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COMPARATIVE STUDY OF MODERN PENSION AND RETIREMENT SYSTEM IN USA AND CANADA

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ABSTRACT

Some of the public pension systems that are considered to be the most successful and respected in the world are located in Canada. In the past, things were not always like this. As recently as the middle of the 1980s, many Canadian public pensions were invested mostly or totally in domestic government bonds; they were predominantly funded on a pay-as-you-go basis; they lacked independent control; and they were operated in a manner that was antiquated and prone to mistake. Over the course of the past three decades, a "Canadian model" of public pension has arisen. This model is distinguished by its combination of scale, significant regional and asset-class diversity, independent governance, and professional investment management performed in-house. The purpose of this paper is to describe the beginnings and development of the Canadian model, with the end goal of compiling actionable takeaways for stakeholders in developing nations striving to enhance the pension arrangements and retirement systems in their respective nations. The emphasis of this report is on the evolutionary journey of Canadian pension organisations (as opposed to their current state), and its in-depth focus is on Canadian pension funds that have received less attention than some of their peers. Although there is a growing body of literature on the USA model of pension organisation, this report is unique in two respects: its emphasis on the evolutionary journey of Canadian pension organisations and its in-depth focus on Canadian pension funds.

keywords: *Modern, Pension, Retirement*

INTRODUCTION

Challenge posed by ageing and the need to save. Because of falling birthrates and increasing life expectancies, many developed and developing market countries are seeing a rapid and unprecedented ageing of their populations. This phenomenon is being driven by two factors: reducing fertility and increasing life expectancy. Previous research, such as that conducted by Clements and others (2015), has demonstrated that an ageing population and a decrease in the proportion of the population that is of working age might put a large amount of strain on public pension systems, hence reducing the amount of money that is saved by the government. This is due to the fact that a larger number of pensioners will get benefits, while a smaller number of working individuals will pay money to the system through their taxes. It should come as no surprise that policy discussions all around the world have centred on the viability of pension systems over the long run and the necessity of reforming them. On the other hand, the possibilities for private saving and, by extension, national saving as a whole have received far less attention. What kind of influence will the impending demographic transitions have on personal savings decisions? Will the architecture of various nations' pension systems have varying degrees of an impact on the private and collective saving habits in those countries? interplay between governmental and private financial provisioning. The younger generation tends to borrow money, while those in their prime working years save money, and older generations tend to spend down their savings when they retire. As a result, an increase in the proportion of old persons in the population is expected to have a negative impact on private saving. Additionally, longer lifespans mean that individuals may be required to save more money for retirement throughout the course of their working lifetimes. The way in which the government provides retirement benefits and social safety nets will be one of the primary determinants determining how private individuals will choose to save their money in response to demographic shifts. It is possible for people's decisions to save money to be influenced by differences in the availability, structure, and coverage of pension systems in different parts of the world. For example, a lack of development and coverage of pension systems might cause families to save too little for retirement, particularly if financial markets do not offer adequate saving tools. This could also cause households to save too little even if pension systems are developed and covered. Having insufficient coverage may, on the other hand, lead to an excessive amount of cautious saving. On the other hand, pension systems that are too generous and include early retirement possibilities may discourage people from working and alter their propensity to save money. The connection between growing older populations and existing pension schemes is therefore essential to comprehending the behaviour of private saving and how it has developed across nations. Why is it important that these two people interact? At the level of the individual family, savings provide a cushion that may be used to smooth out consumption and plan for the future. Pensions are not going to be able to offer the same level of protection to individuals who are reaching the age of working eligibility as they did to previous generations. It is possible that future generations of the old population in many nations may be forced to live in impoverished conditions as a result of efforts to solve the issue of the financial viability of pension systems by decreasing the generosity of pension benefits. In addition, as those with the greatest incomes are the ones who save the most money for their households, a lack of savings might be an especially difficult problem for those with lower incomes. Understanding the implications of demographic changes and the characteristics of pension systems for future saving is essential at the macro level. This is because national saving is an important source for financing domestic investment and absorbing country-specific shocks, which has implications for growth and economic stability. The pace of saving also impacts how quickly a nation can restore its buffers at a time when global debt is at an all-time high (IMF 2018b). Motives for personal savings and the architecture of pension systems might potentially directly impact individual saving behaviour, which would then affect both the total net foreign asset position of a nation and the makeup of investment portfolios (Staveley-O'Carroll and Staveley-O'Carroll 2017; Eugeni 2015). (Staveley-O'Carroll and Staveley-O'Carroll 2017; Eugeni 2015). The dynamics of international capital flows, external imbalances, and global interest rates are all affected as a result of this.

The note itself. This paper analyses how future demographic trends and the architecture of retirement systems might impact saving rates across nations and how these factors interact with one another. This analysis builds on previous research that highlighted the fiscal consequences of ageing. It focuses instead on the interaction between public and private saving, as well as the role that pension system attributes (coverage of the elderly, benefits, and the type of funding) play in shaping saving profiles across countries in the coming decades. The findings show that variances in the progress that different nations are making along the demographic transition will interact with the peculiarities of their pension systems, which will result in distinct courses being taken by private and public saving rates. The prospect of substantial retirement benefit payouts has a significant impact on aggregate saving; rapidly ageing nations with rich public pension systems may face a precipitous decrease in both public and private saving. The findings also indicate that financed defined contribution (DC) pension schemes could be able to help reduce the drop in private saving that is associated with an ageing population. 5. Some qualifiers. This research does not give a determination of the ideal amount of savings or the intended degree of generosity of a pension scheme (IMF 2018a). Additionally, the level of aggregate saving in an economy is contingent on the manner in which income is distributed both within and between generations. This has welfare consequences that are not expressly addressed in the study presented here. The research does not take into account any changes in people's behaviours or an explicit investigation into the effect that demographics have on growth and productivity. Finally, the note does not investigate the potentially confusing implications for savings that might result from switching from a pay-as-you-go (PAYG) system to a fully financed system. In light of these qualifications, the partial equilibrium analysis presented in this paper provides straightforward implications regarding the development of public and private saving in a variety of nations under the assumption that no policies would be altered. Detailed plan. The next part offers a synopsis of recent demographic shifts as well as an analysis of the present design characteristics of pension systems all around the world. It incorporates a straightforward overlapping generations (OLG) model to explain the pathways by which demographic factors (such as lifespan, fertility, and the need for care in old age) influence both public and private saving. The model gives rationale for empirical estimations of the influence demographic demographics and the design of pension system architecture have on private saving. The findings of the estimation are used in conjunction with forecasts for the amount spent on public pensions in order to model various courses of action for the development of national saving rates. In the last part of this article, we address the consequences for public policy of enhancing pension systems and removing other structural barriers to saving, such as limitations on the financial sector and defects in the labour market.

Defining the Canadian Pension Model

What exactly is meant by the phrase the "Canadian pension model"? There is no definition that is widely recognised, with the exception of the fact that it almost invariably refers to the bigger public pension funds in Canada. According to the findings of this study, the Canadian model is described as a public pension plan or public asset manager that is generally defined-benefit, has at least one public sector sponsor or sponsors, and possesses the following qualities:

Free and separate governance. This is likely the most distinguishing feature of the pension system utilised in Canada. Independent boards with a fiduciary obligation to plan participants and robust accountability and transparency frameworks are in charge of the administration of public pension funds, despite the fact that many of the public pension plans include the government either as a sponsor or a donor. This is so that the funds may function independently of their sponsors and governments.

Scale. The amount of assets now under control is greater than $10 billion and is frequently much higher.

Management conducted internally by trained experts. It has been common practise for Canadian funds to delegate a sizeable percentage of their investment management, pension administration, or both to in-house specialists who are compensated at a level that is comparable to the industry standard.

Diversification. The asset classes held by Canadian pension funds are highly diversified, including a considerable allocation to alternative asset classes such as real estate, private equity, and infrastructure, as well as significant direct investments in these asset classes. Canada's pension funds are also highly diversified geographically. According to the findings of a research that was only recently made public by PwC, major pension funds in Canada have a greater exposure to alternative investments than large pension funds in Australia, the Netherlands, the Nordic nations, the United Kingdom, and the United States of America. Talent. The success of Canadian pension institutions in recruiting and maintaining top talent from across the world at both the board and executive levels may be attributed to the combination of a compelling purpose, competitive salary, and intellectually interesting work.

Horizon of time that is far off. Pension funds in Canada are investors that focus on the long term and are able to weather short-term market turbulence.

For a pension organisation or system to benefit from the lessons included in this study, it is not necessary for it to share all of the qualities that are present in its Canadian equivalent. Even though the most prosperous pension organisations in Canada are often located in the public sector and have defined benefit plan designs, the lessons that can be learned from these organisations may also be applied to plans that are located in the private sector and have either defined contributions or target benefits.

The Canadian Retirement System

The security of individuals' incomes in retirement has been steadily improved during Canada's lengthy history as a nation. It was in the middle of the 19th century when firms first started providing their employees with workplace pension plans. Then, in 1919, the federal government adopted income tax laws to stimulate the adoption of workplace pension plans. This legislation was intended to facilitate the establishment of workplace pension plans. Old Age Security (OAS), which is a tax-supported income-assistance programme for seniors, was one of the first large-scale retirement programmes to be introduced by the federal government in the early 1950s. This was done out of concern for the rising rates of senior poverty. Contributory programmes designed to augment Old Age Security (OAS) were founded in 1966 by the governments of Canada and Québec, respectively. These plans were both named the Canada Pension Plan and the Québec Pension Plan. Guaranteed Income Supplement (GIS) is a targeted tax-supported programme that was established by the government of Canada in 1967. GIS is intended for elderly citizens who have lower incomes. Since that time, considerable changes have been made to the system through which Canadians get their retirement income. The goals of these reforms are to guarantee that retirees in Canada have sufficient income to maintain the same level of life they had when they were working and to make it possible for existing programmes to continue into the foreseeable future.

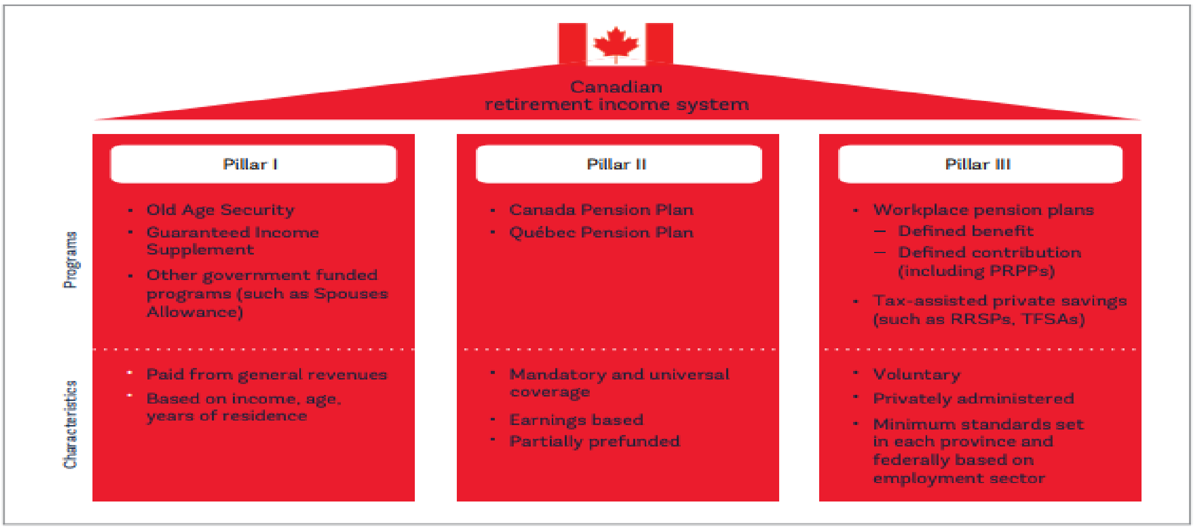
As is the case in the majority of countries that are members of the Organisation for Economic Co-operation and Development, the retirement income system in Canada may be summarised using the word "pillars" to refer to its three primary components (see figure 1.2). Through the Old Age Security and the General Insurance Supplement (OAS and GIS), Pillar I ensures that older citizens always have access to a minimum income. OAS begins at age 65 for Canadian citizens and permanent residents who fulfil the residence conditions. In 2016, the highest amount of the yearly benefit is $6,800. Those who earn more than $73,800 in 2016 are subject to a reduction in their OAS payments, which will eventually be removed entirely. The GIS is a programme that is based on income and offers supplementary financial support to seniors who are citizens of Canada and who are living in homes with lower incomes. It is necessary for persons to be receiving OAS payments in order to qualify for GIS benefits, which provide assistance to around one-third of Canadian seniors. For a senior living alone, the maximum yearly GIS payment is roughly $9,300 (2016), whereas the maximum benefit for senior couples is $12,300 (2016). Every dollar in retirement income obtained from sources other than OAS results in a reduction of the GIS benefit equal to fifty cents of that dollar. If a senior's yearly income in retirement is more than roughly $17,300 (2016) for single persons or approximately $22,800 (2016) for couples, they will no longer be eligible for GIS.

Pillar II is comprised of the Canada Pension Plan (CPP) and the Québec Pension Plan (QPP), both of which are obligatory earnings-related programmes for working individuals in Canada and Québec, including those who are self-employed. Both the Canadian Pension Plan (CPP) and the Quebec Pension Plan (QPP) offer a variety of benefits, including retirement, survivor, and disability benefits, as well as payments for the children of contributors who have passed away or become incapacitated.

These are contributory plans that demand a joint payment from the employee and the employer of 9.9 percent (10.5 percent for QPP) of earnings between $3,500 and the year's maximum pension earnings ($56,900 in 2016), with the contributions being split evenly between the two parties. These plans have the goal of replacing twenty-five percent of the pensionable earnings, and the benefits can be received at the age of sixty-five and are transferable across Canada. They can also be pulled earlier or later using payment formulae that either reduce or enhance the amount paid out. The Canada Pension Plan and the Quebec Pension Plan each offer a maximum retirement payment of roughly $13,000 per year (2016).

The third pillar of the Canadian retirement system is made up of occupational pensions and private savings plans, both of which make it possible to replace additional wages after retirement. These include Registered Pension Plans (RPPs), which can be sponsored by an employer, union, or another organisation; Registered Retirement Savings Plans (RRSPs), which can be sponsored by individuals or groups; and, beginning in 2009, Tax-Free Savings.

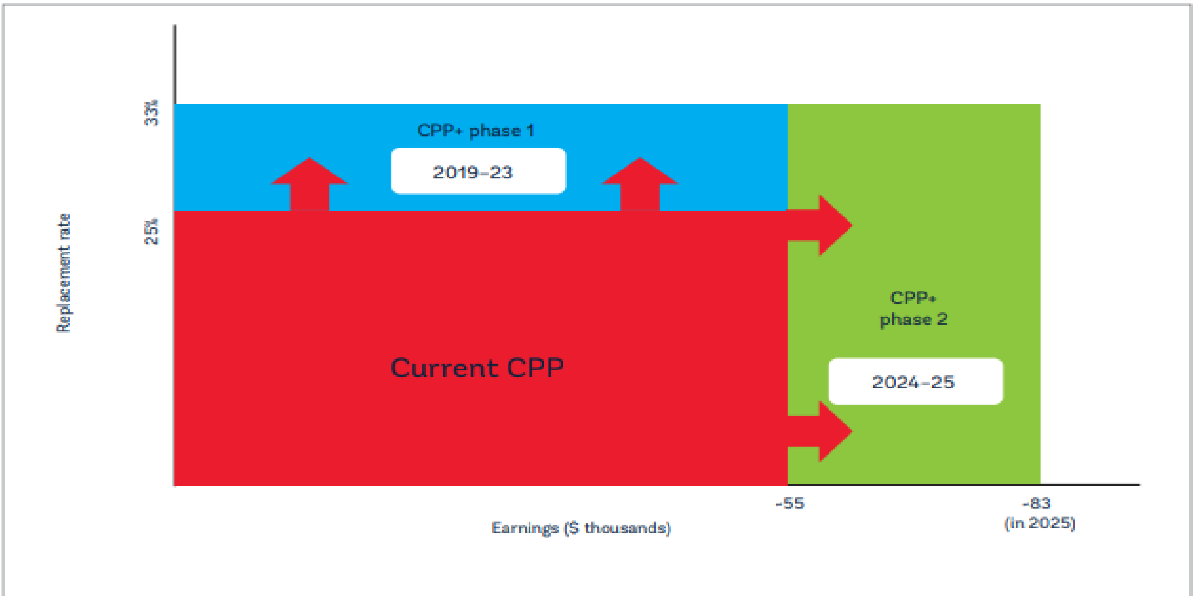
Figure 1. The three mainstays of the Canadian government's pension and retirement savings programmes.



Note: PRPP = Pooled Registered Pension Plan; RRSP = Registered Retirement Savings Plan; TFSA = tax-free savings account.

accounts (TFSAs) in the past. There is a favourable tax benefit available for each of these cars. In spite of the fact that the retirement income system has, on the whole, been beneficial to Canadians by lowering the percentage of elderly people living in poverty, anxiety about the efficiency of the system in the years to come has been rising. Over the past few decades, the percentage of people covered by occupational pensions has progressively decreased, notably in the private sector. This trend is seen in many nations. In addition, it has been demonstrated in a number of studies — some of which were commissioned by the federal and provincial governments — that a sizeable proportion of Canadians are not on track to be able to maintain their current quality of life once they enter retirement.16 In light of this, Canada has been engaged in a heated policy discussion for the better part of the last decade over the measures that the government ought to take to address the difficulty of providing enough retirement coverage and benefits. The success that was ultimately achieved was due to the growth of required public pension programmes. Up until June 2016, the province of Ontario was planning to introduce a brand new required pension plan known as the Ontario Retirement Pension Plan. This plan was anticipated to cover more than 4 million participants and offer contributing members an additional income of up to $13,500 per year when they reached retirement age. The efforts made by the provincial government of Ontario to establish a pension system that was supported by the provincial government had a crucial influence in catalysing an agreement between the federal government, the provinces and territories. A agreement that had been in the works for over a decade came to fruition in 2018, and as of 2019, the Canada Pension Plan will be improved to offer members with up to an extra 8.3 percent in replacement income, which is equivalent to around $12,000 per year. A worker who has contributed to the national plan for a total of 40 years would be eligible to earn approximately $25,000 per year in retirement benefits under the revised CPP (figure 1.3). The revised CPP will result in higher payments from both employees and employers.

Figure 2 Recently agreed-upon enhancement to Canada Pension Plan benefits



Note: CPP = Canada Pension Plan.

Policy background

The government said in October 2000 that it would commit to enacting age legislation by the year 2006. This was necessary in order to incorporate the European Directive on Equal Treatment in Employment and Occupation (2000/78/EC) into the legal framework of the United Kingdom.2 According to this, discrimination in the workplace on the basis of gender, religion or belief, disability, age, or sexual orientation was to be forbidden throughout the European Union (EU) by the end of the year 2003. This prohibition included both direct and indirect forms of discrimination. The Directive was a component of a larger equality strategy that included a Directive on equal treatment with regard to racial and ethnic origin as well as an action programme to combat prejudice. Additionally, the Directive was a part of a series of actions that aimed to combat discrimination. The year 2003 saw the government hold a series of consultations on the topic of age discrimination in employment and vocational training, with the goal of eventually outlawing such practises. The replies to the consultation were taken into consideration by the BIS throughout the drafting of the regulations. The Equality and Human Rights Commission (often known as the EHRC) was subsequently established by the government. The EHRC began its operations on October 1, 2007, and shortly thereafter assumed responsible for the implementation of age laws. During the same time period, the Department of Work and Pensions was in charge of carrying out the government's policy of "Extending Working Life." 3 It moved forward certain goals within this policy area that were outlined in the Pensions Green Paper from 2003. Working and putting money down for retirement offers simplicity, stability, and choice. 4 These included providing assistance to firms in the adoption of age-positive employment practises in advance of the age discrimination law that was adopted in October 2006, as well as promoting employers to recruit, train, and keep older workers (those aged 50 and above).

The Employment Equality (Age) Regulations 2006

The Employment Equality (Age) Regulations 20065 made it illegal to discriminate against someone based on their age in the workplace or while they were receiving vocational training. A voluntary Code of Good Practise on age that had been introduced by the Government of the UK in 1999 was in place before this piece of law. It became against the law, as a result of the Equality (Age) Regulations, to make judgements on employment and vocational training based on a person's chronological age rather than on their level of ability. The regulations address topics like as hiring, selection, promotion, salary and benefits, firing, outplacement, retirement, and training, among others. Contract employees, self-employed people, and the vast majority of office holders are all considered to be employed according to this definition. The law addresses both direct and indirect age barriers, which are actions that have an indirect impact on certain age groups. One example of a direct age barrier is when recruitment is limited to those who hold a qualification that has only been around for five years, which rules out people who are over the age of 30. Another example of an indirect age barrier is when recruitment is limited to those who are between the ages of 30 and 40. Harassment and other forms of victimisation of persons because of their age were both prohibited by this statute. On the other hand, the statute does not contain:

- Discrimination in goods and services;
- Education or voluntary unpaid work;
- Duties on public bodies to promote age diversity (such as those that apply in the case of race, gender and disability).

At the time that this legislation was being drafted, there was no lower age restriction; nevertheless, given that the law addresses employment and education, the effective lower age was 16. The only exception is when it comes to the DRA; otherwise, there is no maximum age requirement. The Equality (Age) Regulations contain a larger variety of possible exclusions than other discrimination statutes do. These exemptions allow for the possibility that actions and decisions that are based on a person's age may in reality be allowed. In the event that the exclusions are contested, they will need to be objectively explained as being necessary to achieve acceptable goals.

The UK default retirement age

The Equality (Age) Regulations created a DRA of 65, which meant that it was unlawful for employers to set a mandatory retirement age of below 65, unless, in their specific situation, an employer could objectively justify a lower age. In other words, the Equality (Age) Regulations made it illegal for employers to set a mandatory retirement age of below 65. When this article was written, companies were not required to use the age of 65 as the DRA; instead, they had the option of establishing a higher age or opting not to have a mandatory retirement age at all. In addition, the Equality (Age) Regulations provided employees with the right to request the option to continue working over the obligatory retirement age of their company, as well as a formal mechanism for making such a request, which employers were obligated to take into consideration. The employee had the right to submit a written request to continue working, and the employer was required to organise a meeting to evaluate the employee's request "in good faith." The employer's obligations included alerting the employee of their right to make the request not less than six months before the employee was scheduled to retire of their right to make the request. At the time of this writing, an assessment based on evidence was being conducted on how the DRA was being utilised, and this evaluation will continue in 2010.6 This literature study is a component of the DRA review, as was discussed in Section 1.2 of the report.

CONCLUSION

The United States of America and Canada both provide their people with the opportunity to participate in public pension programmes, employer-sponsored plans, and individual savings choices in order to guarantee that they will have adequate financial assistance throughout their retirement years. Although the particulars of each plan may differ, the overarching objective is the same: to provide retirees with a safety net and to stimulate personal savings for a financially comfortable retirement.

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