Marris Miller

Pension Disparity: The Pension Issue of 2020

The Pension Papers™

Pensions not only have to be valuable, but they also have to be fair and equitable. At the same time, they have to decrease risk exposure to members and to the organizations in which they work.

The reality is that this is difficult to achieve, especially because there are so many facets to both understanding and operationalizing pension parity. The fact is that pensions are not alike, and pension savings (and their impact on retirement) often differ from each other deeply, and in ways that are hidden.

This paper explores what's going on underneath the surfaces when it comes to pension parity, and suggests that what we cannot readily see what's on our pension reports and retirement savings statements. In this paper, we'll look at what pension parity really means, and how organizations can protect themselves against the risk of parity issues, both financial and litigious. We'll talk about why parity, if it can be achieved, can drive both solutions and hope. Finally, we'll discuss why managers are the best equipped to take a key role in creating funcitional, operationalized changes in pensions that can make an impact on equity in their organizations, and in the working world and beyond.

The issue of pension parity is not simply about abating risk, but about the broader strategy of how leaders think about the future of managing employees, contributions and retirement, and it's going to be a major focus of how we plan for pensions in 2020.

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The information in this publication should not be relied upon as consulting advice. We encourage you to contact us directly with any specific questions.

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Parity Disparity: The Pension Issue of 2020

It can be argued that there are at least two fundamental goals of retirement savings. First, pensions are aimed at guaranteeing a basic level of retirement income for all employees. Second, pensions are aimed at assisting pension members in avoiding a serious disruption of their pre-retirement standard of living upon retirement.

But what if all pensions are not alike? What if pension savings differ from each other in ways that we cannot readily observe? What if what's going on underneath the surface is actually more important than what's on our retirement savings statements?

In 2020, the idea of pension parity is that pensions not only have to be valuable, but they also have to be fair and equitable, and, at the same time, they have to decrease risk exposure to members. And the reality is that this is difficult to achieve, especially because there are so many facets to both understanding and operationalizing parity when it comes to pensions.

Achieving parity means that pensions have to be adequately funded, and that they have to be adverse to controllable risk.[1] In addition, pensions, at their core, are created to provide a future in retirement for members, but that isn't always the reality that members face. Not only are there differences in how much money a person can expect to earn on their pension due to issues based on age, gender, and other social differences, but there are fundamental challenges in the type of pensions that are chosen and operationalized. Over time, this can affect retirement, security, and health for all Canadians. When similar pension contribution rates result in vastly different retirement funds between organizations, organizational units, or individuals, or when large groups of Canadians lack the ability to support themselves after retirement, there is a distinct lack of parity that could negatively affect every stakeholder.

[1] Quain, E. (2018). *Risk Parity Fundamentals.* CRC Press.

That's why this issue has been the cause for ongoing political and corporate debate since the 1980s.[2]

It's only in recent years that solutions to address this challenge have become more effective. And, in Canadian organizations, pension parity is now perceived as a pension obligation. In 2020, that means that managers will need to develop their pension parity knowledge and skills more than ever before.

In this paper, we'll look at what pension parity really means, and how organizations can protect themselves against the risk of parity issues, both financial and litigious. We'll talk about why parity, if it can be achieved through strategic approaches to planning, can drive both solutions and hope. Finally, we'll discuss why pension managers are the best equipped to take a key role in creating functional, operationalized changes in pensions that can make an impact on equity in their organizations, and in the working world and beyond.

What Does Pension Parity Really Mean?

According to the Canadian Bar Association, pension parity is the idea that there are vast differences between Registered Pension Plans (RPPs), namely savings opportunities offered by financial institutions. There are also differences between the Canada Pension Plan (CPP) and these other types of pensions. Finally, there are differences in access to these pension types, and differences between who receives the benefits of pensions.

Let's unpack these ideas further.

But this doesn't mean that RPPs always result in pension parity. In fact, there is insecurity in parity that have been found in some of the largest funds in the world, both corporate and public.

In 2019, it was found that, in the UK, the Teachers Pension Scheme, an RPP, does not provide gender parity for the deceased beneficiaries of its members. Widows of male teachers over fifty years of age get more in survivor benefits than the widowers of female teachers with the same years of service, and similar disparities were found for same-sex spouses.[3]

[2] Canadaian Bar Association. (2001). *The Need for Pension Parity*. Ottawa: Author.
[3] https://www.teacherspensions.co.uk/news/public-news/2018/03/survivors-benefits-in-the-teachers-pension-scheme.aspx.

While changes are being made at present, the reality is that there are many such invisible inequities in long term plans that have remained hidden until members discover them.

In France, a different set of inequities is currently being debated in the public sector when it was found that a French woman receives an average gross monthly RPP pension of €1,123 compared to €1,933 for a man.[4] While some of this inequity was discovered to be the result of occupational inequalities that persist between men and women over the course of their lifetimes, the research also showed that women work for more over-career (END OF PAGE 2) years than men, even accounting for childbirth and caregiving time off, and work later in life, which means that they receive less money for more effort as a whole.[5]

Corporate risk-taking also may affect parity in fundamental ways.[6] Most companies invest over 90% of the risk portion of their portfolios to high-risk assets, which "has been damaging to wealth creation over the last decade and there are few signs for a reversal of fortune in the future."[7] What this means is that they are creating a situation where pension members feel as if they are safe in their future retirement, but the fact is that they are not. Just like public service employees who think they are covered for retirement but in fact are affected by structural issues that prevent equity, corporate pension members, under these high-risk schemes, are affected by a deep and unknown insecurity.

What happens when issues like this arise? The risk is that the fund could be sued, collectively or individually. Very few pension schemes have fully hedged their liabilities when it comes to equity and parity, leaving most pension schemes with a negative exposure to risk.

Secure Pensions Against Future Risk With Parity And Leadership

Parity isn't only about doing what is right, but also about securing ourselves against future risk. Pension managers need to be proactive about parity because safer assets produce risk-adjusted, higher returns, or, at the very least, proactively engage members in understanding how the pensions are managed, and how the funds are invested, and why.

[4] https://www.france24.com/en/20191210-french-women-may-be-the-big-losers-under-macron-s-pension-reform-plan-france-1
[5] CLane, S. (2019) The Scary Facts Behind The Gender Pension Gap. World Economics Forum, March.
[6] Qian, E. (2011). Risk parity and diversification. The Journal of Investing, 20(1), 119-127.
[7] Quian, p. 126.

Parity can be addressed by building collective plans, and creating co-investment opportunities that drive up security. For example, in 2019 there were a number of new pension merger cases that have addressed some parity issues through shifts to joint risk/ jointly-sponsored plans. But, even in these cases, do employees and employers truly understand what are truly sustainable solutions and filter out outdated myths or noises about the value and parity of their pensions?

The reality is that most pension members do not spend a great deal of time thinking about or recognizing the lack of parity in their pensions until it is too late. Pension managers should never lose sight of this reality, because the repercussions for organizations could be very challenging. In general, the means by which to address pension parity is in the balance in which these risk exposures are taken into account, and the degree to which classes of risk can be better diversified.

Managing risk is a matter of leadership in pension management. Careful planning is not just simply about the creation of financial security, but also about the development of a values orientation that places an emphasis on meeting the realistic (rather than ideal) expectations of all pension contributors. Pension parity isn't simply about mitigating one set of risks, namely those introduced by the market and companies in which we invest, but also about looking at the large scale changes to the way that we manage employees (END OF PAGE 3) and do business, and how these shifts will continue to manifest in the future. It's about creating a cycle of risk management that is informed by employee engagement, training, mutual support, and personal and corporate development.

The bottom line?

Those who are responsible for creating pensions ought to make sure that risks and differences between pension expectations and outcomes are minimized. Why? Because, as pension managers, we're becoming more and more aware that what we do right now has repercussions a long way into the future, both socially and financially, and we can act strategically in order to move in a direction that offers hope for best practice outcomes for parity.

Operationalize Parity Now

The World Economic Forum suggests that there are a number of proactive solutions that organizations, both public and private, ought to take on in order to underline parity in pension planning in 2020.

- **Recognize differences.** There are differences in the way that people retire, depending on not only their age, gender, physical location and social status, but also on the way that they plan for the future. A strategic approach to risk management requires pension managers to be actively looking for ways in which pension options, communications, and training target stereotypical employees versus all employees. How can leaders create opportunities to target vulnerable pension contributors so that they have a better chance of reaching pension parity, and so that the organization is not exposed to future risk?
- **Understand how the traditional workplace is changing.** Many organizations and companies now provide options for employees to take time off for extended family leave, sabbaticals, and also, when it comes to multinational companies, allow them to move to different organizational locations that require different pension set-ups. Pension leadership needs to include flexibility to allow people to either continue to contribute while on leave, or helping pension members to manage or, at the very least, understand the impact of lost years of contributions or tax limitations based on their life choices.
- **Develop a plan for disruption.** As we've discussed in previous papers on this site, the future of work is changing in a significant way, and this will disproportionately affect workers in service roles, especially in the public sector, as noted by the World Economic Forum. Technology disruption, reskilling and, and shifting workplace norms need to be planned for, and leaders need to be aware of how this may affect pension contributions especially over the next ten to twenty year so that they can abate risk.
- **Raise awareness about financial security.** Both for pension members and for pension managers, it's necessary to ensure that people have a clear idea of what is required for retirement. Spouses cannot guarantee each other a retirement any longer, and financial and pension systems need to adjust as a whole. It is not enough to offer equity to all pension members and their partners. Organizations need to offer support to individuals as to how to manage their financial independence after retirement.

Pension Parity Drives Solutions And Hope

The issue of pension parity runs deep. It's not simply about abating risk, but about the broader strategy of how pension leaders think about the future of managing employees, contributions, and retirement.

As the Canadian Bar Association and the World Economic Forum suggest, there needs to be an end to the disparity between different pension options, even if only for the fact that the world of finance and the future of work are changing so quickly that people aren't nearly as prepared for their retirement as they think they are. Those offering up pensions, from defined benefit plans to defined contribution plans to CPP, need to be aware that they bear the responsibility of critically examining parity in order to address disparity proactively. Corporate risk-taking and old-fashioned imbalances in opportunities have to be set aside in a world where transparency is becoming the norm.

Parity in pension management is both solution-oriented and hope-giving for pension members and those who currently do not have pensions.

It's solution-oriented because taking a parity approach mitigates large scale future risks for pensions and organizations, and because it presents clear criteria for digging into both the causes and effects of these risks. There is a need for a more nuanced, clarity-oriented, and transparent approach to pension management, and leaning in to pension parity issues helps provide a better go-forward strategy for leaders in the field.

Pension parity also shifts the focus towards a future where people will have the means to retire with dignity and support. Placing emphasis on parity therefore also decreases the future financial onus on the public sector to provide for the elderly in society, and creates a stronger foundation for personal occupational and retirement wellness.

In 2020, pension managers who take a leadership position are those who will act to develop their pension parity knowledge and skills. Starting now, we need to create the right foundation for pension development, erasing the mistakes of the past and moving in a direction that is smart, future-oriented, and balanced.

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