

RETIREMENT

Pension plans take a pounding

Investment losses, falling interest rates led to massive shortfall at end of 2008, actuaries say

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A late rally on global stock markets did little to avert a mammoth shortfall in Canada's pension plans by the end of 2008.

Two leading actuarial firms estimated yesterday that investment losses and falling interest rates combined to slash solvency funding levels, which measure a pension's health, by 28 per cent last year. The global credit crisis has sapped investor confidence and erased trillions of dollars of wealth, impairing pension plans of all stripes.

Watson Wyatt Worldwide's barometer of the performance of a typical Canadian pension put the solvency funding level at 69 per cent at year end.

Mercer's pension health index, which does not take account of the extra contributions made by most employers in recent years, had fallen to 59 per cent.

The poor state of many pension plans means that employees and retirees of a company that fails during the current recession could suffer a drastic reduction in their pensions and lifestyles in retirement.

"Members of defined-benefit plans will be at risk only if the company does not survive long enough to fully fund the plan," said David Burke, retirement director at Watson Wyatt in Toronto.

"What's most troubling is that the significantly higher pension contributions that will be required to offset sizeable investment losses are placing additional strain on companies and negatively impacting capital investment plans for 2009 and beyond."

Ontario and Ottawa have announced plans to give companies more time than usual to deal with solvency shortfalls, but there are hurdles to getting permission.

Mercer said investment managers it has surveyed expect some recovery in stock market prices this year, with half predicting a gain of less than 10 per cent and half more than that.

"Almost all managers (just under 90 per cent) believe that it will take at least three years for the S&P/TSX to reach its former high of 15,000 (points)," Mercer said in a news release.

While tax law permits employers to put extra money into defined-benefit pension plans, this right does not apply to individual savers and members of defined-contribution plans. So they may have their retirement plans set back by years, too.

Dan Morrison, a senior retirement and investment consultant with Watson Wyatt in Calgary, said these employees have lost 10 to 20 per cent of their savings, depending on the portion of their portfolios invested in stocks.

With the drop in interest rates and the resulting rise in the cost of life annuities, those on the verge of retirement will find their income potential has been cut by 25 to 30 per cent by last year's events, he said.

This could pose an indirect problem for employers, Morrison warns. They will have to revisit their human resource plans if the investment losses put senior employees under stress, cause them to put off retirement "or worse yet, retire on the job, struggling to be productive and engaged."

Morrison warned employers not to risk giving investment advice, but instead to consider such programs as phased retirement and job sharing to deal with an aging and less productive workforce.