

Research Project #3: Factors Affecting Trends in Occupational Pension Plans in Ontario

Research Paper: Defined Benefit Pension Coverage and Funding in Ontario: Local Experiences in a Global Context

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EXECUTIVE SUMMARY:

- > The funding and coverage of defined benefit (DB) pension plans is an issue of vital concern in Ontario as in the rest of the world.
- > This paper, which is part of the Ontario Expert Commission on Pensions' (OECPE) consultation on the occupational pension system in Ontario, seeks to describe and analyse the various factors influencing funding and coverage of DB plans in Ontario and compare these factors with those in other jurisdictions.
- > We are tasked with making qualitative judgments based on our collective expertise and knowledge of pension systems around the world. We refer to publicly available reports and academic research. In addition, we use public and private data, such as Statistics Canada's CANSIM database. In short, this paper is an interrogation of existing literatures and data rather than new scholarly material.
- > We find that DB pension underfunding is a recent and ongoing phenomenon in Ontario. However, Canada's DB pension underfunding today is based more on problems with the liability than on problems with the assets. Indeed, after 2002, equity values appear to have increased considerably. Nevertheless, contribution levels (one of our proxies for funding) have also increased considerably, suggesting that rising assets have not been enough to fill the funding gap. Indeed, low discount rates appear to be the root cause of underfunding, compounded by increasing longevity, actuarial practice and regulation.
- > We also find that DB pension coverage in Ontario shows only a gradual decline over the last 15 years. Nevertheless, we find a much faster decline in the private sector than the public sector. Indeed, private sector coverage has dropped by roughly one third over the period under consideration (1992 to 2005). We conclude that competitive pressures, government regulation and declining unionizing rates have been important factors in driving this decline in DB coverage in the private sector.
- > We conclude that Ontario's DB pension system is experiencing declining coverage and plan underfunding. However, Ontario exhibits distinct differences from the global experience. Indeed, DB coverage, though on the decline, appears more resilient than in the U.S. and the U.K. Also, underfunding does not appear to be associated with the asset side of the equation (relative to the US and UK) but with the liability side (due to interest rates, increasing longevity, etc.).

- > Future research would benefit from better statistics, as consistent Ontario DB pension funding and coverage data over time was not available. As part of this project's mandate, the OECP engaged to provide by the mid-summer 2007 detailed statistics and regressions analysis underscoring the factors that drive funding and coverage. Unfortunately, we never received these data, which has limited our ability to make firm conclusions in the Ontario case. As a result, this discussion can only be viewed as tentative conclusions based on a series of necessary assumptions, some of which may certainly be challenged, and indeed should be.