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CARNEY: Lots to learn from Ontario's pension plan

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It's been a cool and rainy summer in Ontario's cottage country.

What's got people talking here, apart from the lousy weather, is the province's new made-in-Ontario pension plan. The province decided to go it alone after Ottawa declined to expand the Canada Pension Plan (CPP).

Ironically, 30 years ago it was the Ontario government of the day along with business opposition that blocked CPP reform. The Ontario Retirement Pension Plan (ORPP) will launch in 2017 and phase in over two years.

Workers would contribute 1.9 per cent of their incomes which would be matched by employers, up to a $90,000 income maximum. A $90,000 earner would pay $137 a month into the plan and after 40 years get $1,068 a month in addition to their CPP payment.

The ORPP will expand pension coverage initially to more than three million working people in Ontario who currently don't have a workplace pension. That's good. The money will be managed at arms-length from government and kept free from political interference. That's also good.

With a projected deficit for this fiscal year of $12.5 billion it's fair to say that these guys aren't the best money managers in the world. Finally, the plan provides a guaranteed benefit. What's not to like?

First, I don't believe the government's numbers.

I don't think they can fund the ORPP much less deliver on their promises with a combined 3.8 per cent contribution rate.

(The contribution rate for CPP is 9.9 per cent). And I can't help but think that minimum wage and low-wage workers would prefer more money in their pockets now rather than the promise of an improved pension benefit somewhere down the road.

We don't know what the program will cost. CPP is lauded as a model of efficiency but it really isn't - the CPP spends more than $600 million a year in operating expenses. The plan only covers about half of Ontario's work force of six million people and those who need the program the most, low-income workers, will benefit the least from the plan.

And of course, the new benefits will not be fully available for 30 or 40 years. That's not much help to those retiring in the next decade. Any pension consultant will tell you that when it comes to pension reform we can pay now or we can pay more later. Those same experts have produced dozens of reports over the years on how to improve pension coverage for Canadians. For the most part when it comes to pension reform Canada's politicians have been content with doing nothing.

Ontario, at least, has taken some action. But we have another problem here. A more fundamental one. We're not saving enough for our own retirement.

We need to find ways to force people to tuck away more of their own money when they are young. If they manage to do that they will need less money from government when they are old. Pension reform isn't all that difficult. Figuring out how to get people to take more responsibility for funding their own retirement is the real challenge.

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