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NEWS RELEASE

Dynamic Pension Pools Urgently Needed to Support Canadians' Retirement Income Security

TORONTO, November 16, 2021 — A new report published by the National Institute on Ageing (NIA) and the Global Risk Institute (GRI), *Affordable Lifetime Pension Income for a Better Tomorrow: How We Can Address the $1.5-trillion Decumulation Disconnect in the Canadian Retirement Income System with Dynamic Pension Pools*, explains why Dynamic Pension (DP) pools are urgently needed to make retirement income security possible for millions of Canadian seniors.

With 10 million baby boomers now entering retirement—with longer life expectancies and a greater dependency on private savings to sustain them—it's more important than ever to find solutions that will help retiring Canadians turn their accumulated savings into low-cost lifetime pension income.

“Retiring Canadians are more worried than ever that their savings won't sustain them in retirement, and these fears are legitimate,” explains Dr. Bonnie-Jeanne MacDonald, Director of Financial Security Research at the NIA and lead author of the report. “Financial markets, inflation and health expenses are just some of the big unknowns that retirees will need to face over 10, 20, 30 or even 40 years.”

According to the report, DP pools have the potential to transform the Canadian retirement landscape. Their goal is simple: to help people optimize their expected lifetime retirement income while ensuring they never run out of money.

While protecting a single individual from outliving their savings (i.e., longevity risk) is often prohibitively expensive, the same protection becomes affordable when spread across a large group. Pooling longevity risk allows retirees to spend their savings more confidently while they are alive, says the report.

In a DP pool, pension amounts are not guaranteed; they may fluctuate from year to year. This means retirees can stay invested in capital markets and benefit from the higher expected returns.

“DP pools have a risk-reward profile that is fundamentally different from the current options and products that are available for older Canadians—like costly guaranteed annuities purchased through an insurance company, or individually managing and drawing down savings from a personal retirement savings account,” says Barbara Sanders, Associate Professor at Simon Fraser University and one of the authors of the report. “Retirees who are comfortable with some investment risk can stay invested in equity markets and reap the associated rewards, which is important in today's low interest and high inflation environment.”

DP pools are already recognized as a powerful decumulation solution in other ageing countries around the world; however, they aren't broadly available in Canada today. The report provides guidance on how to remove unnecessary obstacles and clear the path for this important solution.

"Turning lifetime savings into lifetime income is more than just a challenge—it's an impossible task that threatens the financial and emotional security of a growing portion of the Canadian population," says MacDonald. "DP pools are a proven and viable solution with the potential to improve retirement financial security for millions of retiring Canadians."

Key Takeaways

- Dynamic Pension (DP) pools are a viable, efficient and transparent decumulation option. By allowing retirees to pool their longevity risk, they deliver higher expected lifetime income and solve the biggest financial threat that Canadian seniors face: running out of money in retirement. Other advantages include continued participation in equity markets, economies of scale and greater investing power.

- When it comes to expected lifetime retirement income, DP pools substantially outperform the decumulation options currently available to Canadians. Their risk-reward profile is fundamentally different from guaranteed annuities and individual drawdowns: they allow retirees to pool longevity risk without being forced into a conservative asset mix.

- Not only can DP pools protect the financial security of individual Canadians, but they can also protect the public purse by reducing reliance on income-tested federal and provincial senior social programs.

- While the merits of dynamic pensions have been demonstrated both in theory and in practice, their widespread adoption and effective use hinges on swift and successful implementation, with clear regulatory guidance.

- The report urges policymakers to adopt a universal DP pool framework that is available to all Canadians regardless of their employment histories, accepts all types of individual registered retirement savings accounts and encourages a broad range of providers.

- With supportive legislation, access to DP pools has the potential to transform decumulation and the Canadian retirement income landscape.

For more information, read the full report: *Affordable Lifetime Pension Income for a Better Tomorrow: How We Can Address the $1.5-trillion Decumulation Disconnect in the Canadian Retirement Income System with Dynamic Pension Pools*.

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The [National Institute on Ageing](#) is a Ryerson University think tank focused on the realities of Canada's ageing population. Follow us on Twitter @RyersonNIA and support our call for a National Seniors Strategy @NSS_Now.

About the Global Risk Institute

The Global Risk Institute (GRI) is a premier organization that defines thought leadership in risk management for the financial industry. GRI brings together leaders from industry, academia, and government to draw actionable insights on risks globally. For more information, visit globalriskinstitute.org.

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Background

- In Canada, there is $1.5 trillion in individual registered retirement saving accounts (RRSP/RRIF, LIRA and DC pension plans) without a satisfactory option for conversion into lifetime retirement income. Only one-tenth of these assets are in workplace DC pension plan accounts.

- With defined benefit pension coverage continuing to decline in the private sector, Canadians are entering retirement with a greater reliance on individual registered savings to finance their golden years. In 2019, two thirds of Canadian households nearing retirement held registered savings in individual accounts (RRSP/RRIF, LIRA and DC pension plans), with a median balance of $100,000—a third higher than the median balance two decades ago (in constant dollars).

- The retirement industry and public policy have historically focused on accumulation of retirement savings without adequately addressing the decumulation stage. Today, Canadians are forced to choose between two extreme options:

    1. Purchase a life annuity from an insurance company, where the guarantee requires conservative and costly pricing assumptions and, therefore, produces unattractively low levels of pension income; or

    2. Move money into RRIFs, where significant capital must be put aside to prepare for a longer-than-average lifespan. Minimum RRIF withdrawals are designed to lead to precipitously declining payouts after age 95; however, there is a one-in-five probability that a 65-year-old Canadian will live beyond that age.

- Access to efficient lifetime pension income is critical to protect Canadian seniors and their families, the economy and our existing social security systems. A lifetime income stream provides financial independence and peace of mind, removing the burden of managing financial assets when declines in cognitive abilities may impair seniors' ability to make good financial decisions. Having large levels of savings at advanced ages can also expose them to bad advice or even fraud.