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

Improving Retirement Income Coverage in Canada

The ACPM Five-Point Plan

ACPM CONTACT INFORMATION

Mr. Bryan Hocking
Chief Executive Officer
Association of Canadian Pension Management
1255 Bay Street, Suite 304
Toronto ON M5R 2A9
Tel: 416-964-1260 ext. 225
Fax: 416-964-0567
Email: bryan.hocking@acpm.com
Web: www.acpm-acarr.com

FOREWORD

<u>The Association of Canadian Pension Management (ACPM)</u>

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 nonprofit 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. Our members represent over 300 pension plans consisting of more than 3 million plan members, with total assets under management in excess of $300 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

INTRODUCTION

The OECD uses a broad definition of retirement income to recognize that assessing adequacy should not just be about how much of a pension is being amassed, but should encompass all the saving, investment and living expense choices that most individuals experience throughout their working lives. For example, home ownership, children's education costs, transportation needs, investment plans, tax-assisted savings, along with daily living expenses, all influence how much and how an average person saves for retirement.

ACPM believes that the retirement income debate in Canada and proposals affecting pension plans and plan design need to reflect this reality.

The OECD has commented positively on our retirement income system and they and others have indicated that our so called Pillars One and Two – OAS, GIS and Canada Pension Plan/ Quebec Pension Plan (CPP/QPP) - provide a sound basis to build upon. This is not to say government programs cannot be improved upon when policy-makers deem it appropriate, but 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. And 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) or defined benefit (DB), that might be expanded further to offer coverage to more Canadians.

Raising the Bar: Providing Universal Access to Retirement Income Coverage in Canada

As the largest demographic cohort in the country, baby boomers soon will be leaving the workforce and it is natural that their interest would shift to their retirement. However, the recent severe economic downturn affected many would be retirees' savings and caused havoc to pension plans sharply bringing into focus the retirement income needs of Canadians even beyond those of the baby boomer generation. Responding to this growing concern and awareness that many Canadians felt about their retirement income, public policy makers began to review the laws governing pension plans and options to improve current pension legislation and savings opportunities.

Studies for governments by Jack Mintz and by Bob Baldwin, describe the problem not as a crisis affecting the structure of the system, but as a targeted one, and their findings reflect what ACPM has been consistently saying. There are some Canadians in a variety of circumstances that need to save more, and there are others that want the opportunity to save more than they are otherwise permitted.

As a part of identifying solutions to these issues/challenges we are concerned that many Canadians may think retirement income adequacy is beyond reach. The popular view in recent years has been that adequacy requires retirement income of at least 70% of pre-retirement earnings. But for any individual or family, adequacy is a question of expectations and, whatever the level of expectations, needs to consider the changes in costs from working years 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. When one considers that 60% or even 50% could be a very adequate level of retirement income for many people, the goal is much more achievable. That is why we strongly urge any solutions be accompanied by information on adequacy and we strongly support efforts aimed at increasing financial literacy of Canadians. For those Canadians for whom adequacy is truly beyond their means, for example those unable to participate in the labour force or who face other exigencies at some point in their lives, government support programs are likely the better answer than the contributory pension system.

Responding to the real issue will demand creativity, flexibility and communication and education to provide the range of options and the information necessary to encourage decisions by those who need or want to save more. There is no "one-size-fits-all" answer to an issue with roots in such varying circumstances. While we understand that some have called for an expansion of CPP benefits, we believe that Canadians need a range of appropriate choices with differing contributory levels to reflect not only their individual situations, but their retirement expectations and needs.

Unleashing the creativity of individuals, businesses and current providers will allow new and improved options to be presented to Canadians, whether by their current provider in the public or private sector or by new entrants who may arise and partner where appropriate with existing entities to expand the reach of savings options to more workplaces and more individuals. We see a future where there will be many large well governed plans operating across Canada and providing flexibility and choice of savings options that employers and individuals need while encouraging diversification of capital, economies of scale and competition benefits.

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 concurrently to ensure every Canadian, including the self-employed, has the saving options that work best for them and their families. Each point is mutually reinforcing and will provide unencumbered access for all working Canadians to increased savings options.

I. The ACPM Five-Point Plan:

1. Remove Barriers to Group Coverage

Current legislation in Canada prevents third pillar providers from offering coverage to many Canadians, including the self-employed and workers whose employer does not want to offer coverage. Removing legislative barriers will give more Canadians access to coverage as providers are allowed to offer plans to more workplaces. Benefits from the economies of scale associated with large group coverage options will become available to more Canadians in their workplaces. Just as the majority of workplaces have some form of group health benefit coverage, third pillar providers will also be able to provide group retirement coverage on a vast new and competitive scale once barriers are removed.

Key actions:

- Remove primary purpose for pension plans test (Income Tax Act) (ITA))
- Expand categories of income eligible for contribution to a pension plan (ITA)
- Remove minimum employer contribution requirements (ITA)
- Expand the definition of “administrator’ to allow financial institutions or other entities that do not provide guaranteed benefits (Federal/Provincial Pension Benefits Legislation)
- Expand the definition of entities that can sponsor a Capital Accumulation Plan (CAP Guidelines)
- Remove requirements for similar benefits per class of plan members (Federal/Provincial Pension Benefits legislation)

2. Ensure Defined Benefit (DB) Plans Continue as Viable Options for Coverage

Much has been made of the decline in the role of defined benefit pension plans in the workplace. There are many reasons for this, and various reviews are underway at the federal and provincial level to look in more detail at the issues surrounding DB plans.

ACPM believes in strengthening the existing environment to encourage the ongoing maintenance and creation of DB plans. ACPM has been and will continue to provide comments and advice to these reviews that reflects its strongly-held view that governments have the ability to revitalize the use of DB plans in the workplace as they provide an important component of our retirement income system. Incenting employers to adequately fund plans can make the DB plan an attractive and workable option for more employers and employees. Workplace retirement plan options require a variety of plans to meet the needs of a large and diverse workplace population. One-size-fits-all solutions cannot meet all the requirements that comprise our different workplaces and ACPM sees a new and expanding role for DB solutions with much needed legislative reforms.

Key actions:

- Surplus solutions combined with a balanced funding regime that incents employers to ensure that plans are well-funded, thereby enhancing benefit security (Federal/Provincial Pension Benefits Legislation)

- 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’) (Federal/Provincial Pension Benefits Legislation)
- Move pension plans from the broad trust law environment to a contract law regime (Federal/Provincial Pension Benefits Legislation)
- Allow more flexibility in plan design (Federal/Provincial Pension Benefits Legislation)

3. Enable More Innovation

While third pillar providers strive to offer employers and individual savers an array of options, their flexibility in designing options is hampered by rules governing the provision of pension plans. In particular, the ability to offer hybrids and other new types of plans, or to facilitate partnerships, is circumscribed. The right rules could unleash creativity and the forces of competition for the benefit of Canadians who require different ways to save for retirement.

Many additional workplaces will have the opportunity to explore new options for retirement savings plans. It is likely that similar businesses, through their professional or service associations, will partner with current public or private providers or new entrants into the retirement income field to tailor plan options to specific industries, companies and the self-employed. Today, most businesses offer various health and other benefit packages to their employees. We believe with the changes we are advocating, similar opportunities on the retirement savings side will lead to increased retirement plan coverage as well.

New innovative plans will appeal to employers through administrative ease and through greater employee recruitment and retention.

Key Actions:

- Enable Multi-Employer Pension Plans (MEPPS), target benefit plans, hybrid plans and new designs not contemplated today (Federal/Provincial Pension Benefits Legislation)
- Allow more flexibility in plan design (Federal/Provincial Pension Benefits Legislation)
- Expand the categories of income eligible for contribution to a pension plan (thus allowing for pension coverage for the self-employed). (ITA)
- Remove minimum employer contribution requirements (ITA)
- Expand the definition of “Administrator” to include financial institutions or other entities that do not provide guaranteed benefits, which would allow aggregation of disparate groups to achieve benefits of scale (Federal/Provincial Pension Benefits Legislation)
- Expand the definition of entities that can sponso***r*** a Capital Accumulation Plan (CAP) to include financial institutions or other entities (Federal/Provincial Pension Benefits Legislation)
- Allow administration of CAP plans to be on a ‘good faith’ standard of care or make provision for a safe harbour, in appropriate circumstances (Federal/Provincial Pension Benefits Legislation)
- Remove requirements for similar benefits per class of plan member (Federal/Provincial Pension Benefits Legislation)

4. Promote Simplicity in Administration

Employers increasingly cite the cost and complexity burdens of administration as a key factor in declining to offer or participate in workplace retirement plans. Administrative complexity is even more problematic for smaller businesses that are less likely to have the human or financial resources to undertake and manage retirement plans.

All governments recognize and are responding to our country's internal market issues such as professional credentials, procurement and trade. Similarly, ACPM believes that Canadians' ability to obtain adequate retirement income should not rely on where they live or whether their job is in the public or private sector, and advocates for pan-Canadian solutions.

Employers are more likely to offer plans and to participate in them if they can be handled in a straightforward and non-burdensome manner. Today, employee benefit plans are widely offered by all sizes of business. Similar expansion into group retirement plans can be expected with the removal of existing barriers to such coverage.

Key Actions:

- Allow administration of the plan to be on a 'good faith' standard of care or make appropriate provision for safe harbour, in appropriate circumstances (Federal/provincial Pension Benefits legislation)
- National DC pension-specific legislation employing simplified minimum standards together with the CAP Guidelines (Federal/provincial Pension Benefits legislation)
- Greater harmonization in DB rules across provinces
- Enable electronic communications with opt-out (Federal/provincial Pension Benefits legislation)
- Enable electronic beneficiary designations (Federal/provincial Pension Benefits legislation and provincial insurance legislation)
- Development of a pan-Canadian framework with a uniform approach to standards

5. Increase Incentives to Save

Generally speaking, ACPM believes that Government provides a suitable array and level of incentives for Canadians to save to augment OAS and government guaranteed income schemes, Canada Pension entitlements, and federal and provincial programs that benefit retired Canadians. However greater equity for those without workplace plans could encourage more saving, especially for the self-employed, and more flexibility over individuals' lifetimes could recognize that the opportunity to save for retirement varies over time.

Key Actions:

- Expand annual contribution limits (ITA)
- Create a lifetime contribution limit with a value comparable to the commuted value of public sector pensions (ITA)
- Allow plan members to deduct plan administrative expenses (ITA)

II. The Outcome

ACPM is confident that the ACPM Five-Point Plan will lead to a significant increase in coverage.

Coverage will increase if group plans can be offered. Employees want choice and opportunity. Employers and employees need certainty in rules, ease of administration and choice and flexibility in plan design and contributions.

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.

There should be considerable interest among the self-employed, who currently have very few options for cost-effective group saving.

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.

But the biggest source of confidence that these changes will increase coverage comes from the certainty that third pillar providers will seize the opportunity provided by the changes. Employers, employees and the self-employed will not be left to their own devices.

Canada's three pillar retirement income system has worked well. The government run OAS/GIS and the mandatory workplace CPP/QPP has functioned successfully in conjunction with the voluntary nature of the third pillar. With legislative improvement and new increased flexibility, current and future third pillar providers will provide even more saving options to meet the varying needs of individuals in our society.

A one-size-fits-all mandatory approach will not meet the requirements of Canadians, but will simply force all into one kind of savings plan whether or not it is right for them or works in their best interest. Canadians recognize the need to save for their retirement. The role of government should be to allow individuals to make the right choices for themselves and their families. Choice, options and flexibility recognizes the differing needs we all have at different times in our lives. A mandatory system denies us that choice and forces us to forgo other opportunities that may be more appropriate such as home ownership, education etc.

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.

III. Cost Considerations

ACPM recognizes that the federal and provincial governments already commit sizable amounts of public resources to supporting an adequate and comfortable retirement for Canadians. As a result, it is important that any increased cost be minimized, especially in the next few years as governments across the country strive to eliminate the large deficits resulting from the recent recession.

At the same time, increasing retirement income coverage in Canada cannot be cost-free.

The key to effective fiscal cost minimization is to focus action in the short term on existing incentives. This is what the ACPM Five-Point Plan does by focusing on removing barriers to group coverage even within existing tax limits.

Longer term proposals to institute a lifetime contribution limit would see any new costs spread over the long term, and increases in annual contributions could be phased in gradually. Both of these measures could lead to healthier retirement incomes in future which would result in lower government expenses and higher tax revenues.

New innovative products and flexible designs will lead to competitive savings opportunities for Canadians targeted toward their needs throughout their life cycle. A one-size-fits-all solution, with a contributory rate that may or may not be appropriate for every Canadian, is too expensive an option to force on Canadians given their current and future obligations. Flexibility and innovative plan options will lead to greater take-up at a more appropriate cost to individuals than one option would allow.

Conclusion

ACPM believes the five points contained in this paper will lead to a significant increase in coverage through voluntary enrolment spurred by innovation, flexibility in design, and competition in delivery to meet the real needs of individual Canadians.

For more detailed information on ACPM and the ACPM Five-Point Plan please access our web site at www.acpm-acarr.com