Impacts of Cyclical Downturns on the Third Pillar of the RIS and Policy Responses

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Abstract

This paper explores impacts of recessions on private pensions and retirement savings in Canada. We estimate that the 2008-09 recession saw declines in average family wealth and retirement assets of 11% and 14% respectively. Average wealth recovered by the end of 2010, but retirement assets remained 2% lower than before the recession. Losses were higher for those more exposed to the stock market, such as older workers and retirees with DC pension plans or large RRSPs. Without the recovery the recession would have reduced expected retirement income of future retirees by averages of 3.4% and 11.0% for DB and DC plans respectively. In order to analyze unemployment and early retirement effects, the paper examines a hypothetical economy with a recession once a decade. For DB plans, unemployment caused by recessions can reduce pensions by up to 25% if it strikes late and reduces final average pay. Early retirement may reduce DB pensions up to 50%. Overall, effects tend to be smaller with DC plans, but early career unemployment or early retirement can have substantial impacts. Enhancing CPP/QPP is compared with wide adoption of Pooled RPPs (PRPPs). Expected retirement income is higher with PRPPs but so is risk.

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