The AMBACHTSHEER Letter
Sustainable Pension Design • Effective Pension Management

May 2025

CAN PENSION ORGANIZATIONS INNOVATE?

THE EXTRAORDINARY CASE OF *CAAT PENSION PLAN*

"In an ageing world, the design and management of a country's retirement income system is becoming an increasingly important strategic determinant of its future social and economic performance. The Mercer CFA Institute Global Pension Index ranks Canada's system #11 out of 44 countries. What will it take for Canada to improve its pension system quality ranking?"

KPA Advisory Services Pension Policy Paper, 2023

"Our Plan provides the lifetime income Canadians want to feel financially secure in the future, with stable and predictable costs that employers need to minimize risk. Workplaces can offer a pension solution that blends the best of defined benefit, defined contribution, and RRSP plans. The unique flexibility and superior performance of CAAT's Penson Plan are big drivers behind its growth from coast to coast."

Press release with *CAAT Pension Plan*'s 2024 Annual Report

The 2023 *KPA* Pension Policy Paper

The 2023 Paper cited above was titled "**Making Canada One Of The World's Top Pensions Countries: What It Will Take**". It laid out the great contradiction in the design and management of Canada's retirement income system. On the one hand, on the national level, Canada has a functional Old Age Security/Guaranteed Income Supplement (OAS/GIS) system, and sustainable, well-managed CPP/QPP pension plans. It also has a group of globally-admired workplace pension plans for its federal, provincial, and municipal public sector workers. However, private sector workplace pension plan design and coverage are limited, especially due to a lack of DB plans that provide lifetime income and inflation protection. Fewer than 20% of the private sector workforce have such plans, and the proportion is declining. This leaves millions of private sector workers to look after their own retirement finances beyond OAS/GIS and CPP/QPP membership.

The 2023 Paper pointed out that, not surprisingly, many of these workers do not do this well. They under-save, and tend to invest the retirement savings they do have through high-fee retail channels. Such fees materially reduce the return compounding effect of multi-decade holding periods. On top of all this, these workers face another problem: they do not know how long the accumulated retirement savings have to last. The response of many retirees is to underspend, to ensure their retirement savings do not expire before they do.

So in short, Canada's pension reform challenge is to provide its private sector workers with workplace pension plans that mirror those of its public sector workers in plan coverage, design, governance, and investment practices. To that end, the 2023 Paper laid out three possible paths:

> Path #1: One or more commercial financial services providers designs and implements a functional, low cost, pan-Canadian workplace pension plan for private sector employers and employees.

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Path #2: Provincial governments create multi-employer plans at the provincial level.

Path #3: Existing public sector workplace pension organizations offer their expertise and pension management infrastructure to private sector employers and employees.

The 2023 Paper commented on the likely success prospects of each of these three possible paths to pension reform in Canada.

Success Prospects

The Paper noted that the success prospects for Path #1 were limited because Canada's major banks and insurance companies benefit greatly from the status quo. The billions of dollars in investment, advisory, and custodial fees generated from the current fragmented mix of DC plans, Group RRSPs, RRSPs, TFSAs, RIFFs, Mutual Funds, and Annuities are too rich to pass up.

Path #2 has been getting some attention. For example, Ontario considered starting a provincial supplementary plan, but the idea was dropped when CPP benefits were increased in 2016. The former Alberta NDP government also considered launching a provincial supplementary plan, but were defeated in the recent provincial election. There has also been some talk in British Columbia about the possibility of a provincial supplementary pension plan, but so far, nothing concrete has happened.

Turning to Path #3, the most promising development mentioned in the 2023 Paper was the initiative by *CAAT Pension Plan* to invite private sector employers to join their *DBplus* pension plan offering. This view was strongly confirmed recently by new information provided in its just-released 2024 *CAAT Pension Plan* Annual Report.

A *CAAT Pension Plan* Progress Report

The most direct way to start telling the *CAAT Pension Plan* innovation story from the start is by timeline:

- 1967: *CAAT Pension Plan* founded to provide pensions for employees of Ontario colleges.
- 1995: *CAAT Pension Plan* adopts the Jointly-Sponsored Pension Plan (JSPP) model.
- 2013: The idea surfaces to create a new supplementary pension plan that non-College employers and their employees can join. This would be a 'win-win' for the Colleges (a larger, more diverse Plan membership), and for non-College employers and their employees (an affordable, low risk, lifetime income pension plan).
- 2014 to 2017: Convert the 'new pension plan' idea into an implementable, regulatorily acceptable plan design called *DBplus*, which will be managed side-by-side with the *DBprime* plan for College employees.
- 2018: Launch of the *DBplus* plan, which offers a core lifetime pension at a fixed contribution rate. It also provides additional conditional enhancements like inflation increases, which are based on the funding status of the Plan.
- 2019 to 2024: Participation in *DBplus* grows from zero to 704 non-College employers employing 60,400 people. This compares to 45 College employers employing 27,800 people who are members of the original *DBprime* pension plan.
- 2024: Together, the two plans are 124% funded, with assets at C$23.3B, and combined total membership of 118,000 people. Inflation protection continues to be provided, and the pension benefits in *DBplus* are being improved based on the strong funded ratio.

- 2024: Launch *GROWTHplus*. Plan members can use this new investment offering for additional voluntary tax-deferred retirement savings at no additional cost to employers. Contributions will be invested through *CAAT Pension Plan*'s investment program which generated an industry-leading net annual return of 9.6% over the last 10 years.

A key transition point in this 2013-2024 progress report was the 2014 to 2017 period in which *DBplus* was designed and approved by the regulators. What are its key features?

The Design and Key Features of *DBplus*

This is how the *CAAT Pension Plan* describes *DBplus* design in its literature:

- *DBplus* is an innovative plan design that provides lifetime pensions at fixed contribution rates.
- It is open to Canadian organizations of all sizes, across all sectors, coast-to-coast.
- Employers select a contribution rate that works for them. They deduct employee contributions from payroll, match it, and remit to *CAAT*. They do not face any balance sheet risk or contribution rate volatility. Also, transitions to *DBplus* from Group RRSPs, from DC or traditional DB plans are all equally seamless and efficient.
- Employees are assured that their pensions will be there for them, without any reliance on the financial health of the employer. Lifetime pensions will be based on total contributions made, multiplied by an Annual Pension Factor of 8.5% for each year they contribute. On average, members who contribute over their entire career with an employer contribution match, can expect to receive about $8 in benefits for each $1 they contribute.
- A predetermined funding policy matrix provides *CAAT Pension Plan*'s Board of Trustees with guidance on how to respond to possibly changing *DBplus* funded ratios over time, with strong ratios leading to conditional benefit enhancements above the core DB lifetime pensions, and if the Plan is in deficit, it will not grant new conditional Plan enhancements. It is worth noting that *CAAT* cannot reduce accrued benefits or conditional enhancements, once granted.

In short, *DBplus* addresses critical employer pension concerns about balance sheet risk, administrative costs, and complexity. At the same time, it also addresses employee concerns about saving regularly and adequately for the retirement years, and ending up with a dependable stream of pension income for as long as they live. The strong acceptance of *DBplus* by Canada's private sector employers, employees, and labour unions speaks volumes about the *CAAT Pension Plan*'s extraordinary ability to innovate, and to turn that innovation into win-win outcomes for itself, and for hundreds of Canadian employers and their many thousands of employees.

What About the *VPLA*?

Our **November 2024 *Letter*** sang the praises of the *Variable Payment Life Annuity* (*VPLA*). The explanation started with the Tinbergen equality rule between policy goals and policy instruments. Thus the dual pension design goals of affordability and lifetime income require two instruments: one to achieve affordability during the accumulation phase (i.e., generate a high-enough return to be able to acquire a good pension at an affordable price), and another to generate lifetime income (i.e., be able to continue paying that good pension as long as its recipient is alive).

Turning to the commercial pension services market, the *Letter* noted that there are many products that claim to generate the high investment returns required in the accumulation phase to acquire a good pension. However, what has been missing is a cost-effective lifetime pension income product, as the insurance industry's guaranteed life annuity products do not meet the 'cost-effective' test due to sales commissions and insurance company capital reserve requirements.

Enter the *VPLA*, not burdened by either sales commissions or capital reserve requirements. The *Letter* traces its history through *TIAA*'s invention in the USA in the 1950s, *UBC Pension Plan*'s adoption in the 1960s, its Canadian regulatory demise as an 'uninsured annuity' in the 1980s, its rebirth in Canada in the 2020s as a mutual fund by *Purpose Investments*, and in Australia as a lifetime pension fund by the *Australian Retirement Trust*. Meanwhile, Canada's pension regulators have seen the light, and are in the process of legalizing the *VPLA* as a legitimate pension plan design. Saskatchewan's *Plannera* pension organization will be launching its version soon.

Back to the *CAAT Pension Plan*

When *CAAT Pension Plan* decided to start offering its pension management capabilities to other employers a decade ago, it lived in a DB world where one investment program covered both the accumulation and pension payment phases of plan participants. So to be able to offer a fixed contribution rate in its *DBplus* offering to prospective employers, it required a mechanism that adjusted current and future pensions to assure the continued solvency of the Plan through time. So as noted above, with *DBplus* currently in a surplus position, pension benefits can be increased.

This reality creates important context for the new *GROWTHplus* initiative described above. It creates additional flexibility for Plan members to increase their retirement savings rate above what is embedded in *DBplus*. It will not surprise readers that *CAAT Pension Plan* is now designing a new *VPLA*, which will provide Plan members with an option to buy an additional lifetime pension income when they so desire.

This *Letter* closes with a reference to Bart Madden's *Pragmatic Theory of the Firm* (*PTF*), which we have been advocating for inclusion in how pension organizations think about investing. *PTF*'s essence is that strong innovation capability lies at the heart of organizational value-creation. The *CAAT Pension Plan* story is a case in point.

Keith Ambachtsheer

Published by KPA Advisory Services Ltd., 1 Bedford Road, Suite 2802, Toronto ON Canada M5R 2B5
416.925.7525. www.kpa-advisory.com