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FIXING THE U.S. RETIREMENT SYSTEM - DOES CANADA HAVE THE ANSWERS?

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The Arjay and Frances Fearing Miller Chair in Federal Economic Policy
Senior Fellow, Economic Studies, Director, Retirement Security Project
Co-Director, Urban-Brookings Tax Policy Center
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Deputy Director, Retirement Security Project
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P R O C E E D I N G S

MR. GALE: All right. I'd like to welcome everyone here to RSP. My name is Bill Gale; I'm the head of the RSP. I'm proud to say that we are convening the third most interesting event in Washington today. (Laughter) As you know the Republicans released their tax plan earlier today. The administration is going to nominate its nominee for the Fed chair this afternoon. So amidst all of that I'm hoping that we can be a small island of sanity and thought and deliberation in what is likely to be quite a hyped up city for most of the day.

So turning to retirement savings, one of my pet peeves has always been that the retirement saving community in the U.S. tends to ignore solutions and approaches that the rest of the world takes. And it's a little unsettling because every country has a retirement system and there have been an enormously diverse set of policies that countries have chosen. And I've always thought that we could learn more, learn a lot that's useful by looking at what other countries do. And normally when we say that we look to the Latin American countries who have reformed Social Security or European countries and all the changes they've made. And then David John, my co-conspirator at RSP, came along a couple of months ago and said hey, we should look at what Canada is doing. They've done some very interesting things. And most importantly we could learn from this for how to think about U.S. issues.

So that's the origin of this event. I'm very happy that we've set it up. We will be focusing on three issues that are relevant to the U.S. One is basic government provided retirement benefits, or Social Security, the second is pensions for government workers, and the third is improving retirement outcome for low income households and low income workers. These are obviously key issues in the U.S. and they have been key issues in Canada as well. And the basic message of our event is that Canada has done a number of things that have been successful in their own right and that we could potentially learn from in application to U.S. policies.

We have a number of distinguished guests, both from the U.S. and from Canada. I will let the session organizers introduce them and just say we've got three panels set up and I think you'll find all of them interesting. Again, our goal today is to learn from the Canadian experience, not to be cheerleaders for it, but to learn from it, both the successes and the challenges, and to use that knowledge to refocus discussion in the United States about how we can continue to address these ongoing issues.

So, without further ado, let me turn it over to the first panel and get you underway. So the first panel, come up, and we'll be set.

MR. JOHN: All right. Welcome, and thank for coming. We are joined today by Hassan Yussuff, the president of the Canadian Labour Congress, who will speak first on the Canada Pension Plan and give us first a brief overview of the Canadian system as it compares to the U.S. and then go on to discuss the recent reforms to the Canada Pension Plan, which expanded benefits for many individuals. And then Jason Fichtner will come up and give a reaction from the American perspective and compare and contrast. And then we will have a short discussion amongst ourselves and then we open it up to you. The one rule with question and answer is that (a) it has to be a question and (b) it can't last more than about 30-45 seconds.

So, with that, Hassan?

MR. YUSSUFF: First of all thanks for the invitation to share some of our experiences in regard to the work leading into of course the expansion of the Canada Pension Plan. I brought the one slide behind me. It kind of gives you a bit of a synopsis of our system and it kind of looked at the U.S. system versus the Canadian system. But I'll just highlight the most important features.

The CPP obviously was to replace 25 percent of average earnings. The YMPE, which is about maximum you'll pay on -- up in 2007 it was about $55,300.

Contribution of course is 4.95 percent from employee and the employer, a total of 9.9 percent, covering earnings from $3,500 to up to $55,300. It's a fully annually cost of living indexation for all benefits and it's adjusted on a yearly basis going forward. So the value of your retirement income doesn't lose of course, it's going forward. It has a feature for early retirement, as early as 60. Of course you could postpone at the normal age of retirement at 65 and go on to 70 and you get a bit of a better benefit, increased benefit if you wait until 70. But if you go early there's a slight reduction obviously. And got a survivor's benefit for spouse and common law partners and dependents. There's a disability benefit built in obviously to the plan. And a death benefit -- I always say this because I thought it's the cutest thing you can say, this is one plan that promises you a check even after you die. (Laughter) And it's always delivered. There's not a single person that I've met or family that said they have not got their death benefit check from the CPP. Benefits of course can be divided on marriage dissolution and shared between the spouses at retirement. And in terms of the challenges that were dealing with because of the expansion, of course, there will be a phase in regarding to the expansion starting next year -- sorry, 2019 all the way to 2023 are going forward.

So I'll talk a little bit about our campaign to expand the Canada Pension Plan, which was very much almost 10 years I was immersed in it. And it was exciting, but at the same time it was quite daunting and challenging. And in 2016, June 2016 in Vancouver the federal government and the provinces reached an agreement. It was historic, the first time in the history of the country the Canada Pension Plan was going to be expanded since its inception. And it took a lot of time, a lot of effort to get there.

In the short time I have available I'll kind of highlight some of the features of the campaign and the mines that we had to overcome in terms of getting there. And for labour movement this was an important campaign. It was inspiring, had a very ambitious vision and goal. And of course it was anchored on a very simply slogan, retirement security for everyone in the broadest terms. The goal, of course was audacious for two reasons. First, the demands of expanding the Canada Pension Plan. Of course when we launched the campaign it was in the midst of the global financial crisis and I have to tell you in an internal discussion in the labour movement everybody thought we were mad to actually start this campaign in the middle of the recession and, more importantly, they just felt that, you know, the ability to actually achieve the objective and bringing the province and the federal government together was never going to happen. So there was that kind of skepticism among our own colleagues. Second, of course, expanding Canada Pension Plan was exceedingly difficult because amending the CPP requires two thresholds. The federal government with a minimum of seven provinces, representing two-thirds of the population. So you always have to have that equation. In the absence of that it didn't matter what you were doing, you will not succeed. And, of course, in 2009 it was no strong proponent for CPP expansion in a country, certainly not the Provincial government, not the federal government, and nobody else other than the labour movement were making this argument.

Achieving this audacious objective, of course, requires unity, focus, perseverance, and shared determination. We had to build a campaign, a unified support for CPP expansion requiring explaining to union members and leaders why they needed to support this effort and why they need to get behind it. And most of our members, about 80 percent of our members belong to workplace pension already. So in addition to the CPP benefit they would get when they retire they also had a workplace plan for the most part. SO most people are saying why are we doing this, this doesn't make any sense, why are we wasting our time and our resources on this campaign. And I'll come back to that in a minute. So we had to overcome that hurdle and then we had to build support among our own members. They had to understand that why the interest to fight for the expansion was essential to universal pension and recognizing that the people would get the greatest benefit of an expanded CPP was 66 percent of the population, representing about some 11 million Canadians who their only pension was going to be the Canada Pension Plan. That was the motivation for the campaign to a large extent.

Also there was a hidden I guess message from us that we wanted to build a pension literacy among our members. There are a lot of, I'm sure, actuaries in the room and I honor you for the work you do, but you have done a great disservice to our movement for the longest period because we have entrusted you to explain pension to our members and I think you just confused them rather than educated them. So we felt we had to get to this in a very profound way. And if our members could understand pension it would be easy to convince them why this campaign was important. And so the education part about, first of all, what is the CPP, what are the rules based on, more importantly what are they going to get when they retire, and why they needed to take this campaign very seriously. And that was exciting to a large extent because the literacy among our activists was critical to try and understand our public system, and more importantly why they should do that.

The labour movement, of course -- we have to build a broad coalition across the country. As you know Canada is a big place and there's lots of interests. So we started off with working with the student movement, recognizing they will be future citizens, they would be the ones entering the workforce, and more importantly not likely to work in a workplace where there will be a pension plan. Antipoverty groups need to see this an important part of their efforts in terms of trying to help the country achieve better results for poverty. A faith group to see this is important because it will of course help many folks in the country certainly have a better retirement. We have to build support around actuaries, economists, municipal councils, because municipalities quite often have programs to help poor citizens in their own locale. And one of the first groups that actually came on board to support the expansion of the CPP was the Canadian

Federation of Municipalities. As a matter of fact it was very profound when I was there when they passed the resolution without any opposition, unanimously, to support to expand the Canada Pension Plan. The next day I got a call from our then-finance minister, Jim Flaherty, saying he wanted to have a chat, what the campaign was about. And of course the Canadian Medical Association came on board supporting the campaign very explicitly because they saw it as an important part of dealing with senior poverty, and public health officials and others.

The language we used in the labour movement, after a lifetime of work you should not live in poverty in the country. We could do better by expanding the CPP. A different argument was needed to sway different audiences. Of course for non-unionized workers this demand ensured that they would get the greatest benefit if we expanded the CPP was important for them because this was one way for them to of course achieve a better pension because they didn't belong to a workplace pension other than the CPP. All the workers of course to reflect that they would have a lot of kids and grandkids who were starting out in the workplace and they didn't want to see their kids or grandkids live in poverty, so getting behind the campaign. And we had a lot of seniors who were supporting the campaign, very publicly lobbying and putting pressure on government and their elected officials. And this is a way for their kids to have financial security when they get older and it would be a good thing if we can achieve this objective. Granted, many of our seniors in our labour movement either had a workplace pension or had something happen with their workplace pension that they saw we could do better by expanding the public system.

Of course the CPP, the self-employed will directly benefit because in addition to them paying into this, most self-employed people, unless you are very rich or you did very well with your businesses, the only way to get a better pension plan was the expanded CPP. For government there was of course an argument for them why they should support this and our public program. Our old age security system, our GIS program is fully funded by the taxpayers. And, of course, if you have more poor seniors there would be more taxes required to fund the public system and if you are getting people to save for their own retirement clearly the government programs have to provide less of a basket of what we need to support them.

Of course for unionized members this was a real challenge because in many cases they figure we already have a very good system of our pension in addition to the CPP. We know our top up might get us to 70 percent, in some cases 65 percent of our earnings. So what are we going to get out of this? And I said well there is an argument out there for many people, which is 66 percent of the population, who don't have a pension. There is this thing called pension envy, they figure if I don't have one why do you have one. And they're not going to keep supporting you unless they can see something that's going to help them at the end of the day. And while you may pay a little bit more premium it's also important for you to recognize the criticism of your workplace pension might be less, then it's one way to build public support of we all need a better pension, not just those who are fortunate to belong to the unions in this country.

There was also an argument, some -- not all, but a good number of our pension plans are integrated with the CPP. The CPP goes up it will take some pressure off workplace pensions and hopefully assist us in regarding to stop the bleeding that's going in and trying to get rid of workplace pensions. And a large part of this is to deal with some of the criticism that comes. Some of the financial institutions were not thrilled, the banks certainly, insurance companies were very much engaged trying to prevent the federal government from supporting this. We weren't threatening the other programs that exist, others that my colleagues will talk about. We have our expatriate retirement savings plan you could belong to. It's get a tax deduction for putting money into a program that will benefit you when you retire. There's a tax free savings plan that was there also. We weren't arguing we should end these programs, we were simply saying this will be a good feature going forward.

So in that sense I think we kind of muted their criticism as to why they were opposed to expanding the Canada Pension Plan. And more importantly the Canada Pension Plan had the lowest administration fee in providing the benefit that people got at the end of the day. So we were able to come back. Of course, our proposal was to double the CPP. We didn't just want what we ended up with, we wanted actually to increase the CPP by 100 percent. Now, we are trade unionists, we know how to bargain, but we figured we had to set the demand up here and somewhere during the process we might get to someplace we can agree on. But if we set the bar here we would just end up someplace much lower. And we were quite comfortable with demanding that we need to double the CPP. And we thought his would be a good thing, nobody could argue why it wouldn't double the CPP, because the average CPP payout for the majority of Canadians that were getting it averaged about 550 to 560 for male, for women it was even lower on the average. So nobody could argue to double the benefit. You know, people will be too rich.

MR. JOHN: That's per month, right?

MR. YUSSUFF: Yes. So I think it resonated with a lot of people who understood the argument. Many of our members and the public recognized that. And we had to work -- the biggest challenge with this campaign for the congress is that this was financial ministers from the provinces that had to make the decision. It was them that we had to convince that this was a good argument, and more importantly, to see it in their self-interest. We had to break down the data according to provinces as to what it would mean for improving the retirement for people living in their jurisdiction. We look at longevity, you know, what it would look like 10 years from now, 20 years from now if we didn't do this, and all these people will be living in poverty in your provincial jurisdiction.

That wasn't a good thing. And so the provinces kind of came on board eventually.

But we also had to work across political boundaries, you know, all different finance ministers who were liberals, some were conservative, and some of course were NDP. And that was the exciting part of the work, is to convince everybody that this was the right thing to do for the country. And more importantly, we should try to reach a consensus. Of course, the perseverance -- we spent a lot of money in the congress. I think for the time we were involved in this campaign we spent $20 million of our own resources on the campaign. But it was also about our own image, connected to -- we can do better and also the public saw the CLC doing something that could benefit everybody. It was not just talking members this was talking about the country and why it was important.

In 2010 the Ontario government -- my friend Alex was working them for the finance minister of Ontario -- they finally got on board and there was a monumental shift in the politics. And similarly, at the same time, the federal government, the federal finance minister, who at the time were not very good friends but did become very good friends with Jim Flaherty, and he actually said I think we should find a way to do a modest increase to CPP. And I thought we were starting to have momentum. I did spend a very cold December meeting in Whitehorse -- if you don't know where Whitehorse is you can't look it up on the map. It's the far reaches of Canada's north. Our finance ministers gathered and actually it was a turning point. They came out of that meeting and thought maybe we could have a consensus to do this, to go forward. And it was really important. Public perception started to change. Of course the media was following the campaign and many of the editorial boards across the country, including both progressive papers and some conservative papers, all of them wrote editorials in support of expanding the Canada Pension Plan. And many of them did it several times. So this an idea that, you know, should be embraced by our political leaders.

The one obstacle of course, despite the federal government saying they wanted to do this and then changing their position in 2011, six months later the prime minister at the time, Stephen Harper, for ideological reasons said we should not proceed with the expansion of the Canada Pension. And the argument was, you know, the increasing taxes, even though the Canada Savings Plan is a savings account, not a tax. He felt that this was going to bankrupt the economy and the what have you. But then there was an election in 2015. The CLC and its affiliates redoubled their efforts to make this a political issue. And the two major parties, the liberals and the NDP, actually had it as part of their platform, that they wanted to expand the Canada Pension.

And, of course, the Harper government was defeated in 2015 in October and immediately after that the new government was elected. Their first budget they did indicate that they wanted to proceed with the expansion of the Canada Pension Plan, and in 2016 we were successful. The Canada Pension Plan has been increased by one-third going forward, starting in 2019. And it was a significant achievement on behalf of working people in the country. And also I think it put the labour movement in the central part of this campaign. I was there in June of 2016 with the finance ministers when they made the agreement. And the thing that I did reflect on, first of all, despite the many years when my colleagues asked me to shut down the campaign and to stop I would refuse to. I said no until we achieve this objective we are not going to quit. It was the longest campaign in the CLC's history. It lasted about 10 years and we spent a lot of money on it, but in retrospect I think my colleagues agree it was one of the best things we've ever done. We certainly have increased pension literacy in the country to achieve a major objective for the next generation of Canadians. My daughter will benefit from this at some point and hopefully she'll take care of me a little bit better when she gets older. And, more importantly, I think that it showed that you can build consensus in a country as complex as ours and as challenging as ours to do the right thing.

And the last point I would make, I have benefitted enormously with my relationship that I was able to achieve with working with a variety of political folks in the country to move this along. I think I played an important part of it, but more importantly it was a significant part in trying to build a better pension system for working people in our country.

I'm sure you'll have many question. Thank you so much. (Applause)

MR. JOHN: Thank you very much. It's a great achievement.

Jason?

MR. FICHTNER: Can we actually keep that slide up? Would that be possible? Thank you. I was always told to work smarter and not harder, so I'll abscond that slide.

So good afternoon. Thank you for attending today and thank you for the Brookings Institution and the Retirement Security Project for hosting this event and having me here.

So the question I was asked to do was, one, does Canada offer any lessons for the U.S. And, generally speaking, yes. We can always learn from other country's experiences. So I was asked to give sort of the comparison, what' similar, what's different, and then some sort of political outlook forum in the U.S., what one might learn from the Canadian experience as we try to do reform of Social Security in the United States.

First, similarities. On the surface, both provide a mandatory old age pension system with some protection for disability and survivor's benefits. Focusing just on the Canada Pension Plan portion for a minute compared to Social Security, both are funded via taxes on wages, split between the employer and the employee up to a maximum amount of covered wages. In the United States was have 12.4 percent contribution, 6.2 by the employee, 6.2 by the employer. In Canada it's 9.9 percent, so

4.95 each. Both systems can be said to have we call earned benefits, where a person has to work and pay into the system in order to be covered, and benefits are based in part on how much you pay in. So both in the U.S. and in Canada the more you pay the higher the monthly benefit amount will be under both programs. Further, the longer you wait to claim benefits the greater the monthly benefit check. So there's a delay to claiming, which is very important. And, similarly, there's a reduction for early claiming, if you look at it that way, and both plans have that similarity. However, the level of taxation in the Canadian system is lower. So if you want to think taxes, Canada is lower than the U.S. -- they're beating the U.S. in that part -- than the U.S. Social Security system. And also benefits are lower as well. So on average basically the Canadian Pension Plan is half what the U.S. Social Security will give at an average benefit level.

It's also important to note the amount of similarities of reform. In many ways the reforms were driven in the Canadian system partly because of a decline in the defined benefit plans for the employers. They're just going away. We now see that happening in the U.S. as well. For those of us who are familiar with the U.S. system, we used to talk about the three legged stool, which had Social Security provides basically one-third of your income retirement, you had a defined benefit plan from your employer doing one-third, and you had one-third that was relying on you for private savings. Right now Social Security is still designed to replace about 35-40 percent of your income on retirement. A DB plan, you may not even have one anymore. If you do, some of them are very underfunded. And, of course, the personal savings rate now in the U.S. just went back down to three percent. So in some ways you're thinking about a three legged stool, it often times looks like a pogo stick for many people and a very short pogo stick at that.

So we are not starting to see that sort of pressure in the U.S. with the decline of DB plans and the rise of DC and the shift of risk back to employees, how we might mitigate that to make sure we have solvency for Social Security and what that means for our program going forward.

Now, some differences. Comparing the U.S. and Canadian systems is not exactly an apples-to-apples comparison. I appreciate this chart, it's wonderful, thank you for putting it together. The U.S. system is based on payroll taxes while the Canadian system is a combination. The Canadian Pension Plan is based on contributions as I said, the old age security is based on general revenues. There's also a guaranteed income supplement in Canada, which is similar to the United States' supplemental security income for low income, age, blind, and disabled people. So there are similar sort of structures, which is pointed out here in the various stages. So they're similar in that regard but not exactly apples-to-apples.

The U.S. also has a more generous ability to privately save in tax deferred retirement accounts. So the limits of the contributions you can do in Canada are much, much lower than they are in the United States, so there's a greater reliance on individuals. However, that further creates inequity because those who can afford to save more tend to save more. Canada has -- another thing to consider also is the healthcare system. So one of the goals of course of any sort of public pension system is to reduce poverty in old age. The Canadian system of course has a single payer healthcare plan where the United States does not. That said though, the United States is still a big payer of healthcare. For example, Medicare and Medicaid, and both of those programs have ties to the Social Security system. And it's important to keep this in mind when you talk about reforms for Social Security because often times it's considered in isolation. We need to consider it holistically when thinking about Medicare and Medicaid and the healthcare because premiums for Medicare are taken from the Social Security check. So it's important to consider these two components even when talking about the reforms in Canada.

In the U.S. Social Security system if you're eligible for SSI, or supplemental security income, you automatically receive Medicaid. And if you're on Social Security disability you get Medicare after a two year waiting period. And again, Medicare payments are deducted from your Social Security check. But the biggest difference, and the one we're probably going to highlight when talking about what kind of reforms we could do in the United States, is the management of the trust fund, if you will. So in the Canadian system they actually manage the payroll taxes. They're received and put into a portfolio of stocks, bonds, and other assets in the Canadian Pension Plan, while the United States Social Security by law has to invest in special issue U.S. treasury bonds. In essence, Social Security loans its assets to the U.S. government, reducing the U.S. government's need to borrow from the public until the point at which Social Security seeks to cash in those bonds in order to pay benefits, where the Canadian system actually invests in marketable securities, real estate, infrastructure, bonds, as well. More of a managed portfolio to maximize, if you will, returns while trying also in some ways to minimize risk. Even though the Canadian system invests in marketable securities it is not a system of private accounts. Canada does not have -- this is my account, my name on it, my benefit, it is still in some ways a DB plan with a defined benefit level. But again the assets are managed in marketable securities or a portion of them are. It is a public system with earned benefits. There are minimum and maximum monthly benefit amounts, just like in the United States. But again the assets are managed quite differently, and that also leads to the issue of solvency.

The Canadian Pension Plan is considered to be pretty well funded.

MR. YUSSUFF: Seventy-five years.

MR. FICHTNER: Well, better than ours. (Laughter) The U.S. plan is definitely in need --

SPEAKER: Seventy-five months. (Laughter)

MR. FICHTNER: The U.S. plan is definitely in need of reform. It's important in the U.S. to keep in mind because of the way we set up the trust funds there are actually two different distinct trust funds. Very often you hear the Social Security trust funds, plural. And the public talks about them and the media as if they're combined. They don't have legal authority to borrow from each other, but congress often passes laws to allow that at some point if there are shortages. But in general if you think about it on a combined basis the combined insolvency date for the two programs is 2034, for the old age survivors insurance program, what we consider to be basically the retirement program, it's 2035, the disability program is 2028. But again, on a combined basis, you're looking at 2034. At trust fund insolvency, if we do nothing, no reforms, nothing to increase the payroll taxes, no change in benefits, we just go on as if nothing is occurring, revenues will only be enough to cover about three-fourths of scheduled benefits. Sometimes you might hear the difference between scheduled and payable. Scheduled is what we've told people we're promising to give them, payable is what we can afford to give them. And basically it's a three-quarter haircut. So if nothing is done and we rely just on benefit cuts at that point in time, those people on Social Security would get basically 75 percent, maybe a little bit less.

It's important to think about the crisis that sort of leads to reform. And how in Canada and the U.S. -- in the U.S. is kind of myopic. The last time we really had a major reform for Social Security was 1983 and it really took a crisis. Basically the checks were not about to go out. But Social Security's total financing shortfall today is now larger than it has been at any point since the 1983 reforms. And, indeed, we need to have some legislative changes. The longer we wait the great that delta grows and the greater the magnitude will be. To give you an example, to place our trust funds back in a 75 year solvency you would need an immediate increase in the payroll tax equal to 2.83 percentage points. That means going from 12.4 percent of your payroll to 15.23.

For those who want to do the math quickly, that's a 23 percent increase in the payroll tax. A lot of republicans are not going to go out there and advocate for a 23 percent increase in the payroll tax to fund Social Security. On the flip side, we can also do an immediate reduction in benefits today of 17 percent, which I'm sure no one wants to go out to their constituents and say congratulations, we're going to make Social Security solvent by cutting your benefits by 17 percent. It would have to be 20 percent if we only applied it to new beneficiaries. So if we kept those who are on it harmless and starting for those of you who file tomorrow it's a 20 percent cut. That doesn't sell well either with constituents. We could do some combination of the two, and that's usually what ends up happening.

To give you an idea of what this means though in dollar magnitude, to put it in context. (Inaudible) love to talk about present value, which is how much money do I need in the bank today to cover all of my liabilities going forward. On a 75 year basis the U.S. Social Security system is now short $12.5 trillion on a present value basis. We already have $20 trillion in debt, GDP is about $19 trillion. And that's for a 75 year horizon. There's also a number they call the infinite horizon, which is imagine we could go infinite and live forever, what does this look like, that number would be $34.2 trillion. So the magnitude at which we're talking about for a Social Security crisis people say it's not going to happen until 2034, the crisis is already here and we're just not doing a good job talking about the magnitude.

You asked me to talk about sort of the general comments and politics of this. One of the things you said about what made the Canadian experience successful is that you had unity, focus, and shared effort, all of which does not describe the U.S. political system today. (Laughter) There is not much appetite for reform right now. The current President has said he's not going to touch Social Security, there's a big divide in congress, not just by party but even amongst and between and the parties, within the parties, about what should be done when it comes to entitlement reform and Social Security. So there's always this question of can we do things on the margin, can we try to do things like try to get better investment returns, take the Social Security trust funds and put them into marketable securities, what does that look like. That buys you a little bit, but it doesn't solve the problems. Further, there's no such thing as a free lunch. I've heard too many actuaries and financial advisors say you want to have a better system, get a higher return -- sure, that sounds great, we'll just go get a higher return -- without talking about what does it mean to maximize returns and minimize risk. Usually they kind of go hand in hand, the higher your return the higher your risk. If you take on more risk, even to get a higher return, at some point you may have a market downturn, then who covers it. The U.S. would still be the taxpayer. So we can't just talk about the idea of trying to seek greater returns on investment without talking about what that means for the risk and who bears that risk.

But, again, Social Security must be reformed to remain financially viable so that its participants are treated fairly. This also includes generational issues. The longer we wait the more the millennial generation we have now is going to get screwed. If we talk about the idea of reducing benefits but we hold harmless those who are currently on benefits and raising taxes for current workers, that means millennials get hit both ways, with higher taxes and lower benefits. So they're going to get squeezed. That could cause some intergenerational conflict, but it also from an equity standpoint just doesn't seem fair.

We also need to focus on things like reigning unsustainable program costs, we need to encourage personal savings, investment, and again a better understanding of pension systems. Financial literacy in the United States is not very good at all. So any sort of effort that talks about how to reform Social Security, what it means, should include a literacy component about what is a DB plan, what is a DC plan, what do you need for retirement, are you going to have higher healthcare costs, lower healthcare costs, do you want to travel, what does replacement rate mean. Some people don't even know that. Do you base it on your last year of income, your last five years, an average of your lifetime? Different measures give you different results and a lot of people don't understand. And we still see some financial advisors I think who give poor advice. So a literacy program would be very helpful in the United States.

Further delaying basically threatens our ability to actually keep these programs as important and financially responsible as they are now for Americans. And, again, I just want to pint out the Social Security shortfall today is roughly twice as large in relative terms as during the Social Security crisis of 1982 and '83. In other words, things have been delayed to the point where the measures necessary to sustain Social Security today are nearly twice as severe as they were in 1983. So this is the magnitude of the challenge we have in front of us. And, again, time is running out. We need to do something. We need to think about sidecar accounts, open MEPS, some sort of maybe auto enrollment, think about what we can do to encourage delayed claiming for Social Security benefits so they actually have greater protection in retirement. And, again, I think the less from Canada I would put in here is twofold for the United States. One, think holistically. Think about how you match the responsibilities and benefits of a private and public system and how else could it come together to sort of maximize returns, minimize risk, but overall increase the level of protection for senior citizens and older Americans in the United States.

And, lastly, the importance of having a diversity of stakeholders agree. And you mentioned it was a 10 year campaign for you? Can you imagine if we could congress to agree to do something that would take 10 years of educational effort in the United States? But that's sort of the magnitude we're looking at. How do we change the nature of our politics to allow for a long sustained campaign of education where we can talk about what is the problem, why is it really a problem, we can we just not ignore it and let it go away, what the reform options are, who wins, who loses, how it benefits. And then putting something in place will take time. We need to have a large coalition of stakeholders to do that and that's the biggest lesson I would take away from the Canadian experience.

Thank you.

MR. JOHN: Great, thank you. Thank you very much. I've got a couple of questions to start with here.

One of the things that Jason pointed out that to me is one of the crucial elements of your campaign was that rather than just focusing on the CPP you focused on the overall retirement security of Canadians. And I think that's one of the serious mistakes that we make in the United States, we just look at Social Security and that's all we discuss rather than the whole thing.

You mentioned that part of your campaign was to increase the knowledge that both your members and other Canadians have of the CPP and the way it works to increase the ability. How did that go? How hard was that to achieve?

MR. YUSSUFF: A large part of it we had to dumb the language down so the people could understand. I mean, you know, no disrespect to the pension experts in the room. I think we tend to talk about pension up here and trying to get people to -- a large part of this we took the average payout of the CPP to remind people, on the more kind of mundane, here's what you're going to get. If you don't like this there's something you can do about it. Then they were like, oh, wait a minute, that's all?

The other side to this, we wanted a variety of people having that conversation, seniors taking ownership to talk to their kids and their family, workers who belong to a pension plan and may live in a household where their partner or somebody else doesn't have a pension plan, why this campaign was important. And, of course, trying to bring public support where the media was actually covering the campaign in many aspects. Actuaries who, you know, who wanted to talk about it. Like any campaign there were criticisms from some circles, well, why -- you just exclude all the poor people so they won't have to pay more. And we said that's not a bad idea, but I believe in the principle that if you work you should pay into your retirement. We did talk to the new government about how we could use the tax system to offset anything lower income people would pay into the system so they weren't penalized for contributing to their own retirement. Part of it is constantly having to think out of the box, how do you address these most fundamental questions.

When the campaign started we had three objectives. And then it ended there being a fourth. One was to increase the CPP, double the benefits. The second was to increase what is called GIS, which is the poorest citizens get this benefit because they're poor. They increased by 15 percent. If it went up by 15 percent you eliminate all senior poverty in the country. The previous government did increase it by 3.-something percent in their 2011 budget. When the government was elected in the first budget it brought down in 2016 they added another 8 percent for single seniors, so it got to -- the GIS actually had close to 11, close to 12 percent increase in the GIS. I have a 93 year old mother, she gets that benefit, so I could relate to directly what she got and why it was important to do that because we had done a good job with senior poverty in the country, I just think we could do better. And if we increase their benefit. The other one was also to have pension insurance for private insurance. We don't have the U.S. scheme. We have it in province of Ontario but not nationally. We're advocating for that. But then there was a fourth demand. The previous government had actually changed the retirement age from 65 to 67 and there was never an explanation to the country why this happened. And our prime minister was to Davos, he had to say something, so he said I'm going to increase the retirement age from 65 to 67. And we took this on, we said we've got to roll it back. We couldn't find the economic argument for why this should happen. So we did achieve that also in 2016 budget. The government rolled it back from 67 back to 65 at the end of the day. But a large part of the literacy was ongoing work within the movement and the public.

And I'll end on this one point. There's the equivalent of your U.S. coverage here and your, you know, politicians. We got CPAC in Canada. And one December, for some strange reason, stupid people like me do this, I'm watching CPAC -- why, maybe I had nothing better to do with my time -- and they were covering -- the CPP debate was happening in the country. And they were in a shopping mall asking ordinary people whether or not the CPP should be increasing. And ordinary people responded to this campaign and said yes. And they said well why? They understood what their benefit was. So I thought in some way the message was getting out and people were relating to this campaign. So we had reached the public in a broad way and when the public opinion was measured every time it was measured the support was this high for the increase to the CPP.

MR. JOHN: That's great. That's a huge accomplishment.

Jason, as you have mentioned, in thoroughly depressing terms -- thank you for that (laughter) --

MR. FICHTNER: Well, Bill did say no spin basically. I had to be, you know, all straight talk. (Laughter)

MR. JOHN: Yes, so, no, it was all straight talk. I give you full credit for that, just depressing as hell. But one of the differences is that in our case any sort of a reform has basically got to (inaudible) full as opposed to improving benefits. Now, we know that our Social Security system is woefully insufficient for lower income workers. How does that fit in with the overall discussion?

MR. FICHTNER: So I think sort of take lessons learned just from your comments right now. The idea is you sort of focus on benefits as opposed to costs in some ways. What we need to do in the U.S. is to get us focused on the benefits of reform. So one is you avoid obviously a 25 percent haircut, but the other is we could do things with the program to target a higher benefit amount for lower income people. So, again, with a progressive benefit you can take from the top end a little bit and increase at the lower end, sort of smooth out the curve, if you will, to give greater protection for lower income workers. And I think that's a benefit that could be sold on the need for reform and then while we're also plugging a hole.

And I think the other part of this too is you have some general revenue transfers. I think the U.S. is going to go to a point where we're going to have to have some general revenue transfers to plug the hole and we'll have to also market holistically that there are Social Security reforms, there are tax reforms. And we're going to have to do something on the private side to make sure people actually want to invest in their own retirement through a private account, whether that's auto enrollment, sidecar, expanded savers credit, something so that when we focus on discussions it's not just look at Social Security and people can pull out the costs and benefits, it's here's the overall holistic approach to retirement security that we offering when we do reforms. We have to do it that way.

MR. JOHN: That sounds good.

MR. YUSSUFF: Can I just make one --

MR. JOHN: Yes.

MR. YUSSUFF: Just again, one of these points around the question of cost because, you know, with economists in the room, no disrespect, when we were struggling with this issue about costs, how do you explain this to ordinary people. We tried to figure out what the cost was for doubling the benefits, and we dumbed it down to say it will call you a cup of coffee and three Timbits. Canadians go to this place called

Tim Hortons, it's a donut shop and a coffee shop. So we dumbed it down to say for one cup of coffee and three Timbits you can double your benefits. And people said, that's reasonable.

But, again, we tried to demystify how people relate to costs and it was important part of getting buy in into the campaign and why it is important.

MR. FICHTNER: It is very hard in the U.S. to sell tax increases. I mean the one we've been talking about for infrastructure is increasing the federal gasoline tax, which most people don't even know right now that the state level is usually higher than the federal, the federal tax is just $.18 per gallon. And if you went out and you said how about if we raise the gasoline tax by two pennies, does that sound good? Oh, two pennies, all right. But do you want a 10 percent increase in the tax? No, that's -- (laughter). And so, again, how you market this and sell this is sometimes very challenging, but it's important to learn these lessons.

MR. JOHN: Now, I have actually about another 15 or 20 questions, but rather than taking up everything we're going to open it to the floor here. We've got microphones that come by. Please just give us your name and any affiliation if you've got one.

MR. ROSE: Thank you. Herb Rose. I like some of the things that you said pushed your plans over finally. And I'm wondering -- I have three short questions I'll pose. (A) Is there any chance that we could send our congress people to Whitehorse, and (B) can we leave them there? (Laughter) A little bit more seriously, however, I've always considered the Social Security benefits as a Ponzi scheme and the ways that it seems to me you could fill this gap that we have would be to increase the number of immigrants or the birth rate in this country. Currently neither one of those sounds feasible. And the other is to once again perhaps raise the retirement age from 67 by a year or a year and some months. Do you consider any of these approaches feasible?

MR. JOHN: All right. Let's get a couple of questions and then you can respond. Yes, ma'am?

MS. O'CONNELL: Yes. Mostly small questions of clarification. In the United States the -- June O'Connell -- the payments are capped at 127,000 roughly, and I thought I understood Mr. Yussuff to say something like 55 or 57,000. That's isn't on the chart. And that's really quite a difference. And the second thing related to the voluntary savings, because there's a question in the states now about to what degree it will be from untaxed dollars until the future. So I'm wondering, with the voluntary savings in Canada is it pretax dollars, post-tax dollars? If you could just clarify those two things.

MR. JOHN: All right. And one more behind here and then we'll --

QUESTIONER: Yes, this relates to the previous question. Carl Polzer. I have several affiliations, but the only ones that count here are I'm in both pension plans. So -- well, I'm in the Canadian Pension Plan and the Social Security. But I think that there's a -- my question is simply about clarification. I think the one major difference is the guaranteed residency payment that you get. And it's fairly substantial. We don't have that unless you're blind, disabled, et cetera. And could you give us a sense of how that compares to the pension? Like the average Social Security here is about $15,000 and the median too. And it seems like about half that in Canada for the pension, but about for the other half how much does that residency payment fit in there?

MR. JOHN: All right. We'll do these three and then we'll come back for hopefully another round of three.

MR. YUSSUFF: You've never been to Whitehorse, they're really nice people there. You would not want to do that. (Laughter)

But the importance I think, what needs to be done, and I tell these stories because, you know, long-term campaigns about public policy need to inform you and to assist you. And there was a guy named Colin Hansen, who was a finance minister of

British Columbia. When he was going to the Whitehorse meeting I had met with him prior to talk to him about, you know, he needed to support us on this effort. And he was completely skeptical. He said nothing good will come out of Whitehorse, you're wasting your time, saying I'm not interested in reforming the CPP because we'll never agree. And that was his conversation. Then just before the meeting I flew back one more time to Vancouver to meet with him and I wanted to talk to him. And he did agree to meet. I said could I ask you to do one favor and he said sure, what's that. I said could you keep an open mind. If there is a consensus will you change your position, because he was going to do his own thing in BC. They had a plan, they had a proposal, they had talked to the public. Pretty well he had support. He said I can do that. And in Whitehorse he did 180 degree turn because he thought it looks like there is going to be consensus at the national level. What he didn't know was it was going to take another nine years. (Laughter) He is no longer finance minister, but today I still remember him very dearly because had it not been for his openness we wouldn't have gotten there because the conversation in the room around the ministers made all the difference.

The point is, you know, the Canadian system is unique, its provinces is a custodian, the federal government is really the manager of the CPP. And to a large extent you've got to find ways and I think most people had come to the conclusion this was not just a CLC proposal, this made a lot of political sense. Because they were looking at demographics 10, 15, 20 years out the road. They can see the challenges coming on the horizon. Unless we're going to increase private savings and coverage for pensions by workers in the workplace we've got a real problem coming. And we could do something that would bring the country together and it would be very little cost going forward. So in that sense there was some benefit in that regard. Yet the max we pay out is about $53,000. That's going to go up by the way for -- yes, so, you know, you make more you pay more and that's going to increase with the enhancement coming.

For people like myself you will be paying on a higher amount. I think it's going to go up to $80,000 plus that we're going to be paying on going forward. So it's going to also give you a better benefit when you retire.

Most of the folks who make higher income in the country, actually it's the best benefit you can buy, because even if we are to take your money, really successful investing on your own you couldn't get this benefit back at the end of the day what the CPP provides. More importantly it's an index to inflation. So you're never going to lose the value when you retire at the end of the day. But you do pay a higher amount and it's a small amount versus what you get at the end of the day.

In regard to the OAS, the OAS is about $6000, but after $100,000 you start getting clawed back when your income gets to a certain level at retirement. They start clawing it back. And so for most people it is an important part of the retirement scheme, so that's integrated with your CPP and your workplace plan at the end of the day. So everybody sort of knew what they were going to get. When the prime minister did change the age when you're going to start collecting, you know, everybody thought this was a huge problem and workplace pension plans who would take that into consideration with their calculation was going to be, you know, again facing some challenges. And so one of the things we wanted to ensure what we were going to do.

But also for workers whose life, you now, their body had worn out. They had promised this benefit and it was no argument why they shouldn't get it. Trying to get the government to reverse it was an important thing. I do recognize it we are going to live longer and our pensions are going to have to last that much longer, but it's now rolled back to 65. It's about $6000 a year.

MR. FICHTNER: I'll quickly just add, so one, you noticed again the contribution max, the payroll tax max to be -- well, it's basically half, but again the payroll tax rate is also lower. So ours is 12.4, theirs is 9.9, and their benefit level is basically half the United States. So it's not as generous a benefit. But again the point here is think holistically about where things are coming from, but it is lower. So there's always been this impression that the U.S. is a low tax state and then Canada is always high taxed. And there were jokes about people moving to Canada after the current election, but it might be financially even better to move to Canada because of the way they put their fiscal house in order. So just important to point that out.

In thinking about -- you asked about immigration and fertility. Those are two of the biggest drivers that change the trust fund insolvency date without making policy changes, if you will. And it's very important to consider what this means when we think about, again, a holistic retirement system. Because if you think about millennials, or you want to talk about it in a system, let's say a Ponzi structure, should millennials have more kids? Well, right now they're delaying having children, they're delaying getting married, they're delaying moving out of their parents’ house, and because of potentially student loans they're delaying retirement. So all these delays in some ways make it more expensive to basically fund Social Security. So we need to think holistically what does that mean for childcare credits, what does it mean for the payroll tax rate, what does it mean for education benefits. We've got to think holistically in the U.S. about reforms, not just myopically on Social Security.

And immigration -- and somebody needs to be smarter. So I'm not an expert at all on the Canadian immigration system, but I used to live in Detroit, which makes me a partial expert (laughter). I think it's the only place in the continental United States you can look south into Canada. But I used to spend a lot of time in Ontario and I have friends who had a cabin at Big Basswood Lake, which is through the Sault Ste. Marie and over, and one of the people who had a cabin there were German immigrants into Canada. And they said at the time the deal was they could immigrate to Canada if they brought $250,000 and hired three to four workers. SO the idea wasn't this open immigration, it had to be targeted for those that could benefit the Canadian economy. So we need to talk about what doe a targeted sort of immigration policy look like to help the U.S. for a variety of things, even like growth and Social Security. I think that's important.

And then, lastly, Carl, just because you wondered about the residency benefit. The clawback is important because, again, they're thinking holistically about retirement. One of the problems in the U.S. is we have various things that people don't realize look like a clawback, so we don't have means taxing of Social Security, but we do tax retirement benefits depending on your income level. And then there are sort of strange things that catch people by surprise. The government pension offset and windfall elimination provision, which if you had employment and non-covered Social Security you might get your Social Security offset because of that pension. And sometimes people don't have the understanding that's going to happen and they get a statement from their employer's benefit plan saying you're going to get $1000 and you get one from Social Security saying you're going to get $2000, then Social Security claws back $500 and they get upset. So if some of this is also thinking holistically about how this merges in with other pensions and figure out, again, financial retirement security.

MR. JOHN: Thank you. All right. Let's see, a question over here. And we'll do a quick round of three or four and then we'll do quick answers and conclude.

MR. HINZ: Yes, I'm Richard Hinz; I'm an independent consultant but I'm here on behalf of the American Benefits Council today. You described the plan as fully funded and a better deal than you could get in the markets. I'm curious as to how you can achieve this remarkable accomplishment and what are you assuming is your investment returns, real investment returns, to achieve that, and what happens if there's a shortfall or a liquidity issue in the portfolio? What happens if you come up short or if you get a lot of claims in a down market, how do you manage those finances to achieve this remarkable outcome?

MR. JOHN: Thank you. Let's see who we've got here.

MS. REISER: Hi, thank you really for a very fine discussion. My name is Dr. Mindy Reiser, a sociologist, but I'm also on the Board of Governors of the Labor & Employment Relations Association here in Washington, D.C. as part of a national grouping.

For Hassan, the benefits are lower but I wonder when you were thinking about the whole package, housing costs, healthcare costs, and how all of this fits into what a retiree will have to deal with. The benefits I think are more generous, at least in terms of health. I don't know about housing costs in Vancouver, they must be through the roof. But I want to know how you factored in the holistic world that the retiree faces in terms of the benefit levels.

MR. JOHN: Let's see, we had one more behind here, right here, and then we'll go to answering and quickly summing up.

MR. KLEIN: My name is Bruce Klein and I'm from the Pension Policy Center. How did you estimate when the trust fund was going to run out of money and what date was that, because I didn't hear you say that?

MR. FICHTNER: That from me?

MR. KLEIN: Yes.

MR. FICHTNER: Oh, so I'll answer that one quickly. So it's the Social Security actuaries. So I didn't sit down with any pen and paper, I just went to their website and read the report. But they basically do a demographic analysis that looks at the age population, age sex adjusted, so male and female, longevity issues, mortality issues, benefit levels, the rise in inflation -- because again it's an inflation protected annuity -- and they look at payroll taxes come in, they look at revenues that come in from trust fund assets, and taxation of benefits and expenditures. And when they cross they say you're out. And that's the shortfall. And so that again was 2034 for the combined trust funds, 2035 for the old age, survivor program, and 2028 for the disability trust funds.

MR. JOHN: Okay. Do you have any quick concluding comment? And then we'll give Hassan the last word.

MR. FICHTNER: Well, I think that sort of the quick one to wrap up and also answer the questions on fully funded, which he'll probably get to, keep in mind, again, there's no free lunch. If you're going to increase your return you're going to increase your risk also. So we should talk about who then bears that risk. Is it the beneficiary, is the tax payer, is it general revenues, where is this coming from. That's a good question which I'm sure you'll get to.

And I would just wrap up by saying, again, thinking about reform in the U.S. we have to sort of learn the lessons that we have to go holistically. We have to talk about what does it mean to have somebody have a financial retirement security holistically. What does that mean when it comes to healthcare, what does it mean when it comes to Social Security, what does it mean to come to your private pension, if you have one, your 401K, your outside savings, what can we do to maximize that. Because if we just focus on one thing we're not going to get reform and we'll just get to the crisis point and that's where you usually get bad policies. We have to start talking holistically now as we go forward.

MR. JOHN: Hassan?

MR. YUSSUFF: Yes, very briefly. One of the measurements in terms of the CPPIB, which is the -- it's an independent structure that manages the CPP account, and this was changed back in the '90s by the former finance minister and then Prime Minister Paul Martin, who introduced this change to kind of have the government a little bit at arm's length, so it's managed by an independent agency.

In 2008, which is one of the worst times you can measure performance, the Canada Pension Plan, the CPPIB board was one of four that fared the best in regard to the downturn in terms of investment and overall performance. But their investment is -- they've take a long-term view that we've got to make sure that the benefits are going to be paid and we've got the resources. So they take a very prudent approach to their investment, there's stocks, there's bonds, the whole nine yards. And they do come -- like we invite them to come to our board to talk to people about what is it that they do and where the money is invested.

And, by the way, all this debate about NAFTA, one of the biggest thing, most of their investments actually here in the United States and there's a big worry as to what may happen with that. But it's got a holistic view. The numbers I gave you about 75 year solvency didn't come from me, it came from a CPP actuary, who actually said this is how long the plan is solvent. And the last time I checked most of what the CPPIB board have been investing in -- and the earned investment is not needed to pay benefits. It's way beyond -- they haven't even factored that part into how much of a reserve they've got in the plan for whatever future challenges we may face going forward.

The question was asked about what we took into the factors of what people living longer, household debt, and whatever. Like most countries we've got high household debts, about 160-something percent. So we know people weren't saving on their own despite generous tax savings for RSP. You could get a good portion of your income back if you put it in the account, or if you put it in a tax savings account. People are not taking that up, higher income is taking that up, using those accounts to obviously save for their retirement. But the average population is not because their debt load is so high, they are trying to buy a house, they're trying to raise a family. And we figured the only way we can help this generation struggle with these issues is because it's compulsory savings. It's going to come off your paycheck, you have nothing to do with it, and like it or not you're going to get a better pension when you get there. Most people think it's a good thing because the benefits have been paid as has been promised. Some people have been making an argument, you know, the system can't meet its obligation. There's no evidence to suggest that, but a larger part of our argument, we need to double the benefit. We did achieve a 33 percent increase that is starting to happen, but we felt it should have been much higher because it took -- that was the first generational improvement in the CPP since its inception period.

The last point I'll end on, these are big public policy discussions. And if you're going to achieve the greater objective, one, you have to come with the longevity approach to it, that this will take time, and you've got to build support and you've got to build it as broadly as you can to get a consensus doing that. I was involved working with my colleagues in the labour movement on this campaign. I can't tell you, every time I gave a speech, they said oh no, not another speech on CPP, because they heard it a million times.

Last point I would make, we had made this commitment when we started the campaign, we will not quit this campaign until we win. Now, I could have been gone or dropped dead and maybe the campaign would have been over because I was very passionate about it, I was the face of it, I was the interlocutor with the financial ministers, the finance minister and the government for the most part across the country. And that was a personal relationship built over a 10 year period. And my friend will be on here a little bit later. Alex Mazer was a good supporter when he was working in the finance minister's office in Ontario. Always was, you know, encouraging me. But in addition to that there were a lot of other people playing that role. I think the reason we won this is because the movement had made a decision. This was a Canadian movement, we could do something to improve the lives of working people in the country and we had an obligation to step up and keep fighting until we actually achieved that objective. The success I think came because many efforts from activists, leaders, and other people in the country felt it was also the right thing to do and we were very, you know, celebratory to ensure that it did achieve within that period, but more importantly there's bigger work (inaudible).

One point I want to make, we just started a new campaign, and this is to -- pharmaceutical is not part of the healthcare system in Canada. If you go to the hospital and you get sick you'll get medication, otherwise from that you have to have private coverage, or in some cases it's based on your income and what have you. So we will launch a new campaign to make pharma care part of the healthcare system and that campaign is rolling out. It will be equally as daunting as the CPP campaign and it will face much opposition, but we've made a commitment. We're going to include pharma care in our healthcare system and, like it or not, it may take equally as long, but we're hoping that it will not take as long. We learned much from the last campaign and we'll have a better healthcare system for doing it going forward.

Thank you so much.

MR. JOHN: Thank you. We've got another program coming in a few years, so this will be great. (Laughter) All right. Quick note, what we're going to do at this point because we ran a little bit over is that we're going to go directly into the second panel. There are some refreshments in the back should you need a drink. And after Jason's prognosis I think we will need a drink. But we'll go right up to the second panel.

So join me in thanking both Hassan and Jason. (Applause)

MR. MAZER: Good afternoon. My name is Alex Mazer. I want to start by thanking David, Bill, and the Brookings team for hosting this event. I'm delighted to be here to talk a little bit about the lessons from the perspective of public employee pensions.

I have to say I'm a dual citizen, so I'm well aware of the cultural differences between two countries and the challenges of something that works well in Canada into something that maybe doesn't work so well in the U.S., but there is one counterexample, which is my favorite baseball team growing up was Montreal Expos, which didn't work quite as well north of the border, but actually translated very well into the D.C. environment. So, thank you for your sense of optimism for our panel today.

So when Americans think about world-class top performing organizations, public pension funds are not exactly what spring to mind, yet public pensions is one thing that Canada does very well and -- even though it's something that many Canadians are not aware of.

Canadian public pension organizations have drawn the attention of the economists, Fortune, the Financial Times, and are the subject of a new World Bank report that will be coming out later in November.

Delegations from all over the world come to visit these funds to learn how they do what they do. But the story of these pension funds is relevant to the U.S., not just because of how they look today, but because of where they were 20 to 30 years ago. Many of them faced severe funding crises, they were poorly governed, and many of them were invested only in nonmarketable government bonds.

So today some of the featured (inaudible) pension plans are going to be covered by our panelists today. We think that this has relevance both for issues of local and state employee pensions, but also for the design and management of some of the new state sponsored plans that are being set up in places like California, Oregon, and Maryland.

I'm delighted to have three key pension leaders from both sides of the border with us today:

Jim Keohane, immediately to my left, is president and CEO of Healthcare

Ontario Pension Plan, which has over 320,000 members, 500 employer participants, and about $70 million in assets under management.

Prior to becoming CEO, Jim was the organization CIO, chief investment officer, a role on which he developed a pioneering approach to liability driven investing. He also recently served on the Advisory Board for the Ontario Retirement Pension Plan, which was supplanted by the CPP increase we heard about earlier and was our version of a state-sponsored plan.

Hugh O'Reilly is president and CEO of OPTrust, which has about 90,000 members in the Ontario public sector, $19 billion of assets under management.

Before becoming CEO, he was a pensions lawyer for both management and labor, including serving as board counsel for several major public pension plans and he also played a senior role in government at the time when many of these plans were first being set up.

Finally Josh Gotbaum is no stranger to the Brookings community. Like Jim, Josh has a financial services background having worked in investment banking, private equity. Like Hugh, he's worked in government as head as of the PBGC, which invests $85 billion U.S. in Treasury and OMB. He's a guest Fellow at Brookings and Chair of the Maryland Small Business Retirement Savings Board.

So in order to get our discussion going -- we're going to try to have a conversation today. I want to take us back a little bit to the 1990s, which is when Canada is not in good financial shape.

Starting with Hugh, can you tell us a little bit about what Canadian plans were like in the '90s and why they were reformed?

MR. O'REILLY: Well, thanks, Alex. First of all, one item of fake news about Canada I want to clear up. Whenever I watch the weather down here, you always talked about bad weather coming from Canada. The weather today came from Canada. We brought it with us. I just wanted to clear that up.

In that spirit, I do want to clear up a little bit about the Canadian example. I think too often when we're talked about as an example the present state as compared to the present state in the U.S. I'm not sure that's the best way of looking at this issue. In the late '80s and early '90s, the Canadian public sector pension plan area was under a lot of stress, it was badly run, it was badly governed.

Most of the plans were -- with the exception of who at that time. Most of the plans were essentially pay-as-you-go plans. So the employees put their money in, the government put its money in by just giving a piece of paper essentially, a marketable government bond.

What this did was created a lot of pressures as fewer people started -- people retired, fewer people working put a cash crunch on it, government responded, increase in contributions on both sides, but typically it fell to the members.

This was a fight that the public sector unions got into starting in the late '80s and into the '90s. It started with the teacher unions fighting against this, that's what led to the creation of the Ontario Teachers' Pension Plan. It's also a plan that's governed on both sides, by representatives on both sides. It's were OPTrust came from, and there are other examples as we go into the future.

At the time doing this politically, no one cheered this. We put this -- we were an unpopular government, that was probably for a whole bunch of really good reasons, but this did not add to our popularity.

History is judged as being the right thing to do, but at the time it was criticized. So in order for this model to take place, we needed a series of ingredients -- you needed the members of a plan to take action and to push their point of view; you needed political will, which was created by the unions taking their action; and you needed to create a sense of more government structure and something in that in the long term was fiscally prudent, which is difficult for politicians.

MR. MAZER: Jim, do you want to talk a little bit about -- a lot of major reforms to your plan happened in the 1990s. What was a little bit of the emergence of that?

MR. KEOHANE: Our plan was in existence since 1960, so it actually was a fully funded plan. One of the things that's interesting about HOOP is that we're actually not a government entity, we're actually a private trust. We're the -- which was created by an agreement between the (inaudible) and the management of the hospitals in Ontario.

Prior to 1990s it was actually solely sponsored by the employer, so the Ontario Hospital Associations and there was some issues. In the 1980s the returns were very good, so the fund was in a surplus position, so the employers took a contribution holiday and didn't share it with the employees and so the unions didn't like that very much.

So there was a court case around that and ended up being a financial services tribunal decision, which actually created the joint government structure, so our board is made up of half of appointees from union representatives and half appointees from management representatives.

But it is actually a private trust, so it is essentially like a -- coming to a mutual insurance structure, so the members of the plan, all in the plan.

That change in governance actually allowed us to move down a different path, which was running the plan solely for the benefit of the members, which led us down a completely different path in terms of how the plan was being run.

So it's moved from essentially a (inaudible) organization to one where we started to run the money internally and do things that were really in the interest of making sure we deliver on the pension promise to members. It was a rough (noise) to take place easily. It took a lot of back and forth to get to where --

MR. MAZER: Josh, you've done a lot of work in pensions in U.S. and you've had a chance to look a little bit at these Canadian plans and the way they're governed and the way they're run.

What would you highlight as some of the key maybe differences and similarities when you're looking at a Canadian plan versus a --

MR. GOTBAUM: Can we bring up your slide, what I think of as your slide?

(Discussion off the record)

MR. GOTBAUM: Full disclosure, I'm the only member of my immediate family who is not a Canadian citizen.

I would say the important differences from U.S. practice are several and I hope that we will discuss how they came about. One that I'll start with, because I think it's really economically significant but is not -- was not a source of age reform, is that actuaries in Canada are more conservative than the actuaries in America.

As a result when you look at the discount rate that these plans use, it runs five to six percent currently. There are some that are lower. When you look at public plans in the United States, they have historically been higher and are moving down courtesy of the Government Accounting Standards board, but they have still been sufficiently higher.

I mention this because it is the source -- the most important source of traumatic underfunding in U.S plans. It is a difference which is structural and forever -- this point about apologizing to the actuaries for criticizing them, I'm not going to criticize the Canadian actuaries. But my friends in the American Academy, sorry, that's an important difference.

The other important differences that, from my perspective, really matter is the level of professionalization of these plans. That does not mean that the American plans are not professional by any means, but it does mean that the American plans started from traditional government pay scales and organization. Their trustee programs were done -- were politically determined and that led to political influences in the direction from trustees.

So I would say the -- the one that I hope we will get a chance to talk about at some length is that whereas the American plans kept pay low. In order to hire talent, they didn't call them employees. They called them consultants or managers of funds of funds.

When you look at the comparative cost between the best Canadian plans and the American plans, the cost, the net cost, appear to be on the same order of magnitude, but the differences are profound. As a result, the Canadian plans have been able to engage in direct investment rather than doing what the American plans do.

If the American plans want to engage in infrastructure investment, they look around for a fund manager that says, we will gather investments for you, and they will pay that fund manager a fee on top of the cost of the investment.

So there are very significant differences. I hope we will talk about those and defer until later in the discussion how we get the Americans to pay attention to those differences.

MR. MAZER: I want to come back to the question of organization and people and talent a little bit later because I think it's critical, but maybe we can go back to the issue of governance, which was touched on briefly, and go a little deeper on that.

Governance is often identified as one of the key drivers of performance in pension organizations, it's also a likely sensitive topic. I'd love to know from you, Hugh, how has the governance of Canadian plans evolved over the years and what it used to look like, and can you paint a picture of what it looks like today?

MR. O'REILLY: I think initially when these plans before they became jointly sponsored, they were either run as arms of the provincial government or they run by the employer associations.

The difficulty with that is the priority for the plan becomes the interest of -- or has the potential to become an interest of the sponsor. So the government's objective is to minimize its cash, its cash outflows, and its expenditures. It governs itself accordingly.

Jim referred to some of the past problems in the past where employers took contribution holidays and employees didn't share in them.

When joint governance was spot off (ph), which is like the equivalent of the (inaudible) down here, there was an initial reaction of oh, my God, you're going to put working people at the table and we're going to do crazy things.

They're going to want to increase benefits, they're going to want to lower contributions, God help us, they might even want to do socially responsible investments. This was the fear that was articulated.

What ended up happening was first of all, the individuals who represented their members, fundamentally vanished through their role as they represented their members' interest.

From a legal point of view, a pension plan's obligation is to its members. So immediately they went there with the mindset that wasn't focused on short-term or just trying to do things that were politically expedient. I think that was important.

I think they were properly supported both by professional advisers lawyers, actuaries, accountants, and others. Then I think as these organizations staffed up in certain cases, they hired people who could make a lot more money if they worked in the financial sector. No one's going to have to do a bake sale for Jim or me. You make less than you would in the financial sector, but it's people who are motivated around the issue of ensuring that the benefits can be paid and the challenges that come from a pension plan.

SPEAKER: If I may interject. However, on average, a level of compensation on these Canadian plans is very significantly higher. In America, as a general practice, we simply do not allow public employees to be paid and we view public plans as -- and we don't allow them to be paid.

MR. O'REILLY: To put our costs in perspective, our fund which is 19.2 billion, which is not a large fund, and we internally manage -- by Canadian standards. We internally manage our alternatives and now our bonds, AFEX, and certain derivatives products.

Cost of running our money -- our money, our investments, its 24 bases points. Cost of administering the benefits, because we also do that for our members, is 11 total cost of 35 days.

I think that compares -- any fee base. We have well diversified, we have offices in different countries, and we on a 3.4 percent real discount rate, we're fully funded. On a market rate, which takes (inaudible), we're 110 percent funded. Our board is laser focused on the funded position.

So those are the things we're able to accomplish I think in large part because we internally manage and we have a form of liability driven investing as well and are able to do that because we internally manage our money.

MR. MAZER: I think it would help the American audience if you talked a little bit about how there came to be a consensus that these plans should be run in effect as businesses, even though they are public entities.

SPEAKER: I mean, it's -- happen in an evolutionary way. I think one of the key moments was that -- Hugh mentioned earlier there was some -- the teachers' plan -- Ontario Teachers' Pension Plan was created around 1990. Prior to that, it had been just part of the government Treasury and it was a pay-as-you-go plan and there was no fund really. So part of negotiations the teachers had with the government was that they were going to pull these non-negotiable bonds out and actually create a fund, so it would be a properly funded plan.

When they set up the government structure, the first chairman of the board was a gentleman named Gerald Bouey who had previously been governor of the Bank of Canada. He said, I'll take the job if I can run it like a business, and that was like a key moment.

So he then -- prior to CEO with -- Claude Lamoureux was the first CEO of Ontario Teachers' Pension Plan and they went up to set it up -- to run it like a business.

Our plan about that same time had gone through this shift from a single pension plan to a joint governor plan and they knew -- the board that took that over followed that same approach, we want to run it like a business for the purpose of delivering pensions to members. I think that was sort of a key moment in time that actually created that changeover.

MR. MAZER: I'm wondering, Jim -- we're very fortunate to have Jim here today, because the results of the HOOP plan if you look from an investment perspective have been truly outstanding.

There was a survey done this past year, which was a global benchmarking survey, I think about 120 funds, peer funds, from around the world and HOOP's results have actually been the top of that group, which about nine percent over the last decade.

I'm wondering if you can talk a little bit about -- when you say run like a business from an investor -- pension investor perspective, what does that look like and what advice might you have for policymakers or people who run pension funds here if they want to improve investment results?

MR. KEOHANE: Well, run a business -- you have a very clear mission, which is again delivering pension promise. We make all our decisions to make sure that that's what happens.

One of the big things is we have significant scale, so as a $70 billion fund it's much cheaper to run the fund with an internal management team than to outsource it.

Again, as you mentioned, our costs are very low, our -- and one of the good things the government structured, it actually allows us to pay market wages to our employee managers so we can pay -- we're writing people seven-figure checks internally and we can do that because of the government structure.

So we're actually private entity that's away from the government, so we're not tied to government wages. We can pay what it takes to hire people. It's much cheaper -- way cheaper to do that than to actually outsource to a third-party manager.

Just to get some perspective on that, when I took over as chief investment officer, we had 85 percent of our money run internally and 15 percent run externally. That 15 percent that was run externally cost more to run than the 85 we ran internally and the results were worse, which made it a very easy decision to in-source it.

Another big intangible you get from having internal management is significant better risk management. Again, there was a big focus on what risk can cause the fund to become underfunded and trying to structure investment portfolio that makes sure that you avoid those things that can put you out of business, if you will, the big risks. It shifts us more towards risks that are more manageable and less likely to put you out of business.

We don't get used is instruments of public policy, so the government can come out and say we want to start some R&D fund, or whatever, and they can show it to us and we can say yes or no. Nobody's going to force you to do it. We are -- to retain talent.

I think one of the keys to success are to have good governance, have a clear mission, and be able to attract talent to actually execute on that. We're not the highest paying market. I'm sure many people can probably make more money going to work for a hedge fund or something, but they don't for a lot of reasons.

We tend to try and hire people that have sort of more of a public mind of view and think long term. Working at a place like ours is great, because you have locked in money, so you don't have to go out marketing and raise money all the time.

A hedge fund, well that's (inaudible), so that's very attractive. Some people don't actually come work for us. We're not necessarily the highest payer in the street but we want to be in the ballpark. The conversations tied to results, which a lot of times you're hiring outside managers, you pay them whether they well or not, so ours is actually a result of.

So scale's pretty important. It's allowed us to move into a lot of different investments and (unintelligible), so Canadian plans are -- there's a lot to talk about the Canadian model.

The Canadian model really is, mind you, just governance, scale, and being able to broaden your investments -- which actually reduces -- it enables you to own assets that are natural liabilities and reduce it for diversification. I think it's one of those magic things where you actually have produced risk and improved returns.

The other things I would say we do -- at our scale, we can afford to spend a lot of money on risk systems and controlled environment, so we always get a very shining report from our auditors. We do have the scale to spend money on those things. We're constantly spending money to try and make sure the leading edge of things and give us an edge on other people.

So we do invest in private equity, real estate. We're not an infrastructure. Plus we feel it's very pricey right now, so we wouldn't do it, but at the right price we would.

We're big user driven. It's one of the biggest in the world. Most boards who walked in and said -- derivatives, they show you the door. It's actually allowed us to significantly reduce risk in the plan and creates structures that better match our -- we have good governance...

MR. MAZER: I want to ask Hugh a question about something that Josh raised, which is this question of compensation and the political controversy associated -- the political difficulty effectively compensating what may be perceived to be public employees more than standard government employee.

Hugh, you were there when a lot of these plans were set up. I wonder --

and you talked a little bit about that political challenge, how that was overcome, and also now a CEO of an organization, what does the -- what does your organization look like today, what's been the kind of payoff from that political shift?

MR. O'REILLY: The teachers' plan, the teachers played a role in 1990 than the government in part because they wanted to have control -- or share in the control and decision making on their pension plan.

Then they negotiated with our government and we implemented the Teachers' Pension Plan. I remember getting handed the deal and asking me what I thought about it. Anyway, I don't know why they asked me. But leaving that aside, I thought it was fine.

Our plan OPTrust, it got set up -- in the last couple years of our government, we were under a fairly severe fiscal pressure. And despite the fact, we were a government that had been supported by the trade union movement. We implemented what we called the social contract, which was a five percent pay cut for every civil servant plus everyone who worked in the public sector. I was amazingly popular at parties after that set of events.

But one of the things that the union sponsored our plan did, it had been fighting for a generation to get control and a savings plan, they put that on the table in negotiating a deal. That's where that joint governance OPTrust came from.

OPTrust's evolution went from typical using external managers to eventually hiring internal groups to run alternatives. And then recently we've added our public markets capabilities.

I think the evolution of these plans has all been based upon -- there's been a lot of learning from mistakes, there were contribution holidays, benefit improvements taken in the late '90s around the turn of the century, those proved to be problematic to maintain after the global financial crisis. There was a need to in some of the plans to increase contributions or to decrease benefits, those have happened.

Our compensation structure, because we internally manage, we can have alignment between our investment teams and our members. So my -- our compensation is based on three factors -- one is maintaining the funded position of the plan over a hundred percent, second is as compared to a reference portfolio ensuring that we take less risk, and three is preserving the surplus in the plan.

One thing I want to be really clear about, periodically there are controversies about compensation in the Canadian pension plans. Some plans don't disclose their compensation, we do. One of my sponsors is the government and one of my sponsors is the Ontario Public Service Employees Union.

So from time to time, they raise issues around compensation. But the fact of the matter is all of the plans are well governed, including ours, from a compensation perspective. Compensation advisers advise the board, they're independent, they make sure proper market studies and analysis is done.

It's a competitive marketplace, so we have to make sure that we have the right people there doing the right job. We measure our success based on our funded position, maintaining the fund's funded status so we provide our benefits at the current price and at the current level. We call that paying pensions today, preserving pensions for tomorrow and second that we do it in a way that's cost effective, which is the 35 days as plan's all in. That culture when you link incentives to the member's interest, that creates a culture of protecting the plan.

MR. MAZER: Josh, I'm wondering if I could ask you to comment broadly on the applicability of some of these aspects of the Canadian relative to the U.S. could be from a state and local public employees' pension fund perspective or even from your vantage point as chair of this Maryland auto-IRA that's being set up?

MR. GOTBAUM: Let me do the standard thing and say I'm definitely not speaking for the Maryland Small Business Retirement Savings Board, but for myself. Unfortunately in the United States in response to significant underfunding of the existing public pensions. The response and the reaction has been channeled into some combination of raising contributions and cutting benefits. It has not been channeled a rethinking of organization. It has not been channeled into a rethinking of investment strategy in a particularly comprehensive way, et cetera.

Frankly part of the reason why I hope we would do this panel, is because there is widespread dissatisfaction in the U.S. pensions, in the state -- U.S. public pensions and opacity of reasonable responses.

So one possibility is that one could say, all right, thus far you're dissatisfied with the existing system. Why not try a system in which the people who run your pension plan are paid based on performance and achieving of a funding level, which is not the case in public pensions in the U.S., recognizing that you'll have to pay them more than other public employees.

I asked earlier for the senior Canadian Public Pension Plans, what are folks making -- what do the senior folks make. As you mentioned, some of his managers earn more than a million Canadian a year, which is $800,000 roughly in U.S. dollars. The folks who run it earn a couple million dollars.

There are no, zero, heads of U.S. public pension funds who earn $2 million U.S. or even I think $2 million Canadian. So this would -- what this would take, but I think it's worth the discussion, which is the reason I had it, is does it make sense to rethink -- rather than just say we should cut benefits.

Maybe it makes sense to rethink we should reform the organization, maybe we should say that instead of a system which underpays the employees of the public plan and overpays the consultants to the public plan and the investment managers of the public plan, maybe you should think about direct investment. I think that is a discussion which could be had and which I hope this panel does.

Another area that is worth mentioning is that the response of public plans to underfunding has been to increase their investment in risky assets. So as a result, U.S. plans -- which by the way have for decades invested in alternatives, but have invested in alternatives generally through consultants who are through funds of funds. Therefore, pay a lot more than 24 bases points.

One issue, and Jim mentioned this, is why not consider developing the capability to do direct investment. Since your liabilities are long term, why not invest in long-term assets. There is a screaming need in the U.S. for investment in infrastructure.

Everybody says why aren't pensions investing, and the answer is because the way U.S. pensions invest is through relatively expensive consultants attached to relatively expensive fund managers, et cetera, and they don't do what a trust does or HOOP does.

I think there are plenty of cases where -- or instances of Canadian practice that could be adopted, especially because U.S. plans at the moment have hit a wall. All they can do is say, well, let’s cut future benefits on employees.

MR. MAZER: I'll give Hugh a chance to respond if there's anything you want to say in response to --

MR. O'REILLY: It is much more attractive to run things internally, not just from -- I mean, cost is one driver, but returns will be much higher as well just because you can directly invest in assets that you otherwise wouldn't intermediate throughout the balance sheets and you pay to use the balance sheets. So we can (inaudible) by buildings. I ran it one of our portfolio managers on the way down the plane today and we were (inaudible) and we looked at a couple other things we're developing in Washington right now, so we're building something -- the Boro (ph) at Tysons Corner (inaudible) and Anthem Grow (ph), which is right at the 7th and K right across from where the -- former library that was there. We directly do these deals. We directly build buildings and -- a fund, our terms would be much lower.

The one thing I would make light of is when you're trying to move in that direction, there's a huge vested interest in the financial services sector to not have you do that, because they make a lot of money of U.S. day pension.

They charge you most fees and they're the beneficiary of it. Believe me you're going to find out when you're trying to do this, so a big vested interest in not having to do that.

MR. MAZER: One common theme from the presentation from Hassan this morning is I think the time it took to build stakeholder consensus around some of these changes was not something that happened overnight and unions were involved and governments and other supporting the change --

SPEAKER: I'll explain. I think it's a continual process. The people who work in a pension fund, those are big ticket people, so you have to constantly be reminding your stakeholders about what your purpose is, how it saves money total cost.

I think the other advantage we have is we can focus on what really matters, which is the funded position of a plan based upon a reasonable or an appropriate market discount.

The other thing is too often these consultants in particular, probably some in the room, but they judge success based upon first quartile or rates of return and this kind of stuff. Well, if you're picking a first quartile manager, what the preponderant weight of academic literature supports is you're about to have a third or fourth quartile performer, because once you're managing large sums of money the stock selection really doesn't have the same effect.

You've got to think about this, and focusing on returns, per se, is not a measure of success. Yes, it contributes, but what is the final position of the plan, what is the risk you're taking, how are you managing your risk, how are you measuring it, and how are you doing on delivering the promise. Because as that promise gets undermined, that's when you really undermine the existence of the plan and the bonds of solidarity that hold it together between the young --

SPEAKER: Can I add one data point to this conversation, the OECD, as

Josh mentioned, has done incredibly well by anyone's measure, by any international measure, et cetera.

One of the things I did, thanks to Hillary Gaulfen (ph), who's sitting quietly in the front row, was look at the returns in general for pension plans in Canada versus public plans in the United States gathered from the OECD.

They produced the following statistics: In the last five years, Canadian pension funds on average have averaged a return of 8.3 percent compounded, which is among all the countries in the OECD the single highest. Actually it was tied for the single highest. So it's of the 24 countries in OECD, Canada is one of two. The United States in the same time period, the plans measured by OECD, returned five percent versus 8.3, which put them -- which puts us in the United States 19th.

Furthermore also thanks to Hillary, did a comparison of the variability in returns, which is one measure of risk, of a couple of the major plans versus for the sample of public plans. This higher return was achieved with lower variability of return, with less risk by one measure of risk, so it is a really exceptional performance.

But I think if you looked at the statistic of if you had a normalized discount rate and compared the funded position of the plan, that would probably blow the top of your head off.

I can tell you if we had a seven-percent discount rate, I don't know, we'd be 135 to 140-ish percent funded, something like that. Discount rates play a...

MR. MAZER: So I want to give folks in the audience a chance to ask some questions. I think we might do what we did as part of the first panel and give maybe three or four or maybe two or three questions, then we can turn it back to the panelist.

SPEAKER: Hi, this is a question for Jim. This may be a somewhat naive question, but I'll ask it anyway.

Is there any impetus from those in the government, from those who are social actors such as labor movements and NGOs to invest in let's say alternative energy sources, companies that are working in that area, innovative health care research, innovative housing production?

Obviously there are pressures on you to do well but there are also probably pressures on you to do good and I'm wondering how these play off each other.

MR. MAZER: I'll take a couple more questions and then we'll turn it back, just in the back here and then in the back.

MR. FRAZIER: David Frazier (ph) from the Pew Charitable Trust. I'm wondering if you could talk a little bit on the subject of risk about shared risk, and I'm thinking specifically of New Brunswick (inaudible) Pension Plan, but how widely accepted those principals have been in the public sector of pensions.

MR. MAZER: One more in the back.

MR. SAYER: Hi, my name is Alexander Sayer (ph) and I work at the World Bank. On the comparisons across countries, I was wondering if you also were able to look at -- let's say the Canadian funds have about an eight percent return and American funds around five percent, what percent difference in fees did the Canadian funds pay on generating those eight percent returns versus the Americans doing the five percent, would be interested to know that. Also I'd love to hear from the two hedge fund CEOs, to what extent do you look at not merely sort of (inaudible) investing activities but also other markets like conversion markets.

MR. MAZER: Why don't we work our way starting with Jim.

MR. KEOHANE: There is a lot of discussion out there these days on environmental social and governance markets and we do take those into consideration in our investment activities and have for some time. We look at them as risk factors.

We're a signatory of the UMPRI and the UMPRI approach is that you should look at risk factors and take that into consideration in your investing and engage with your companies in terms of -- that you're investing in to make sure they're thinking about these things.

We started investing in energy companies. Alternative energy is -- in most cases we haven't invested because there's why a lot of these things exist is because of government subsidies. If you took those subsidies away, they're not economic. So we're always worried about those being stranded assets. If the subject goes away, what are left with (unintelligible), so we tend to shy away from those things.

If they were economic as they stood on their own, we would invest them. So it's not we wouldn't, but we do -- part of what we do is engage with companies.

The biggest thing that we can do in terms of directly is in terms of environmental is we're a big direct holder of real estate and those buildings can have carbon footprints and we do what we can to those buildings to reduce the carbon footprint through more efficient energy usage in those inner buildings and also -- we also look at water usage in those buildings and -- to reduce those things and reduce them over time.

It's a good thing, because it's a win-win situation because -- any new buildings you build, we built platinum standards, it means (inaudible) energy efficient. It's a win-win for us because people pay premium rents for those buildings.

So the cost of building a new building to those standards is -- maybe in a $500 million budge, maybe it's another 5 or $10 million and you'll get higher rents with a perpetuity of the building if you do that, so the economics make sense.

There are a lot of pressures around these things. We do take into consideration all our investing, but some of the things we will do and some we won't, but it's more thinking about it from the member's point of view, is it good for them, and some of these situations that actually is a win-win.

MR. MAZER: Do you want to comment on the --

MR. O'REILLY: I can comment -- I'd like to talk a little bit about responsible investing too. One thing that's really cool about being a -- there's lots of really cool things about being a pension CEO, but doing it in Toronto -- Toronto is kind of the Silicon Valley of the pension world and it's a really interesting eco system.

Even though I describe HOOP and OPTrust as worshiping the same god, we have different religions. Part of the different religion is we're very active responsible investor, so we're active in alternative investing.

We've taken a leadership role around the issue of climate change, issued a report in early January seeking disclosure that will allow us to engage. We don't believe in divestment when it comes to oil and gas and fossil fuels, but we do believe we better understand the climate risk of all the entities that we invest in.

So we've put that report out. We've got another -- we've done some further work that will be published late in the year around the issue of climate change, so we are engaged in that.

We also have an incubation portfolio that we've established. It's about $300 million, about a point and a half of our assets, where we want to -- within the fiduciary context of course. We want to look at different investment approaches, the innovation economy, the disruption that's coming so we can learn from it and make us better, help us better understand our investments, and really break when important part of the cycle that's going to change as a result of disruption.

Investors value tangible assets. In the world we're in now, intangibles play a role. We have to figure out how to invest that. New Brunswick Elks is asking to do that. The New Brunswick model, I fundamentally am opposed to. That was a significant benefit reduction for employees there. It changed it from a final average plan to a career average plan. The employees bear the risks fundamentally there.

Our jointly sponsored model, there is a risk sharing that the employees and the employers share the deficit and they share the surplus. If there's a deficit in our plans, our members are 50 percent responsible for it. That's part of the reason why when we manage our assets, the member interest is taken into account and we don't want that contribution to go up.

New Brunswick goes in a tough circumstance. They thought that was the best answer, but I'm very uncomfortable with target benefit plans because it puts too much risk on individuals and someone who is say 40-ish or 45, 20 years of service in those plans, suffered a loss.

I guess the last thing on emerging markets, we have quite a bit of public market exposure -- well, about 10 percent of our assets would be in emerging or developing markets. This is an area of interest for us in alternatives as well. I wasn't saying you guys weren't responsible enough.

SPEAKER: Hugh, just to be clear, your benefits are not variable, but your contributions can be affected?

MR. O'REILLY: If our sponsors agreed to change benefits on a future oriented basis, they could do that.

SPEAKER: But what happens is if your performance somehow went very badly, there would be -- first order would be a change in the contributions?

MR. O'REILLY: Probably. That's historically been the case, yes.

SPEAKER: It's one of -- the Rezuke (ph) example has come up a fair amount in the U.S. context, but that's not the first shared risk plan that's been introduced in Canada. It's been around for a while.

I think, Jim, you want to comment on that as well.

MR. KEOHANE: HOOP's in a shared risk plan from day one, since 1960. We actually have (inaudible) benefits as well, so the board does have the ability to alter some of the benefits and the main one is cost of living adjustment. So we do intend to pay cost of living adjustments on pension payments, a hundred percent of CPI. The board has the ability to take that to no benefit -- no COL adjustment. We've never actually done it to take -- we've taken it to 75 percent of CPI a couple of times when we faced money challenges. It's a very big leaver cause it actually can improve your funded position by about 20 (inaudible) off the table.

It actually -- the other thing it does is it actually allows you to have the pension or sharing some of the risk, because people are in retirement. Otherwise, all the risk is borne by the active members. So that's the one place you can actually shift some of the risk onto the retired population.

When you look at a (inaudible) basis, the employer's actually only -- the only obligation the employer has -- again our plan is actually not a government guaranteed plan, so government has an obligation. So if we have an underfunded, no obligation to make that deficit up. It's really up to the board to figure out how to do that and that can be done through reduction of benefits or increasing the price to the employer.

The only obligation the employer has, we can increase the contribution rate going forward and they would have an obligation to meet that. Our plan is also voluntary. So if the employer doesn't like it, they can leave. So it is -- there's a lot of shared risk in the plan. About two-thirds of the risk is actually borne by the members, about one-third by the employer.

MR. MAZER: Josh, you want to comment briefly on the fees issue that was raised? I know there's been a little bit more focus by governors and pension plan trustees on the issues.

MR. GOTBAUM: I'll try to brief on this one. Full disclosure, I used to be a partner in a private equity firm. What that meant is we went to institutions, including a lot of public U.S. pension funds, and said if you invest money with us, we'll make you money and we will charge you according to the usual rate, which was -- the shorthand for which is two and 20, 200 basis points on whatever you invest with us per year and 20 percent of any profits we make.

We were more responsible than most, so we said 20 percent of any profits we make above a benchmark, which was your discount rate, in that case eight percent.

So minimum cost of 200 basis points; right. Did you hear what Hugh said his costs are? That is why I think the direct investment model, the professional staff model, and the notion that public pensions perhaps should not be limited to traditional civil service pay scales is worth considering, because the results that these gentlemen and their colleagues have achieved are much better than the results that, in some cases, even the best U.S. public plans have achieved.

Everybody is trying to figure out how can you improve retirement security at whatever is an affordable cost. This is a model that's worth considering.

MR. MAZER: Terrific. I think we're at 3:30 now. I don't know if we want to take a few more questions, David, or how you want to proceed.

MR. JOHN: Maybe one.

MR. MAZER: Let's do one more round of questions. Why don't we start on this side and we'll work our way around.

MS. DONOVAN: Connie Donovan from PBGC, I'm the participant plan sponsor advocate --

SPEAKER: And I did not pay her to be here.

SPEAKER: At least one person in the room has an easy job.

MS. DONOVAN: Yeah, really it's a fun job, that's for sure. It's kind of a tripart question, a little bit in Josh's space based on his experience.

Do you see in the public pension space in the U.S. any bright spots that are somewhat mirroring what you're seeing on the Canadian side? So that's kind of Question Number 1.

Question Number 2 is: Do you see any lessons on the Canadian side that can be learned with our ERISA covered eroding defined benefit plans in terms of best practices, regulatory changes, policy kinds of changes?

Then the last question, and I'll stop, is: Do you see any possibility of a public-private sector kind of relationship in potentially supporting a stronger DB benefit structure in the U.S.?

I know Josh, but for the whole panel obviously. Thank you.

MR. MAZER: Why don't we go over to this side and then to Will.

SPEAKER: Also on governance and oversight, there seems to be a need for a balance between enough government oversight so the managers are doing their fiduciary duty at a minimum, but enough arm's length so they can be enterprising and run like a business and pay well, so that seems to be some of the consensus.

In the U.S. ERISA excludes government plans, or pension law, our pension oversight law and our guaranteed fund. Is there any federal role in Canada for the Ontario -- over the province in their public sector plans? How do you guys manage that tension between oversight and creativity?

MR. MAZER: One more question.

MR. PRICE: Will Price from the World Bank. All of this is from my former life working in the UK. So there are a set of public plans in the UK but a hundred of them from local government plans, which existed for about 60, 70 years and have been recently forced to amalgamate to about ten and maybe the number should have been lower.

The question then for the panel and advice for the U.S. participants, what's the kind of scale of the plan in terms of billions under management which you would feel is the kind of minimum you would take on and build out as something that could be world class?

MR. MAZER: Perfect. Why don't we start with Josh, because there was a question about ERISA-covered plans and a number of other questions.

MR. GOTBAUM: There are lots of folks within U.S. public plans who are taking to heart some of these lessons, Kelpers (ph) and Calsters (ph) have both.

Within the last couple of years done -- each of them has done -- in one case said, okay, I'm going to disinvest in a class of investment managers, because I find the fees too high. Also I'm going to do some experimentation with -- I'm going to spend some time doing direct investment.

In fact, the idea that the U.S. pension funds work only through consultants and only through funds of funds is plain not true. U.S. pension funds -- public funds have always had some direct investment, et cetera, but have moved away from it in part, frankly, because of the influence of ERISA, ERISA and ERISA plans.

So I think there's motion there. What I hope this panel does is kind of spur a rethinking in a broader range. I would rather defer to a private forum as to what the lessons are for ERISA plans.

My shorthand for this is had the actuarial profession in the U.S. been as conservative as the actuarial profession was in Canada; therefore, had private plans been required to put aside the right amount of money that turned out to be necessary, we probably still -- we'd have a lot more ongoing defined benefit plans in the private sector than we do.

MR. MAZER: Hugh, can you speak to the importance of the regulatory environment and the question about --

MR. O'REILLY: Yeah. I could take you through the delights of Canadian constitutional law, which is interesting. It's quite different than yours.

Under the Canadian law, federally regulated institutions are the only ones subject to federal pension legislation, so it's a small part of the economy -- airlines, railways, telecom, uranium mines, stuff like that.

So in Ontario, organizations like ours are subject to the provincial Pension Benefits Act and the Federal Income Tax Act. Income Tax Act really speaks to funding issues.

So we're subject to -- we're giving certain breaks under the Pensions Benefit Act. They're less unique than they were. We're required to fund on a going concern basis. Whereas in the private sector, there was a solvency basis. To them, both of our plans are well funded on a solvency basis I would point out.

Governance and oversight, and those sorts of things, I guess comes down to me three fundamental issues: One, trust. We can set up -- we can have a guard in every room. Absent trust, we can't make the governance work.

Two, clear criteria to hold us accountable. By "us" I mean management. That to me is why funded status matters. We can talk about first quartile performance, I outperformed this plan, whatever. It doesn't really matter. What matters is what's our funded position, how well have we done protecting it.

And then three, I think it's the issue of how transparent, how open management is with the board in telling them the good and the bad. Those are the three key things that I see.

MR. MAZER: Jim, did you want to speak to the scale question?

MR. KEOHANE: We've actually had some few discussions with some of the K funds, kind of a CS, but the -- I think the important thing of scale is getting the size where you can -- the economies of scale makes sense to in-source your management.

In today's world, that's probably somewhere around 20 billion. I think Hugh is just getting the threshold at that level now and they're starting to in-source things, but it's -- that's probably a moving target over time. But it's -- I think when we first did it, we were less than that, but the market was so much smaller then.

Certainly I would think the ideal size, to me, is somewhere between 30 and 50 billion. I think -- in that case you're big enough to in-source your asset management and you're able to upscale, get involved in a lot of different activities that you couldn't otherwise get involved in, but you're not too big you're going to move markets around things.

When you get up to 300 to 500 billion, I think you start getting diseconomies of scale. There's a sweet spot in there you want to be in.

MR. MAZER: One last comment from Hugh.

MR. O'REILLY: Yeah, I just say a couple things. First of all, we have internally managed our alternatives for a dozen years and we did it probably starting at 9 and $10 billion a year.

(Inaudible) in here that you need to have massive, massive scale to be in the alternatives. I'm not certain that's true. I think it's a matter of what the boards are prepared to do, how they're prepared to bear risk.

The other thing is technology has changed a lot of things. We now internally manage our bonds, AFEX, and routing derivative products. We are able to do that, because we outsource our middle and back office to our custodian.

Jim is without question, the best -- in my opinion, best pension investor on the planet and I take seriously the things he says, but innovation also comes from smaller players and I think there's a real balance here.

It's not necessary that size dictates it. I think the story of the Canadian model, the story Hassan told, is also a matter of taking the risk and having the will to do it.

SPEAKER: One thing you touched on there was technology as well. That's one of the big advantages to scales, you actually have the money to do things like that. Technology is critically important to the success of any organization to keep you on the leading edge of things and allow you to do things much more -- on a much more cost effective manner and you need to fit to scale to be able to do that.

Just an example, we spent -- on trading systems and control environment, we probably spent a hundred million dollars over a couple-year period to allow us to do things we want to do. You have to be pretty big to be able to throw that kind of money at it, so it's not -- there is an optimum space, but you need to hit a certain threshold and you can argue whether it's -- but it's a big number.

MR. MAZER: Jim, I think earlier today you referred to the Canadian model as an evolution, not a revolution. We did have a chance to scratch the surface today on some major issues.

I did want to mention for those of you who are interested in diving into more depth, a number of us have had the privilege of collaborating with the World Bank over the last year or so to try to document a bit of the story over the last 20 or 30 years of the Canadian model, lessons learned, good and bad, and I think touching on a lot of the questions that were raised in a lot more depth in the audience, so that is coming out later in November. Keep an eye out for that.

Josh, do you have one last comment before we wrap up?

MR. GOTBAUM: I think given this panel, the Canadians should have the last word, period.

SPEAKER: Well, I'm often heard to say I think Canadians can be amongst the smuggest people in the world. In telling this -- our model comes out of a bunch of mistakes, a lot of failure, and learning from it.

I think the U.S. is in an inflexion point now and I think with political will, with people putting the usants, the members of these plans, I think you can achieve and perhaps even go beyond us, so that would be my view.

MR. MAZER: I hope you'll join me in thanking --

SPEAKER: Poor Jim didn't get the last word.

MR. KEOHANE: That's okay. I'll let you have the last word.

MR. MAZER: So please join me in thanking the panels.

(Applause)

MS. RADEMACHER: We're going to go ahead and get started with the last panel, which in some ways tries to reground all of the discussions in the context of some of the most vulnerable workers for whom all three pillars of a retirement savings system should ideally work in service of helping them build retirement security. We're really fortunate today to have just incredible perspective both from Canada and from here in the U.S. on the implications of both the Canadian reforms and Canadian system ideas and their impact on low- and moderate-income workers, and also some of the ideas and some of the reality of what that looks like here in the U.S. And then we'll have a bit of an interplay between our speakers about what we can draw from Canada, and also how do we not put something that's happening with another country on a pedestal and think that everything is better someplace else, but really grapple with some of the ways we actually have some advantages and options in the U.S. if we have the political will to work with them, to actually do even more for low- and moderate-income workers in terms of retirement security.

So, just quickly, we'll go across the board here. We'll start with Jonathan Weisstub who is one of the founding partners of Common Wealth. I know you have full bios so I don't want to spend a lot of time with that, but a lot of experience both in the public and private sectors on these issues, and you're going to share with us a bit of the work. And then we'll go to Catherine Harvey who is a senior policy research analyst from AARP at the Public Policy Institute. Catherine has been doing a lot of work both with the innovations in the private side and also in terms of some of the policy work that's been happening at the state levels.

We'll ask Mark Iwry to round us out in terms of an initial set of remarks. Mark is here at the Brookings Institution as a non-resident senior fellow in Economic Studies.

I probably should have introduced myself. I'm Ida Rademacher, and I lead the Financial Security Program at the Aspen Institute. It's a pleasure to be here for this conversation.

So, Jonathan, why don't we have you go ahead and start. I know you have some slides to put up. We'll use your last slide later on, whoever is managing AV, we might pull the last slide up later on in the discussion.

MR. WEISSTUB: It's an incredible screen.

MS. RADEMACHER: It's an incredible screen. But those aren't your slides.

MR. WEISSTUB: No, they're not. They're not. (Laughter) We could look at them. Nice slides. That's the beginning of the slide.

So, thanks Ida. I want to start actually by thanking all of you for sticking with us. It's been a long session on retirement security and I appreciate that you're all still here.

I'm going to actually burst your bubble a bit in talking about Canada. It turns out we don't actually live in a perfect social democracy. It may come as a shock to all of you. Today I'm going to talk about how low- and moderate-income Canadians fare in retirement and why innovation is necessary to address their needs.

People look to Canada as a model often on world class pension plans and as a country that prides itself on the protection of the vulnerable. While there are elements of truth to this as it relates to lower and moderate-income earners, Canada actually is unfortunately failing a bit.

So, the first slide is on seniors' poverty. Because we're talking about retirement security we might as well talk about how well our system is doing for seniors. You'll see on the left that we've had a very good reduction in seniors' poverty. On the right you'll see the public programs that have actually driven that decline in seniors' poverty and some of them were talked about before.

Our benefits system is made up of a few different programs. Old Age Security, which is a monthly social security payment available to most Canadians 65 and older with individual income of less than $114,000. The maximum monthly payment is about $583. We heard some of these numbers actually I think earlier from Hassan. We also have something called the Guaranteed Income Supplement. This program is designed for seniors with lower incomes and provides up to $875 a month. And of course, the Canada Pension Plan, the recent enhancement of which Hassan talked about earlier which was obviously a very significant achievement.

So, it's true that government benefits have been pretty successful in creating a minimum standard that keeps most seniors out of the technical definition of poverty, but that minimum standard is not high, it's only $22,000 a year for a single person in Canada.

This level of income on its own does not actually give seniors the kind of lives that they want, so if we want to rise above that level we actually need some form of private savings, which leads me to the next slide which is on private savings. So, this is not a great news story. The problem is low- to moderate-income Canadians actually don't have much in the way of savings. You can see the median retirement assets of a family aged 65 to 64 earning less than $25,000 without a workplace retirement plan is zero. The median retirement income in a similar group between $25,000 and $50,000 a year is $250. That is a total number. That's not monthly, that is total savings.

So, effectively this group is reliant on government programs for 100 percent, arguably, of their income once they stop working. I would say that we believe that this is unacceptable and we're committed to finding efficient and effective ways for modest earners to save more for retirement.

Now, before we talk about how we're working to solve this problem we need to understand two things about Canada. First is around investment fees. So, in the spirit of being slightly interactive because it's a little bit late in the afternoon, I wanted to ask you how many of you think that our investment fees are higher? (Laughter) In Canada? How many of you think -- okay. Lower is the remainder presumably. Well, let me show you something that you might find slightly shocking, which is they're a bit higher.

We actually have the highest investment fees in the world, which is arguably we win, obviously we lose because this is an outrageous score to get in a way. We are actually the last among 25 countries surveyed. So, our average mutual fund fees according to the industry's own lobby group are 2.2 percent, which I think is about double what Americans pay. The net result of all that, as you can see, and I guess probably many of you will be familiar with this math, is that people with these kinds of fees effectively lose 40 percent of their nest egg to fees alone.

Now, the other problem that we have is something called the GIS Clawback. Now GIS, and I talked a little bit about that before, is actually not a small program. About a third of Canadians actually rely on GIS. While we're good basically at setting a minimum floor in Canada, this is quite a significant problem in terms of the capacity of Canadians to actually save.

So, just to give you a more concrete example, we have a system that takes back 50 percent or more of whatever a lower-income Canadian has in a typical retirement account. So, if a lower-income Canadian had, just to give you simple math, $50,000 in our equivalent of an IRA or a 401(K) they would effectively lose $25,000 of that amount in lost guaranteed income supplement benefits. So, I would say that our government is creating in a way a regressive welfare well around retirement savings.

So, it's an example of a very worthwhile program working against the ability of this income group to build assets for retirement. And again, I'd say that this is wrong. This is a group that cannot afford to lose their savings nor do they deserve to. And in case you think that we've focused on the worst case scenario here when you do the math, and we've done quite a lot of math, that's part of what we do, you find that low to moderate income Canadians even if they save diligently and they save with reasonable asset allocation and investment products that are well thought out -- and by the way, that is actually something that doesn't occur in real life for the most part -- they will find at the end of 30 plus years that they have $0.75 back for every dollar that they invest. So, that is not great. We get those numbers effectively through a combination of the GIS Clawback that I talked about and the higher fees.

The next slide is about how widespread basically is this problem in Canada? This problem effectively exists across virtually every one of our traditional what we call regulatory categories. RSPs are a very common category. PRPPs are a newer category. I obviously don't have time to get into these categories very much. Part of what I've highlighted here is that there are issues around what we call GIS Benefit Optimization which is another way of saying that they're all effectively subject to the Clawback apart from the TFSA, but we have issues obviously of high fees and then we also have issues across many of these arrangements of not having a proper governance structure or fiduciary duty to members.

I want to turn for a second now to myths. The conventional wisdom around this stuff for modest- and low-income earners is that actually lower- and moderate-income earners do not want to save. They don't really need to save because government benefits meet their needs and they can't or won't save. What I would say is it turns out the conventional wisdom is wrong. The work that we've done with SEIU -- SEIU is a major healthcare union in Canada, they've got 60,000 or so members, 30,000 of which actually have no retirement security. They're one of the largest, fastest growing unions in Canada and their members are typically female first-generation immigrants. The work that we did with them, they're very hardworking people, they want to save, they were eager to save, they have high anxiety about their futures, and they also want their union to help them.

The broader polling -- and you'll see some polling here on the screen -- done recently in Canada shows that the majority of this income group as well is willing to contribute 10 percent of their pay to maintain their living standard and retirement. The data from Vanguard, again, in the U.S. context, supports that same conclusion.

So, you're probably more interested in the innovation that we've brought to this than some of this material, but how is what we're doing at Common Wealth new and unique? So, we designed a product that will deliver something that avoids the two key problems I identified, high fees and the GIS Clawback. We've added some additional protections and innovations which we think are important to give people the best results which we measure in a very simple way which is around the optimization of the dollar.

So, what do you get effectively for every dollar that you invest? What do you get back for every dollar that you invest? Our result, in a plan that we designed with SEIU, the result is expected to be 3 to 4 times better than a typical retirement security arrangement in Canada, or typical kind of retail retirement security arrangement in Canada.

Now, we were driven to create this product and products like it not only because there is a need in the market to be filled but also because we believe from a policy perspective that there is an imperative to support low- and moderate-income Canadians in savings such that they can actually live out their retirement in dignity with an acceptable standard of living and not in effective poverty. I would say this is good for individuals and I would also say it's good for Canada.

This is a bit of our case study. It illustrates, again, the math. You can see effectively in these two scenarios that Amy is doing quite a bit better than Frank, and Amy is effectively winding up with much more. You can see effectively where those losses occur between these two examples.

So, I referred before to the tax-free savings account in an earlier slide, and that's effectively the regulatory category that we use for our product. This is a regulatory category that was introduced about eight years ago, and it was intended to allow lower-income Canadians to save efficiently for retirement but to date it hasn't been used for that purpose. Those of you who understand the incentives of some financial services firms may be able to guess why but I'm not going to go there.

So, my 65 plus, which is the product that we designed with SEIU, combines the principles upon which our better pension plans are built with that TFSA regulatory category, and you'll have heard some of those principles come out in the preceding panel. We brought proper governance to this plan. We brought thoughtful low-cost investment product to this plan by partnering with Vanguard which is offering its target date fund at about 10 percent of the cost of a typical mutual fund in Canada. And we have brought true portability to that plan. What I mean by that is we're allowing members to access this product through their bank account. That allows them to move effectively from job to job. It's not then effectively employer-based entirely and so we assume that people stay within that sector but they can continue to contribute if they want to continue to contribute to build their retirement savings. Of course, SEIU has sponsored this plan to bring this innovation to their members.

I just want to make one final point, which is that we believe when organizations like SEIU, who care about their members and have their best interest at the core of what they do, are put in the position with the right information and the right design to hold service providers to account that they will and that the result is actually much better for members. That's actually what our better pension plans do. You will have heard earlier how well that actually works. In the last panel there was a bit of a passing reference to incentives, but that is something we think is actually possible for other kinds of arrangements. We believe that everyone actually can do this. Our design approach enables that and the evidence shows that members' outcomes are much better when actually things are arranged in this way.

Now, this may not sound radical but actually there is virtually no arrangement in the private savings market that does this. We think it's the right things to do and we believe that ultimately it will make all the difference to do things this way. It's one example of what we at Common Wealth are doing to try to improve the market and we certainly feel that the time is right for this kind of innovation, and we certainly believe that doing it this way brings enormous value to people who can benefit from these kinds of arrangements.

So, those are my remarks. I think we're going to kick it off from here.

MS. RADEMACHER: We'll come back around and talk about it in the context of some of the other things that will impact it. Thanks so much, Jonathan.

Catherine, we'll go ahead and come to you and do a little bit of sizing up what the financial security for older Americans looks like in the U.S. I think there are some different kinds of innovations that you would add on to the types of things that Jonathan was talking about, but it does strike me that the earlier metaphor that you used, Jason, was that the three-legged stools become more of a pogo stick. My sense for low- and moderate-income is that it's a pogo stick in the mud, so it's not even particularly helpful as a balancing act. But I think that sounds very true actually in Canada and in the U.S. But why don't you go ahead and kick us off, Catherine, with a little bit of conceptualizing.

MS. HARVEY: Sure, thank you, Ida, and thanks to the Retirement Security Project for hosting this event. I think for many of us the overview that you gave of the experience of low- and moderate-income workers is familiar. There's not major differences in terms of the struggles and the structural drivers of disparities between low- and moderate-income people and wealthy Americans as there are in Canada.

But what we're learning is that the retirement system that we have in place here in the U.S., not only does it not serve low- and moderate-income people very well but part of the reason it doesn't do so is because we keep looking at it in isolation and we're failing to address savings writ large and financial security holistically in this country.

I'm personally optimistic from what I see in the private sector, some of the innovation that we see going on in financial technology, and in some of the thinking around solutions to improve the savings rates and the financial lives of low- and moderate-income Americans. We'll get to a couple of those innovations, but specifically just applying a holistic lens, a lifetime lens, looking at short-term savings as well as retirement savings. Short-term savings in competition with or in context with retirement savings is progress, and that conversation is happening at AARP, which is traditionally seen as an older Americans organization, which is very encouraging to those of us in the field because the retirement folks are talking to the asset-building folks and there is progress being made.

That said, the status quo is as you said unacceptable here in the United States. The Social Security system provides the vast majority of retirement income for a large segment of our older American workforce. It needs to be strengthened, it needs to be shored up, and benefits for lower-income workers do need to be strengthened. Access to workplace savings, which is the other way that people build retirement savings, the entire 401(K) system that we're familiar with misses about half of the workforce. Nearly half of American workers don't have access to any form of employer-sponsored retirement savings plan; it's about 55 million people.

One of the consequences of this is of course that American workers, especially low- and moderate-income workers aren't prepared for financial security in retirement. Depending on who you're listening to and which analysis you're looking at the plight of the worker or the scope of the crisis varies. But in terms of the retirement savings, just to give out some numbers from the National Institute for Retirement

Security, median household retirement savings for those who have any savings at all is $2,500. For those near to retirement it's about $15,000.

Women, low-income people, communities of color have a fraction of this retirement wealth which should be concerning for all of us given the demographic change in our country, in the United States, which will be predominantly people of color by mid-century.

As one of the solutions there is talk of working longer, raising the retirement age. I think when we're thinking about low- and moderate-income workers you've got to understand that that's not possible for a lot of people especially with the kinds of jobs that lower wage workers have; physically demanding work, long hours, multiple jobs, multiple responsibilities, as well as family caregiving responsibilities that extend beyond childcare often in multigenerational households, immigrant households, et cetera. So working longer, while it's possible for some people, is not the solution for financial security for everyone.

But increasingly we're understanding that one of the threats to retirement security in this country is actually a lack of savings for the short-term so people don't have a cushion just to be able to cover an unexpected expense. Really the leaders in uncovering this lack of emergency savings has been the Pew Charitable Trusts as well as some qualitative ethnographic research from a couple of scholars who wrote a book called The U.S. Financial Diaries, which if you're not familiar with it you should check out.

But the bottom line is that a typical financial emergency, an unexpected, unbudgeted event faced by American families in this country is about $2,000 a year. That's atypical most expensive financial shock according to a Pew survey, and 41 percent of American households cannot afford to cover that shock. That should be disturbing to us. That shows the vulnerability and how close to the edge not just low-and moderate-income households are but a large swath of American public.

So, what are these shocks? We're not talking about a hurricane, we're talking about a car repair, that's the number one most common shock, a pay cut or a job loss, followed by a hospitalization, house repair, divorce, or separation. And these are Pew's data.

For low- and moderate-income households a financial shock can turn into an emergency really quickly and can last for a long time. The consequences are that people turn to high cost debt products like three-day loans, title loans, borrowing from family and friends. And there are other insidious and less quantitative effects as well in that first-generation college students who come from poorer backgrounds often become the lender of first resort for family members when they hit that financial shock. So, you have racial and ethnic and income wealth inequalities perpetuated because of this lack of emergency savings.

For those workers who are fortunate enough to actually have private retirement savings financial shocks are part of the driver of what we call retirement account leakage. What we're learning is about $0.40 of every dollar contributed to the 401(K) and IRA system is actually lost to leakage. This isn’t loans against retirement accounts, this is withdrawals against retirement accounts before retirement. Transamerica found that about a third of people are taking money from their retirement accounts to pay for unplanned expenses.

So, that's kind of the prognosis that we're looking at now. We can talk a little bit more about the product and policy innovations after Mark lays out his reading of HR1 as well as all of the work that's going on at the state level. I'll stop there for now.

MS. RADEMACHER: That's great. Are you calling Mark out? I mean, it's not multitasking up here. (Laughter) This is all related. It's all related work.

It really struck me that your data on zero to $250 is very resonant with what you're saying as well, Catherine, and other 46 percent of Americans couldn't find $400 so a lot of similar pain points. And another one that you've identified, Catherine, in what you just said is that in addition to the kinds of fees and potential clawback issues, and I think we have similar types of issues here in different contexts, the leakage because we have probably the most liquid retirement system in the world is that because of the current conditions of income we are also dealing with leakage from the retirement system in a third way perhaps in the U.S.

So, luckily there are people like Mark Iwry in the world, and David John, who long ago when this Retirement Security Project first started really conceptualized in some ways a more systemic way to both capture the number of low-income savers in this country who don’t have access, so it's really looked at the access problem and begin to look at the adequacy problem and kind of the design features that would have to go into that.

In that sense, Mark, I'd love to turn it over to you to both respond a little bit to Jonathan and to lay out a little bit of kind of what in the U.S. context would work for low- and moderate-income Americans.

MR. IWRY: Thanks, Ida. It's great to be here. I think Jonathan makes great points and I'd like to agree and come back if we might during our discussion and tie those together. I think Catherine makes great points too. And I would note again that David John and I together with David Lapsen , Bridget Majorin , John Bashiers , James Choy are working on that issue with Catherine's help and Sarah Holmes' help to try to flesh out how short-term saving, emergency, rainy day saving, if you will, might be added to our system to augment retirement saving in a way that enhances both, stems leakage in the retirement system, and fills this big gap that you've been talking about for particularly lower- and moderate-income people just not having enough for short-term emergencies.

At this time the efforts in our private pension system to promote more retirement security for lower- and moderate-income people, middle class, lower middle class, working class, and lower-income people include, as Jonathan says, first and foremost the concept that folks can save who are in these situations and want to save if given an easy and reasonably ruminative way to do it. So, making it easy and convenient and making it reasonably ruminative, giving them some return, if you will, for what they put in, is part of the overall strategy that the Retirement Security Project sponsoring this program has been all about now for some years.

Let me mention a half-dozen specific things, one of which is the short-term emergency saving effort that's sort of in its infancy and that we're hoping will mature. The other five; automatic enrollment in IRAs, to cause a breakthrough in coverage of retirement savings for lower- and moderate-income and middle class workers in America, maybe as many as 40-, 50 million people getting into the system for the first time.

Number two, expanding the saver's credit. So, if auto IRA is making saving easier more convenient saver's credit is making it more ruminative. This is the tax credit we now have that gives lower- and moderate-income people, people whose family income is in the lower 60,000 or below, a tax credit that levels the playing field -- pardon the cliché, but I use it advisedly because it's what the high-end lobbyists are always telling Congress is why they need to complicate the tax code to put in more tax breaks for big companies and wealthy individuals. So, for once we could level the playing field in favor of middle class and lower than middle class people by giving them a tax credit if they save in an IRA, if they save in a 401(K) or similar plan in addition to the deduction that they would normally get which is proportional to their tax bracket; a tax credit that's proportional not to how much they make or earn generally but to how much they save.

David John and I have developed together the first of these two proposals, the automatic IRA, and we and Bill Gale have worked on expanding the saver's credit together with some of the rest of you in this room. The type of expansion of 50 percent credit across the board, make it refundable, deposit the credit in the person's account so their saving the credit as well as what they put in, and extending it to more of the middle class.

Third, automatic enrollment in 401(K), other auto features escalate the 401(K) contributions. This helps middle and lower-middle and moderate- and lower-income people if they have access to a 401(K). If they're eligible it jacks up participation dramatically, especially among lower-income and minority folks, sometimes from 1 out of 5 to 4 out of 5 in terms of those who participate in the plan if given the chance.

Fourth, lifetime income. Getting our private pension system to restore the pension part of the private pension system, the regular systematic guaranteed lifetime income, which define benefit plans provide when people don't elect lump sums and which 401(K)s generally don't provide. We can get lifetime income into 401(K)s, into IRAs with much greater frequency and help enhance security a great deal.

Fifth, the myRA, may it rest in peace. This was a proposal that we implemented, an administrative initiative in the previous administration, also directed at lower- and moderate-income people to give them a really easy way to save through IRAs. Not the big solution that the automatic IRA would be, but a kind of supplement or helper to those who are risk-averse, don't want to get into the market, afraid to save, never saved before, giving them a way pending a major solution like automatic enrollment in IRAs a short-term help.

Given the opportunity in tax reform now on the table on the Hill, to finally implement reforms to really help the middle class and boost the economy, which of these has Congress chosen to move forward with? None. Rothification, a gimmick to pretend to be paying for some of the tax reform without really doing so. Maybe it was inevitable that this would be tainted after some in prominent positions have irresponsibly invented and experimented with the concept of fake broadcast news, fake print media news, fake online news; their political allies have recently been trying out the concept of fake revenues. (Laughter) I'm referring to the claim that if you shift from pre-tax savings which gives a tax benefit in the short-term to post-tax savings Roth-type which gives a tax benefit in the long-term that you've actually saved all this revenue for the federal government rather than merely shifted the timing of the revenue.

MS. RADEMACHER: Mark, it was worth it for everybody in this room to stay here just to hear that, I think.

MR. IWRY: I just read through some of the tax reform bill, and as people know from news reports if you've followed it today, they're saying that there's no Rothification in there. I wish I'd been able to be at the previous panel because I was really interested in what panelists had to say, but I skipped it -- sorry, Josh -- in order to read the tax bill because I knew that you would ask me about it.

MS. RADEMACHER: I'm going to ask you, yes.

MR. IWRY: So, it's 400-and-some pages. It took me about 15 minutes to do what I needed to do, which was find out what you'd want to know, look at the Rothification provisions. So, it took the first minute to see that there was nothing on Rothification in there and nothing on 401(K)s. The other 14 minutes I spent being skeptical about that, whether in fact it will come back in. You know, there's a legislative process ahead of us, there's a markup, there's a House vote. I think it's less likely that the Senate would add this, but the House could still do it. The fake revenue target is very tempting. They could raise $4-, 5-, 6-, 7-, maybe $800 billion with this kind of Rothification.

So, the Democrats, lest this sound partisan at all which it's not, the

Senate Democrats came out with an attack on Rothification as most of you know on Tuesday, and they announced that there was an antidote to this, you know, they exposed it as the gimmick that it is. But they could not resist the temptation to compromise between a solid proposal that would actually help the middle class -- and that's the good news here, that they put the automatic IRA out there and said that should be done, and also something useful on employer contributions. But on the other hand they yelled to the temptation to score political points by saying that the first of the three antidotes or replacements of Rothification ought to be raising the maximum limits on 401(K) plans by a third.

Is the real problem for middle class 50-year old workers in our country that they cannot contribute more than $24,000 a year to their 401(K), which by the way is 40 percent of the median income in American, or is the problem that a third to a half of them don't have a 401(K) or a pension plan? The auto IRA would address the latter, would at least give them something 401(K)-like, putting people into tax-favored saving through automatic enrollment without requiring small businesses to sponsor a plan and giving a tax credit to the small business for its trouble even though there's no outlay, no contribution that it would need to make.

So, I'm looking forward to the discussion but I wanted to give you that just quick breaking news bulletin on the tax bill and the response to it.

MS. RADEMACHER: I'm looking forward to the discussion too, and I actually don't know how much of it we can have because my notes say that we're supposed to wrap up at 4:25. So, I do think that at the very least we should have the ability to have the conversation up here and would love to hear some of those questions but perhaps we'll have to take them offline a little bit.

I think the first thing to all of you is you unpacked one kind of assumption pretty explicitly, all three of you did, which is that low- and moderate-income people can't save or won't save, or that the desire to do so isn't there. So, I think that kind of assumption we've already talked about, addressed, and the evidence base is not there for that work.

But the other kind of assumption is that we have certain institutions that have to play certain roles in reform and some of them aren't doing that right now. So, I wonder if the other question is who are the innovators and who can be the institutions of the future who help to bring some of these changes to pass? I know, Jonathan, for you you've got a few thoughts about that with the SEIU, but I think the idea of other associations, other kinds of intermediaries, is there a future type of institutional function that we need to be thinking about to solve these problems?

MR. WEISSTUB: I think our view is that the power of the group and the power of associations and unions is an untapped power in a way, and that part of what we've done with SEIU in Canada is to tap that power more for members of their community who don't a have traditional kind of pension or other kind of workplace coverage. So, they've been able in a way to innovate and they're not committed to the traditional forms of (inaudible) defined benefit type arrangements for this group and they're willing to step up to create effectively a plan that is helping their members in that way.

I think our view is that that kind of approach can be extended across many groups who actually have the members' best interests at heart. That's a little bit different in terms of the incentives than traditionally financial services firms in the way they interact with, say, clients. There is a lot of value I think to be derived from groups sponsoring things. From those groups being empowered with the right information, and knowing what we do about what actually makes, say, better pension arrangements work that many of those principles can be applied to the way in which those arrangements are organized and managed.

MS. RADEMACHER: There's a parallel to that in the U.S. not only for thinking about those others but also for leadership at the state level. So, I just wonder, Mark and Catherine, if you want to say something about that as an additional form of leadership, an institution that could help to drive some of this change in the absence of federal leadership.

MS. HARVEY: Certainly. I think one of the takeaways of the tax reform proposal is that Congress doesn't have retirement reform at the top of its list. To the extent retirement was included, even considered, on the table it was to raise revenue to pay for some of the other changes in the tax bill. So, the national level, despite the fact that the American consumer has an anxiety about retirement security at the top of their list, policymakers are not paying attention. At the state level, however, we do see leadership in about half the states or more at this point in taking some initiative to tackle the retirement savings gap in small businesses. Some have chosen the path of the automatic IRA, others are looking at other models like multiple employer plans. This is real progress and states can lead and are leading on these work-and-save efforts, as we call them in the AARP.

One fundamental difference between the 401(K) and what's happening at the state level is the role of the employer, which is an institution I would call out as extremely important and vital to the future of retirement security in this country. There is a question about what responsibilities the employer will have in the future around economic security of their workers, around retirement provision. There are some who will say that the employers want to get out of the game altogether, but I would look to the buzz around employee financial wellness as one piece of evidence that maybe employers are still interested in doing right by their employees at the right price. At the state level, the state plans, the employer's only responsibility in most of these cases is to facilitate a payroll deduction into a private retirement account in the name of that employee. So, employers still have a vital role to play but the hurdles to offering a 401(K) plan cost, administrative burden, are removed or significantly reduced in some of these cases. So there are innovations that are happening that still include the employer but really reimagine the role of the employer.

MS. RADEMACHER: I'm sorry we won't have a fully robust discussion here, Mark. I want to give you a last word observation back to Jonathan and Canada and also just in terms of this is not the first time we've come through this cycle of looking at opportunities in federal policy to address the needs of low- and moderate-income workers in the retirement system, but there are actually some things on the horizon to both continue to think about in terms of what other countries are doing and to continue to think about the U.S. opportunity. What's your advice?

MR. IWRY: Absolutely, and Jonathan you point out very well that we ought to be looking at who the players are, the institutions, and the state efforts to implement in particular the automatic IRA. Josh Gotbaum here is the chairman of that effort in Maryland. Fortunately, Oregon, California, Illinois, Connecticut, also have passed that legislation. It's taking the automatic IRA proposal that David John and I developed now 11 years ago and implementing it at the state level which has taken years. We started working -- at least I started working the states on something like this 15 years ago, and when we developed the auto IRA we were able to get them interested them in it along the way. So, in the U.S. at least the states, as Catherine says, are a big plus.

The other thing I would mention institutionally to close is that the reason Congress almost countered the Rothification (inaudible) with raising the maximum limits on plans, which is helpful only to a very small percentage of savers, is that the role of the financial services industry has been very mixed. Many people there are really well-intentioned, they're all generally expert, many of them have their clients' best interests in mind, and many of them want to have clients who are not just affluent people.

On the other hand, there is a general incentive for the industry to serve the most affluent, of course, to maximize profits. They have shareholders, it's a free market economy, and to resist regulation. The result to some degree is that all of our conversations about retirement security are continually in need of refocus on who it's all about. It's not all about assets under management, which was the point of raising the limits, and frankly was a large part of the concern about Rothification, though not all of it. It's about retirement security for those that need it the most.

So, the focus all too often is on the providers, on the plans' sponsors, who are great and who are doing what's needed, but not enough on the central player in our system, the worker.

MS. RADEMACHER: I think that's a great note to end on. Thank you very much to all of you, and thanks again to the Brookings Institution for organizing this panel. I'm sorry, audience, we'll talk in the end. Thanks. (Applause)

MR. GALE: As you can tell this is a conversation that could go on for quite some time, so regard this as the start of a longer conversation. Thank you all for coming and for sticking with us, and thank you for everyone who was watching us on the web. Thanks.

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