seek better returns with alternative investments but good opportunities are becoming harder to find.