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Why do I hear so much about pensions these days?

Pension reform has been getting lots of media attention recently. Jim Flaherty, the federal finance minister, made controversial news at the end of 2010 when he announced his plans for pension reform. In 2011 he introduced a new program of pooled pensions. And then, in 2012, he told us that everyone aged fifty-three or younger would have to wait two more years (to age sixty-seven) to get the Old Age Security pension. Unions and other groups have demonstrated against the government's proposals. Meanwhile the financial industry applauded them. What's going on? Why the sudden focus on pensions?

There are several reasons. The financial crisis of 2008–09 took a bite out of the retirement savings of those who had them, so there's no doubt the public is concerned. But employers also panicked as the funds that are earmarked to meet their pension obligations have taken a downturn. And governments facing deficits have looked at cuts to public sector pensions as one way of seeking relief.

There's another major reason as well. In 2011 the oldest members of the post-war baby boom generation started to turn sixty-five—the conventional age of retirement for almost a century. Over the next eighteen or nineteen years, the "baby boomers" will all turn sixty-five, and since most people who make it that far are expected to live into their eighties, the oldest boomers will still be around when the youngest join the group. For this generation, retirement—and the income to make it possible—are now top of the agenda.

But of course, the issue of retirement income for the boomers also concerns the generations that follow. Young people may be responsible for keeping their parents' generation out of poverty, but they also have to be concerned that the right programs and the money to fund them will be in place when it's time for them to retire. If the boomers' fixation on retirement seems a little self-centred, at least it may get some younger people thinking about their own long-term future.

During the recent financial downturn, companies that offered their employees corporate pensions found that the funds they had put aside and invested to cover those pensions took a big hit. Companies that had promised to pay a specific amount to employees each year after retirement—based on employees' earnings and years of service—faced the most serious challenges. But since most of their obligations are in the future, such companies mostly have time to rebuild those assets, as long as the economy rebounds. Pension law in most provinces requires companies to make their plans solvent within a fixed period of time, but the period is usually long enough, if the company's earnings rebound. Of course, if a company fails entirely and goes bankrupt, that's a different story. We'll talk about that scenario in a later chapter.

Many—maybe most—Canadian companies have weathered the recession pretty well. Their profits have continued to go up and they're sitting on a lot of cash they haven't figured out how to spend. Yet many companies have decided that their employees—at least any new hires—should forget about defined-benefit pensions, which promise a specific level of payments when you retire. If they're going to offer any company pension at all—and only about 40 per cent of workers have any employment pension—the companies are saying it will be defined contribution only. You and your employer likely both make contributions to the plan, but there's no promise about what you will get when you stop working. You can only count on getting whatever your contributions will buy in the form of an annuity or payments over your lifetime. If the investments of the pension plan do not perform well, you'll be out of luck. In short, all the risk falls on your shoulders, not your employer's. We'll explain these terms more fully in a later chapter.

Ordinarily when private companies can't—or don't want to—meet their obligations, they turn to government to bail them out. As companies found they couldn't guarantee the pensions they had promised, they might have argued that public pensions—funded by all taxpayers—should have been strengthened to fill the gap. Instead they opted to shift the burden onto their workers. Meanwhile, governments of a conservative stripe have treated government deficits as a problem to be solved by cost-cutting. They've taken aim at the so-called "gold-plated" pensions of public sector workers and tried to guilt civil servants into abandoning those benefits. Rather than using such pensions as models for the private sector, many governments have been content to join the race to the bottom. Conservative governments in Canada have resisted the idea that the public pensions of Canadians should be improved to make up for the weakening of private pension plans.

Back in May 2011, Vanessa Lu of the *Toronto Star* wrote an article headlined "Lack of pensions a growing concern," in which she predicted (mostly for reasons we've cited above) that pensions would be the biggest social issue facing Canadians in the next few years. By July, John Crocker, president and CEO of the Ontario Healthcare Pension Plan, was warning in the same newspaper that we were being asked to imagine a world without pensions.

He urged, as we do, that the argument be turned around. We should not be imagining the disappearance of pensions, but rather the strengthening and expansion of such plans, public as well as private. Only in that way can we make sure that as coming generations grow older they won't inevitably grow poorer as well.