ACPM Response to Joint Federal, Provincial, Territorial Working Group Questionnaire on PRPP

March 25, 2011

ACPM/ACARR
The Association of Canadian Pension Management
L'Association canadienne des administrateurs de régimes de retraite

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FOREWORD

The Association of Canadian Pension Management (ACPM)

The Association of Canadian Pension Management (ACPM) is the informed voice of Canadian pension plan sponsors, administrators and their allied service providers. Established in 1976, the ACPM advocates for an effective and sustainable Canadian retirement income system through a non-profit organization supported by a growing membership and a team of volunteer experts. Our members are drawn from all aspects of the industry from one side of this country to the other. We represent over 400 pension plans consisting of more than 3 million plan members, with total assets under management in excess of $330 billion.

The ACPM promotes its vision for the development of a world leading retirement income system in Canada by championing the following Guiding Principles:

- Clarity in legislation, regulations and retirement income arrangements;
- Balanced consideration of other stakeholders' interests; and
- Excellence in governance and administration

Introductory Comments

ACPM welcomes the opportunity to respond to questions posed by officials about the structure of the new Pooled Registered Pension Plans.

ACPM strongly supports the decision by the federal and provincial governments to introduce these new retirement savings vehicles, having proposed such a model as part of our Five Point Plan that we proposed last year.

We are encouraged by the efforts to move ahead quickly as evident from the timely provision of these questions, and hope that all the hard work being done by officials and stakeholders results in these new plans being available in the very near future.

We have attached specific comments on various questions for your consideration. We also have the following general comments which we would offer for guidance in making recommendations to decision-makers for implementing this proposal.

The Goal is Increasing Workplace Coverage

PRPPs have been proposed as a way of expanding the ability of the third leg of Canada's retirement savings system – voluntary savings arrangements – to enable Canadians to save more and better for retirement. The decision to proceed in this fashion recognized that pillars 1 and 2 of our retirement system – taxpayer funded and mandatory savings – are doing a widely-recognized excellent job of providing a basic level of retirement income.

Workplace group coverage, a vital element of ensuring adequate retirement savings in Canada, increasingly has been facing hurdles due to the responsibilities and costs faced by employers, and the one-size-fits-all model of plans that is not of interest to many employees.

Choice and Market Forces are the Hallmark of the "Third Leg of the Stool"

In our minds, this indicates two basic aspects of design. Amplifying savings should remain a decision of individual Canadians that takes into account their circumstances at any point in time. And allowing employers to choose from more and more simple options is consistent with the concept of the voluntary leg.

As a result, ACPM does not accept that the introduction of PRPPs should include any mandatory requirements, on either employees or employers. By removing impediments to workplace arrangements, we are confident that PRPPs will lead to additional coverage in the workplace for both employed and self-employed Canadians.

We also believe that, for PRPPs to have the most impact, market forces need to be unleashed. Program design must emphasize competition, and the innovation and downward cost pressures that it creates.

Encouraging Best Pricing

Trying to define 'low' cost is not the way to get the private sector involved effectively in providing new options, nor will it benefit potential plan members.

We would suggest that the focus should be on creating conditions that encourage 'lower' costs rather than 'low' cost per se. The many elements of plan design and the amount of choice desired by investors mean costs will vary. Promoting economies of scale and competition among several large plans competing across Canada is the best route to ensure the lowest cost for any plan model.

What government should focus on is ensuring that disclosure, transparency and accountability requirements work to make sure costs are an ongoing, critical factor in decisions by employers and employees when it comes to plan selection, and to do so in ways that take into account the impact that these requirements can have on plan pricing. We are fully ready to endorse any reasonable requirements to ensure cost awareness.

We also appreciate the notion that requiring every provider to offer a default option that focuses on a simple structure and modest investment vehicles is one way to produce lower costs.

Ensuring uniformity in rules and regulations across Canada is another important part of a focus on encouraging best pricing. The cost to plan providers, and thereby members, of complying with varying rules from jurisdiction to jurisdiction represents a significant potential barrier to the lower cost objectives. As well, given the increasing mobility of Canadians, rules and regulations that facilities member transfers between plans will encourage increased coverage.

Look to Existing Practices and Requirements for Guidance

Finally, ACPM supports a regulatory regime for PRPPs that demands of providers the duty to plan members characteristic of all the elements of Canada's voluntary retirement savings network. We urge officials to look to CAP guidelines for answers to several of the questions that they have posed. Capital accumulation plans have long been offered to Canadians and regulators have done in excellent job in bringing together the necessary oversight requirements for these types of plans. In line with this, we question the need for a whole new set of rules that look to us to be implied in the wording of many of the questions.

Once again we thank you for the opportunity to participate in the PRPP consultation process. Should there be any questions that arise from the content of this document, please feel free to contact us. Please also be advised that we welcome the opportunity carry on further dialogue on this subject at any time in the future should the working group feel that our input may be of assistance.

QUESTIONS & RESPONSES

I. Investments and Costs of Investments

Questions	ACPM Responses
According to the framework document agreed to by Ministers, PRPPs will be designed to result in large pools of capital with low costs, while helping members to construct portfolios consistent with each member's particular investment needs and objectives. There will be a suitable low-cost option for a broad group and a manageable number of other investment options for members to choose from. The design of appropriate default funds for situations where members do not make an investment choice is also a key consideration.	
1. How should the framework address the number of investment choices offered by an administrator? o What would be an optimal number of investment choices that an administrator should offer? What types of funds should be offered at a minimum (i.e. type of assets in the funds)? o How should this optimal number be determined (e.g., by the administrator? Prescribed in regulation?)	PRP Plans should be designed around the principles of simplicity, affordability for employees, respect for choice, economies of scale, risk pooling, and a pan-Canadian legislative framework. The number of choices does not need to be prescribed. The market should determine how many options will be offered. Each PRPP would determine if Members would be provided with investment choice and, if so, the investment options to be made available. Some providers will focus on options to service broad groups. Others may choose to target those looking for choice reflective of their circumstances. Existing federal rules and regulations provide sufficient requirements for achieving diversified options in a prudent manner
2. According to the Framework Document, PRPPs are large pools of capital with "low costs" o What should be included in the definition of costs? Can these costs be disaggregated on a comparable basis? o What are the drivers of cost? o [Plan Administrators and Investment Managers: How does the provision and cost of investment/financial advice to plan members fit	Costs are influenced most by economies of scale, amount of choice, individual contact, advice provided, and types of investments. Costs will lower the greater the competition. There is a balance to be sought between economies of scale and competition in order to gain maximum increase in coverage at the lowest possible cost. The amount of regulatory burden also directly influences costs. Investor awareness and protection is vital to a successful PRPP program, but this should be

Questions	ACPM Responses
into the costs?] o Should "low cost" (i.e. as it relates to the PRPPs in general) be defined in the framework? ▪ Is there a particular threshold at which a cost is no longer low? ▪ Should there be a limit on fees for the low cost investment option?	accomplished in ways that keep costs in mind. Differing requirements across jurisdictions can be a major source of regulatory costs and should also be front of mind in implementing PRPPs.
3. The framework document notes that the investment options should specifically include "a low cost option." o In this context, how should "low cost" be defined in the framework? Should there be a fee limit? o How should this low cost be operationalized (e.g. rules-based approach? principles-based approach)? o *[Plan Administrators and Investment Managers:* What are the 3 lowest-cost actively-managed and 3 lowest cost passively-managed funds you offer? How do you demonstrate the value of higher cost funds?]	The design needs to focus on encouraging Canadians to start saving as early as possible and in safe ways with reasonable choice to meet different circumstances. The market should generate cost-efficient options. Again, the greater the economies of scale and the more the competition, the lower will be costs. Generally, plans offering one or two options will be lower cost than those offering more options. Those with limited individual contact and advice will be lower cost than those that provide considerable investor support. If investors are not satisfied with the coverage they receive and the cost they pay, government always has the ability for further regulation at that point. In addition we supported the concept of disclosure of plan fees to plan members and employers on an aggregate basis, enabling ease of comparison.
4. The Framework Document notes that "there will be a suitable low-cost default option for a broad group ….(that) will be permitted to have some risk exposure and still be considered prudent under this framework for the purpose of the fiduciary duty." o Should a 'safe harbour' provision be implemented and, if so, how should it be designed? o Should there be certain "qualified" investment for default options or should general parameters be set for establishing default options as prudent. If the latter, what types of parameters should be considered?	In order for PRPPs to encourage employer take-up, ACPM agrees with including provisions that would hold employers who participate safe from liability. Government should not be in the business of selecting appropriate investments or prescribing which investments are 'prudent'.

Questions	ACPM Responses
○ What do you consider to be a prudent level of risk exposure? ○ [*Plan Administrators: Do you presently offer lifecycle funds? What does it cost, and what are the major drivers of cost.* What is the lowest cost life-cycle-type fund that could be designed?]	
5. How should the default investment strategy be chosen? ○ How much and what kind of diversification should be required in the default fund? ○ Should multiple default options be offered based on contributor's age or risk tolerance? ○ How would the risk balance be adjusted over time as a contributor ages? .	The default option needs to be further prescribed. Default requirements should be appropriate to a long term investment plan, target security of capital, and not limit diversity in plan offerings. As part of default option prescription, government needs to be clear on necessary conditions for limitation of liability on the part of plan providers? With this guidance, the market should be capable of producing options that would provide simple, flexible plans for a reasonable price that meet the needs of both those interested in a more proactive investment strategy, and those who are not.

II. Auto-enrolment

Questions	ACPM Responses
An employer that chooses to offer a PRPP will enrol its employees (or certain classes thereof) into the plan it has chosen. Employers may be permitted to enrol their employees into a PRPP during the tenure of the employee's employment, and not simply at the hiring stage. 6. Should employers be permitted to enrol existing employees into a PRPP (i.e., not simply at the hiring stage)? If so, should the employee be required to consent or have the ability to opt-out? 7. If able to opt out, how should an opt-out be structured for employees that are automatically enrolled into a PRPP? ○ Should there be a certain period of time following	Employers decide whether to provide a plan – it should not be mandatory. The efforts by the government are aimed at enhancing coverage by increasing the options and effectiveness of the voluntary part of Canada's retirement income system. In ACPM's view, new options designed to give employers simpler, straightforward choices will work to increase employer participation. Participating employers select a PRPP to be offered to their employees. The employer provides information about its employees to Plan Provider: thereafter its sole obligation is to remit employee and employer contributions in accordance with its commitment to its employees. Participating Employers may contribute on behalf of employees, but are not subject to a

Questions	ACPM Responses
enrolment that opt-out would be permitted? o How should contributions be treated when individual opts-out (e.g. market rates? protected?)	minimum contribution level.
8. Should employer participation be mandatory unless the employer already sponsors an RPP?	Where an employer participates, its employees are automatically enrolled. Employees enrolled automatically may opt out of the PRP Plan. Automatic re-enrolment, and the consequent decision whether to opt out, should take place every three years. Self-employed individuals who want to join would need to choose which plan to join.
9. How should default contribution rates be set for member auto-enrolment and who should set the contribution rates? o Should all members have the same default contribution rate, or should it vary by age, tenure or other factor? o What criteria should be used to set contribution rates? o What is the relationship between default contribution rates and the rate at which people opt out of pension plans in other jurisdictions? o Should members be offered additional financial information if they want to change their contribution rate?	Subject to maximum contribution levels permitted under the Income Tax Act, Members who do not opt out will be automatically set up to contribute 5% of gross employment income over $20,000 to the PRPP; however Members (see definition that follows) can elect to contribute a lower or higher percentage amount.
10. Should the automatic escalation of contributions over time form part of the PRPP framework? If so, what factors should determine the extent of the auto-escalation?	The Employer would be permitted to provide for automatic annual Member contribution increases of 1% per year (with a maximum automatic contribution rate of 6%) subject to Member opt out.
11. What would be the responsibilities and requirements of an employer that does not contribute to the proposed plan (duty to inform employees, providing the plan if a sufficient number of employees request it, choice of plan, terms and conditions, payroll deductions)?	ACPM believes it would be best to restrict the program initially to employer or self-employed plans.
12. Is there a practical way to avoid the multiplication of accounts caused by employees changing jobs?	There should be one account identifier per investor that would be used by all PRPPs in which they are enrolled.

III. Eligible Administrators

Questions	ACPM Responses
Regulated financial institutions that are capable of taking on a fiduciary role will be eligible administrators of PRPPs. 13. Should there be further restrictions on eligible administrators (e.g. capable of offering a plan in multiple jurisdictions; experience)?	ACPM does not believe that government should pick eligible administrators. Government design should focus on ensuring expertise in asset management, security of assets, transparency, and ensure a level playing field.
14. How should a PRPP be constituted legally (e.g., as an insurance contract or trust agreement)?	No comment
15. Are there means through which companies, other than trust companies, could take on a fiduciary duty to plan members?	See ACPM response to question 29.
16. How would the nature of the contract or relationship between administrators and members differ based on the type of eligible administrator (e.g., trust agreement, insurance contract)?	No comment
17. To encourage competition between plan administrators, should there be terms that enable employers to change plan administrators? What should these be?	Yes. As in the provision of services such as payroll administration, provision of group life and health insurance, and other workplace benefits employers can switch providers subject to the terms and conditions contained in service contract. The regulators should ensure that this option is available.

IV. Administration

Questions	ACPM Responses
18. How should funds be paid out at retirement?	Like the CAP guidelines, ACPM does not believe that prescription is necessary for the de-accumulation phase. In terms of principles to be captured: Members are immediately entitled to all Participating Employer contributions.

19. What types of products (e.g., annuities, RRIFs, lump sum payments) would you recommend to reduce the risks and costs of converting members' plan balances to a secure stream of retirement income? 20. Should members have to transfer assets out of their plan at retirement to a disbursement vehicle, or should the plan be permitted to continue to hold and invest their money, and then pay income out in LIF-like payments? 21. What regulatory changes might be required to support flexible de-accumulation options at retirement? 22. How could plans make it easier for their members to understand the decisions they need to make at retirement regarding the conversion of their plan assets into an income stream?	Members may move their account balance to another PRP Plan or registered pension plan upon termination of employment. Participating Employer may stop contributing to a PRP Plan at any time or may start contributing on behalf of its employees to an alternative Institutional DC Plan. The PRPP may provide for annuitization (internally or externally) of portions of the Member's account balance over the course of the accumulation period, to protect against future market downturns and minimize retirement date sensitivity risk. Upon retirement at age 55 or later, Members may convert their account balance to a retirement income stream. Members must begin to receive retirement income based on their accumulated account balance by a prescribed age. Members may convert their account balances to a retirement income stream through purchase of a life annuity, another retirement income vehicle or, if the PRP Plan so provides, a retirement income stream paid from the PRP Plan itself (internal annuitization). A Plan provider may wind up a PRPP. In such event, Members must be given written notice describing their rights to transfer to another plan or an RPP without penalty.
23. Could professional, business, or sector associations be able to sponsor a plan on behalf of their members? o What are the potential benefits of having organizations act as a sponsor on behalf of a large group of individual members? o What particular responsibilities, apart from plan selection, would sponsors have that would be distinct from plan administrators?	ACPM's advocacy efforts to introduce expanded coverage options for the workplace recognized from the beginning that such organizations would be an effective way to ensure broader coverage, and could be an efficient way to include many of the employees where the employer chooses not to offer a plan. As well, it would also be beneficial for coverage expansion and price competition if organizations experienced in providing pension plans and services,

	such as public pension plans, were able to offer PRPPs. Because of the nature of including these types of sponsors, requiring auto-enrol in these situations would not be practical.
24. Should there be provisions to ensure that employers, both large and small, and self-employed workers can take advantage of the same plan subscription terms (for example, management fees)?	No. ACPM is confident that disclosure requirements and market forces will ensure plans are fairly priced.
25. How do financial institutions intend to use their current distribution system to promote the PRPP? o With that in mind, how do they plan to reduce distribution costs, which currently account for a large percentage of the total management fees?	No comment

V. Disclosure

Questions	ACPM Responses
Plain language disclosure of plan provisions and investment performance is critical for members to understand the nature of their participation in PRPPs. 26. Are the disclosure requirements contemplated in the framework appropriate? o Requirements include: ▪ annual statement ▪ Investment performance and relative risk ▪ All costs and fees ▪ Contributions, broken down between employer and employee where applicable ▪ Notice of any amendments to the plan ▪ An illustration of the level of retirement income that could be generated through an annuity given the member's plan assets ▪ Informing members that are leaving the employer of their right	Yes the requirements are appropriate. In addition, all communications between the Plan Provider and Members, including the designation of beneficiaries, may be electronic unless the Member indicates otherwise. Members to be notified of all Plan amendments within 60 days of their adoption. Plan and investment option information along with decision-making tools to be made available by Plan Provider in accordance with the CAP Guidelines.

to either keep their plan assets with the existing , or transfer to some other retirement savings vehicle 27. What degree of detail should be disclosed on costs and fees? How should this be operationalized? • Can these costs be compared across funds? • [*Follow up to Plan Administrators:* To what extent are these the same as in the CSA's Fund Facts?]	 Cap Guidelines provide sufficient information about costs and fees disclosure.

VI. Locking-in

Questions	ACPM Responses
Employer contributions will be locked-in. Some jurisdictions may choose to allow employees to have their contributions not locked-in. However, whatever is locked in would follow the respective jurisdictions' rules regarding locked-in funds (e.g., small amounts, financial hardship). 28. Should employee contributions be locked in? Are there situations in which unlocking of contributions prior to retirement should be permitted?	Members may withdraw funds only for reasons of terminal illness or non-residency, except where legislation specifically provides otherwise. Phased retirement arrangements would also be permitted based on existing rules. Member account balances are exempt from execution or seizure.

VII. Duty of the Administrator

Questions	ACPM Responses
In order to protect the interests of plan members, the administrator will have a fiduciary duty to plan members. 29. How should the duty of the administrator be designed in order to protect plan members and at the same time limit the costs imposed on the administrator? o What specific requirements or limitations should be placed on the administrator in order to protect the interests of plan members?	In meeting the requirements under the Act to design, make available and operate a PRPP, the FI shall exercise the degree of care of a prudent financial institution acting in like circumstances, shall act honestly and in good faith and shall ensure that members and beneficiaries of the plan are treated fairly." ACPM feels that this duty provides sufficient protections for plan members while allowing the Plan to be offered on a commercial basis. ACPM also feels that this direct obligation to the plan member, together

Questions	ACPM Responses
Plan members could also be protected through the role of the supervisor or an independent board of trustee. 30. What are the advantages and disadvantages of the different approaches?	with the additional protections provided below, provided adequate governance safeguards. We were assisted in our analysis by considering the potential problems that could arise in a PRPP and for which plan members require protection. Those potential problems include: • employer doesn't send FI the employee or employer or both contributions (also problematic if there's no reasonable way for an employee to know if the money has been sent to the FI) • FI is tardy in investing the contributions, doesn't invest them at all or invests them in the wrong fund • bankruptcy of employer and/or FI • FI doesn't provide info to assist PRPP participant to make decisions, or the info provided is of poor quality or hard to get or not timely • FI's PRPP has imprudent investment line up • FI doesn't exercise any oversight over the investments offered, or the oversight is of poor quality as judged by a reasonable standard • FI conflicts of interest -- not disclosed; shows disregard for member interests, etc. While the focus was on the obligations for financial institutions, a comparable duty of care would have to apply to any plan provider that was not a financial institution. In addition, in order to address the potential problems above that are of an economic nature, such non-FI providers would need to satisfy minimum capital and insurance requirements, where appropriate. As well, the PRPP would be regulated by the local pension regulator as with current pension regulation. Uniform legislation and regulations for PRPPs would have a significant impact on the ability to keep costs low.. Any plan member complaints would be eligible to be addressed through the FI's ombudsman, the pension regulator and the provincial ombudsman or the FCAC. Non-FI providers would need to create a similar internal complaints process.

VIII. Supervision

Questions	ACPM Responses
Proper supervision of the administration of PRPPs would be required. 31. What should be the role of the supervisor?	ACPM believes the role of supervisors is well established and should be utilized rather than develop new rules.
32. What should be the nexus between the role of the supervisor and the role of the administrator? o What level of supervision should be required? o How much should the administrator be relied upon to adhere to the requirements under the framework?	No Comment
33. Given that PRPPs will be offered across the jurisdictions in Canada, how should the supervisory framework be structured in order to be most effective? o Would it be effective to follow the multi-lateral agreement approach[1] being enacted for RPPs?	The greater the degree of harmonization of supervisors' responsibilities among federal and provincial jurisdictions, the more effective will be the framework in practice. ACPM encourages all regulators to continue to rely on each others' expertise. In this context, the concept of a lead regulator[1] is a sound practice.

[1] Under this approach, the lead regulator of a PRPP would be the major authority, which would be the jurisdiction where the pluralities of members are located. The lead regulator's framework would apply for all 'plan related' matters, while other rules would apply for matters more related to the individual member, such as disclosure and locking-in requirements.

IX. Harmonization

Questions	ACPM Responses
A high level of regulatory harmonization across the federal and provincial governments will be instrumental in increasing the scale of these plans and achieving low costs. 34. What design elements of the framework are most important to be harmonized and to what degree?	National legislation could ensure uniform standards. That being said, it is not clear that legislation would improve on the national uniformity that CAP Guidelines already in place provide.
35. How will harmonization impact size, scale and costs or PRPPs?	Harmonization of rules will clearly be most conducive to more organizations offering plans in all jurisdictions, and will result in lower costs.