



# ACPM Submission to the Expert Committee on the Future of Pensions in Québec

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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

The ACPM regularly advocates and participates in public dialogue on pension issues.

### **Introductory Comments**

This brief is submitted on behalf of the Association of Canadian Pension Management (ACPM) and in conjunction with ACPM's Québec Regional Council.

The ACPM commends the Government of Québec on the establishment of the Expert Committee on the Future of Pensions in Québec and welcomes the opportunity to make this submission to the Committee.

## **Coverage and Sustainability**

Canada's retirement income system, based upon its Three Pillars, has received favourable comment from the Organization for Economic Co-Operation (OECD), the Melbourne Mercer Global Pension Index and others. Our so called Pillars One and Two – Old Age Security / Guaranteed Income Supplement (OAS/GIS) and Canada Pension Plan / Quebec Pension Plan (CPP/QPP) - provide a sound basis on which to build. This is not to say government programs cannot be improved when policy-makers deem it appropriate, but ACPM believes that improving Canada's 'Third Pillar' – consisting primarily of workplace plans and individual savings – is the most effective way to enable more Canadians to build greater retirement incomes. We believe that existing Third Pillar solutions have a critical role to play in achieving that outcome, through existing retirement income providers as well as large, cost efficient group savings arrangements, either defined contribution (DC) plans, defined benefit (DB) plans, or other new innovative options (such as VRSP / PRPP or target benefit structures).

ACPM believes that the keys to the health and growth of Canada's retirement income system lie in the concepts of coverage and sustainability.

ACPM and other experts have concluded that the coverage problem confronting us today is not a structural one with our system, but rather is a targeted one. There are some Canadians in a variety of circumstances who need to save more, and there are others who want the opportunity to save more than they are otherwise permitted. To accommodate the varying needs of Canadians, multiple options and opportunities must be presented. A one-size-fits-all solution misses the choice, flexibility and, of course, innovation which will be needed to meet today and tomorrow's requirements. Canadians, especially those who do not enjoy the benefit of an employer-sponsored plan, need a range of appropriate choices with differing contributory levels to reflect not only their individual situations, but their retirement expectations and requirements.

Similarly, employers need to be able to offer cost-effective pension plans and retirement savings vehicles that meet the needs of their workforce. However, without addressing the issues and impediments created by existing legislation (for example, funding rules, settling obligations and providing benefit security, as well as inter-jurisdictional consistency), those and other factors threaten the sustainability of the Third Pillar system. Moreover, potential changes to Pillars One and Two could also have implications for the sustainability of Third Pillar programs that must also be taken into consideration.

What follows is ACPM's plan to significantly boost retirement savings options for all Canadians with a clear focus on retirement income security and adequacy. It is a comprehensive plan which requires all five points to be implemented in a coordinated manner to ensure every Canadian, including the self-employed, has the saving options that work best for them and their families. Together, ACPM believes that concerted action by government on the five points will both improve coverage for Canadians and promote the long-term sustainability of Third Pillar retirement income programs.

## **The ACPM Five-Point Plan:**

1. Remove Barriers to Group Coverage (e.g., VRSP / PRPP)
2. Ensure Defined Benefit (DB) Plans Continue as Viable Options for Coverage
  - Surplus solutions combined with a balanced funding regime that incents employers to ensure that plans are well-funded, thereby enhancing benefit security
  - Implement permanent solutions to deal with ongoing funding challenges while encouraging increased benefit security (e.g. allow the use of letters of credit and special purpose ‘solvency accounts’)
3. Enable More Innovation (e.g., Target Benefit Plans)
4. Promote Simplicity in Administration
5. Increase Incentives to Save

ACPM is confident that our Five-Point Plan will lead to increased coverage which is affordable and secure.

ACPM believes that allowing increased flexibility in offering group coverage, and maintaining fairness and flexibility in current incentives, will lead to both employees and employers looking more favourably to participating in group coverage. The overall objective is to encourage those individuals who want to save more to do so, and those who have not begun to save to have the opportunity to do so now, utilizing different options and the benefits of group coverage.

ACPM also believes that most employers understand the benefits of group retirement income benefits for their employees, even if some do not currently offer such plans. By addressing the barriers that limit interest and opportunity, more of these employers will choose to participate in workplace arrangements and facilitate the involvement of their employees.

The changes that ACPM is advocating for will lead to increased opportunities for expanded participation by thousands of workplaces and countless thousands of workers. The importance of saving sufficiently for retirement is not lost on Canadian employers or Canadian workers.

Enacting ACPM’s five points will encourage new business models and new approaches to the retirement marketplace leading to increased opportunities for participation by Canadians from all walks of life. Increased competition and more opportunities for Canadians to save as they see fit should be welcomed by all.

Responding to the real issues will demand creativity, flexibility, and communication and education to provide the range of options and the information necessary to encourage appropriate decision-making by those who need or want to save more. There is no “one-size-fits-all” answer to an issue with roots in widely varying circumstances. Our citizens need a range of appropriate choices with differing contributory levels to reflect not only their individual situations, but their retirement expectations and needs.

For any individual or family, retirement income adequacy is a question of expectations. Whatever the level of expectations, one has to consider the changes in costs from working years to retirement - such as mortgage payments, work expenses etc and the considerable amount of government support – from tax reductions to living assistance - that amount in effect to additional income for retirees that may become available. That is why we strongly urge any proposed solutions be accompanied by information on adequacy and we strongly support efforts aimed at increasing financial literacy of Canadians.

### **Conclusion**

Addressing the issues facing the Canadian and Québec retirement income systems, in order to improve coverage and ensure long-term sustainability, requires both leadership and action. The first step is for government to send the clear and unequivocal message that Third Pillar retirement income programs are a critical component in the success of Canada's system.

Again, we commend the Government of Québec for establishing the expert committee to consider these issues and chart the course for the future of pensions in Québec. The ACPM strongly supports this process and will be pleased to offer any further comment or assistance to the committee as its deliberations progress.

**Attachment:** ACPM Five-Point Plan