ACPM Brief to the Government of Ontario, Ministry of Finance

Securing Our Retirement Future

Consulting with Ontarians on Canada’s Retirement Income System

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Prepared by:
ACPM Advocacy and Government Relations Committee

ACPM/ACARR
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A. Improving Retirement Income Coverage for Canadians: The ACPM Five Point Plan

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

Introduction

Improving Canadians' retirement income opportunities is a complex task with many varied interests seeking to influence public policy solutions. As pension plan sponsors, administrators and service providers, ACPM has long advocated for increased coverage options for Canadians and improved opportunities to increase savings options. We welcome the willingness of governments to engage in these discussions and are committed to working with them to assist in developing needed solutions to help secure improvements to our current system. We applaud governments for giving enhanced coverage the priority it deserves on the federal/provincial stage. ACPM continues to be supportive of a pan-Canadian approach to pension reform and we encourage all governments to act with dispatch in improving savings opportunities for Canadians. Now is the time to set in place the reforms and programs that will be needed by working Canadians today for their retirement needs in the future.

As we have pointed out in the past, 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.

Canada's retirement income system is considered one of the best in the world but, as professionals in the pension industry, we, along with governments and other analysts recognize that more can and should be done, in order to allow Canadians more pension choices and savings opportunities. Without improvements,

Canadians' ability to properly plan and save for their retirement will continue to be limited for some and a barrier to adequate retirement income for others.
Responding to the real issue of ensuring Canadians have stable and appropriate retirement incomes 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 a number of large, well governed plans operating across Canada providing flexibility and choice of savings options that employers and individuals need while encouraging diversification of capital, economies of scale and competitive benefits.

In this regard, appended to this response is the ACPM paper "Improving Retirement Income Coverage for Canadians: The ACPM Five Point Plan" released earlier this year. The plan's main components are:

1. Remove Barriers to Group Coverage
2. Ensure Defined Benefit (DB) Plans Continue as Viable Options for Coverage
3. Enable More Innovation
4. Promote Simplicity in Administration
5. Increase Incentives to Save

As retirement plan sponsors, administrators and service providers we believe these solutions will ensure that Canada continues to be among the leaders in the world in ensuring its citizens can secure a satisfactory retirement income.

Responding to Consultation Proposals

ACPM applauds the Government of Ontario's on-going consultation process through the consultation paper, "Securing Our Retirement Future", and welcomes the initiatives introduced to date including the *Pension Benefits Amendment Act, 2010* and the *Securing Pension Benefits Now and for the Future Act.*

ACPM strongly supports Ontario's six guiding Principles for Reform.

- Balanced > seek compromise across competing views
- Affordable > costs are reasonable for individuals and business
- Effective > increase pension coverage and opportunities for retirement savings
- Transparent > provide opportunity for public input on clear and distinct options
- Pan-Canadian > national in scope while still permitting regional distinctions
- Evidence-based > reforms should be based on sound evidence

These principles are reflected in "The ACPM Five Point Plan" and will also guide our comments on the Ontario consultation paper. Ontario proposes to expand personal savings, improve pension regulations and to modestly expand CPP. We take note of the Government's stated goal in the paper to "make saving and planning for retirement easier, more affordable and more secure." ACPM believes that our "Five Point Plan" meets that test and that our suggestions contained herein, will assist Ontario in securing this shared goal.

An Adequate, More Affordable and Secure Retirement Income

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, in our view, the most effective way to enable more Canadians to build greater retirement incomes. And we are confident that existing Pillar Three retirement income providers have a critical role to play in achieving that outcome.

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 that 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.

Expert analysis concludes that the problem confronting us today is not a structural one with the Canadian retirement income 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 that 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's and tomorrow's requirements. Employers need to be able to offer cost-effective pension plans and retirement savings vehicles that meet the needs of their workforce. 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.

ACPM believes that encouraging more opportunities for group savings is the right approach and that Canadians need to have several large scale, low cost choices to augment their retirement incomes.

Lower costs come from economies of scale and efficient administration, and from the forces of innovation and product tailoring that competition brings to bear. ACPM is firm in its conviction that, with the right policy and regulatory environment:

- employers can be encouraged to offer cost-effective pension plans and retirement savings vehicles that are adapted to their employees' needs; and

- retirement income providers can and will provide flexible options and the desired levels of customer service.

The C. D. Howe Institute has recognized that changes to the income tax system, and dealing with barriers to workplace pension plans, are where governments should put their focus. This echoes ACPM proposals advanced to a variety of forums.

Employer-sponsored retirement plans (whether DB, DC, Target Benefit or some other plan design) are, and must continue to be, part of the solution. Unfortunately, various issues have contributed to the decline in pension plan coverage, especially in the private sector (e.g. uncertain legal and regulatory environment, risk/reward mismatch in the DB system, negative impact of accounting standards, cost and complexity of plan administration, legal risks). Our country needs a vibrant system that encourages employers to offer pension plans to their employees, and other retirement savings vehicles as well.

A last comment in this section is warranted on Registered Retirement Savings Plans. "The ACPM's Five Point Plan" includes the option of enhancing RRSPs to allow parity regardless of the path a Canadian may choose to secure his/her retirement. This means a level playing field when it comes to the tax treatment of saving for retirement through RRSPs (and DC plans) versus DB plans. ACPM believes that RRSPs and TFSAs are important elements of the retirement income matrix as are other saving vehicles. In deciding whether such proposals are appropriate, we are confident that decision-makers will ensure that Canadians have a full and fair range of options to pursue.

Proposals to Expand the Canada Pension Plan

ACPM believes our system should continue to strike the appropriate balance between individual, employer and government responsibility as found within our current three pillar system.

In ACPM's view, Pillars One and Two are currently performing as intended to provide a basic level of retirement income for all Canadians**.** This is supported by international assessments of Canada's retirement income system compared to other countries.

The critical role for increasing coverage lies with Pillar Three and, within that, the focus should be on encouraging and increasing access to group coverage opportunities. While individual saving options are an important part of the mix, the real opportunity for expanding coverage lies in making the benefits of scale and returns from employer-sponsored programs and group investing available to individuals in an innovative and flexible way, and revitalizing workplace dialogue and involvement. ACPM believes that Pillar Three provides the best mechanism for an appropriate and affordable approach for individuals, businesses, and government.

ACPM does not believe that the mandatory, 'one-size-fits-all' option of increasing CPP/QPP benefits is the right answer to a targeted problem. In addition to high cost and lack of flexibility, increasing Canada's universal defined benefit program has clear shortcomings.

The economic impacts of payroll taxes are well documented, and a proposal to increase such levies is of concern, particularly given Canada's current economic circumstances and the need to stimulate job creation.

It is far from clear that the level of income that the CPP/QPP guarantees needs to be increased. Canada has been cited as a country that is doing a good job ensuring adequate retirement incomes for its lowest income groups. If there is a consensus that greater incomes are appropriate for low income seniors, then that should be achieved through OAS and/or GIS.

In fact, increasing the CPP/QPP could make many low income retirees no better off if they lose existing government supports such as GIS and various income-tested provincial supports. This latter concern is not insignificant and should be carefully considered by decision-makers. And if they have to make a higher contribution during their working lives at the expense of opportunities to, for instance, reduce household debts, they could be worse off.

Similarly, Canadians with employer-sponsored pension plans may be no better off, given that many pension plans directly or indirectly take into account CPP/QPP contributions and benefits. If the CPP/QPP is increased, the pension plans will likely be modified to coordinate their contributions and benefits with the new CPP/QPP levels. Consequently, a portion of the pension benefits that were expected to be procured by the pension plans would henceforth be guaranteed by the CPP/QPP. This would diminish the benefits of scale and weaken the importance of existing workplace pension plans over time. In the case of negotiated plans, one may expect a long and difficult process to rebalance the overall cost of pension benefits.

Expanding CPP/QPP benefits also raises concerns about concentration risks in holdings of Canadian retirement assets.

However, should Governments choose to enhance the CPP in a modest, phased-in and fully- funded manner we would offer the following general comments and observations.

Given that the issue we face is a targeted problem and not a structural one, ACPM suggests a targeted solution, such as adjusting the YMPE, as doing so more directly addresses the cohort that is under-saving. Our preference would be that the solution involves the establishment of a second or ancillary plan thus ensuring there is no impact on existing CPP accrued liabilities.

As noted above, increasing CPP premiums will likely divert contributions away from existing DB/DC plans. This increase will make existing DB plans less efficient/more costly to operate. A further consequence may be the need to renegotiate fees on DC plans as they too are priced based on expected cash flow. We would also draw to the attention of policy makers that any existing DB plans where benefits are integrated to the CPP will likely require renegotiation if the benefit is affected and or if the overall cost of labour to the employer is raised. On the latter point, and especially given the current state of the economic recovery, we would suggest that any adjustment to the CPP should be paid for solely by the employee and not the employer. Besides having the benefit of transparency by linking the payment with the beneficiary, it will not raise the cost of labour thereby impact job growth.

The impact of a CPP enhancement and corresponding contribution increase may have a major impact on the establishment of new innovative coverage arrangements. With limited disposable income, a mandatory CPP increase in the 3% range (for illustrative purposes) will likely preclude individuals from joining new group coverage plans where a similar contribution would be required. A six percent increase in contributory earnings may prove too burdensome for many Canadian families thus forcing them solely into the mandatory coverage options which may or may not be their best choice for retirement income purposes. Fewer Canadians may then be in a position to afford increased pension coverage in their workplace.

Lastly, it is imperative that any adjustment to the CPP not affect existing or future RRSP contribution levels.

Pension Innovation

For many years and on numerous occasions, ACPM has argued for changes to the framework governing workplace pension plans (in particular, the simplification and harmonization of laws) in order to encourage the creation and growth of these plans. Key changes include revising pension legislation and guidelines:

- for DB plans: implement permanent solutions to deal with the perceived risk/reward imbalance while encouraging increased benefit security (e.g. allow the use of special purpose "solvency accounts"), move pension plans from the broad trust law environment to a contract law regime, and allow more flexibility in plan design;

- for DC plans: allow a good faith standard of care or safe harbour in appropriate circumstances;

- for all plans: expand the definition of administrator and sponsor, remove requirements for similar benefits per class of plan members, and accept electronic communications.

These changes may also require changes to the *Income Tax Act* (ITA) as well, including removing the primary purpose for pensions test, expanding the categories of eligible income, removing the minimum employer contribution, and expanding the criteria for multi-employer pension plan treatment.

As well, employment standards legislation needs to contemplate automatic enrolment, contribution deduction and escalation with opt-out to encourage increased workplace pension coverage.

As alluded to earlier, changes to the ITA are an integral part of the right approach to increasing coverage. These changes are not primarily about increasing existing incentives to save; rather they are about removing barriers to increased coverage, maximum choice and an incentive to participate. While we recognize that the Ontario Government does not control such changes, the ACPM encourages discussion between the provinces and the federal government to ensure such changes become part of the overall solution to the issues under consideration.

ACPM believes that the greatest promise in increasing pension plan coverage and retirement income adequacy for Canadians can be achieved through a number of changes to the ITA and the various federal and provincial pension benefits legislation. In previous submissions and papers, ACPM made pension reform suggestions aimed at promoting increased coverage by employer-sponsored pension plans. Below, we provide you with a list of additional proposed reforms that we feel would be beneficial in achieving increased pension coverage for individuals who are not currently participating in an employer-sponsored plan.

Proposed Reform	Legislation	Rationale
Remove primary purpose for pension plans test	ITA	Allows coverage to continue post-employment
Expand the categories of income eligible for contribution to a pension plan	ITA	Allows for pension coverage for self- employed

Proposed Reform	Legislation	Rationale
Expand the annual contribution limits or create a lifetime contribution limit with a value comparable to the commuted value of public sector defined benefit pensions	ITA	Facilitates the growth of the income available in retirement
Allow plan members to deduct plan administrative expenses	ITA	To achieve parity with employer-sponsored plans
Remove minimum employer contribution requirements (unless the plan is mandatory)	ITA	Allows pension coverage even with impecunious employer
Expand the definition of "Administrator" to allow financial institutions not providing guaranteed benefits	Provincial/ Federal Pension Benefits Legislation	Allows aggregation of disparate groups to achieve benefits of scale
Expand the definition of entities that can sponsor a capital accumulation plan to include financial institutions	Guidelines for Capital Accumulation Plans	Allows aggregation of disparate groups to achieve benefits of scale
Allow administration of the plan to be on a "good faith" standard of care or make provision for a safe harbour, in appropriate circumstances	Provincial/ Federal Pension Benefits Legislation	Facilitates clarity of rules and risk management to achieve aggregation
National DC pension-specific legislation employing simplified minimum standards together with the Guidelines for Capital Accumulation Plans as a regulation	Provincial/ Federal Pension Benefits Legislation	To achieve a relevant and flexible legislative framework
Remove requirements for similar benefits per class of plan members	Provincial/ Federal Pension Benefits Legislation	Allows aggregation of disparate groups to achieve benefits of scale
Allow automatic enrolment with an opt-out	Certain Provincial Employment Standards Legislation	Increases potential of participation in the plan while still giving plan members the opportunity to say "no"
Allow automatic contribution escalation with an opt-out	Certain Provincial Employment Standards Legislation	Facilitates the growth of the income available in retirement
Enable electronic communications with opt-out	Provincial/ Federal Pension Benefits Legislation	Enables administrative ease and member awareness

Proposed Reform	Legislation	Rationale
Enable electronic beneficiary designations	Provincial/ Federal Pension Benefits Legislation and Provincial Insurance Legislation	Removes barriers to enrolment

ACPM believes that encouraging and supplementing existing retirement income opportunities is the right choice. More opportunities for employer-sponsored plans and for individuals both employed and self-employed, to participate in group coverage would be a cost-effective way to see significant increases in coverage (whether DB, DC, Target Benefit or some other plan design). Employers too would be attracted to the benefits of lower costs and increased access to multi-employer and other group options.

ACPM sees a number of large pan-Canadian plans (i.e. pension plans large enough to provide significant economies of scale across Canada) as a better means to improving coverage than a single government-run program. It is with the benefits of competition (whether from a number of privately provided or government/member co-sponsored plans), that the innovation, flexibility and reach needed to meet Canadians' varied needs in a cost-effective manner will best be encouraged.

ACPM sees a role for "auto-enrolment with opt-out" as part of the right approach to encouraging increased workplace pension coverage. Experience in other international jurisdictions shows that it will produce increased coverage, without requiring those already satisfied with their savings, or who would best save in other fashions, to participate. It recognizes the workplace as being critical to achieving higher coverage. It allows employers and employees to participate jointly in a plan; it allows employees to participate in a group plan even if their employer chooses not to contribute and it allows employees not to participate even if the employer offers a plan. Those who are self-employed would also be eligible to join any plan. With barriers removed to enhanced group options, a number of large plans with varying features, involving benefits and contributions levels, would emerge targeting both those with little or no retirement savings and those that would like to augment their existing savings. Third pillar providers would be expected to apply their expertise to ensuring employers understand these plans and their benefits and to encouraging employees to participate through, for example, auto-enrolment with opt-out. Similar to the experience in other jurisdictions, increased enrolment and coverage would occur, as more Canadians will think further about their retirement options.

ACPM believes strongly in choice. It is important that Canadians have the opportunity to build retirement income in ways that work best for them. We believe that a competitive marketplace will ensure that Canadians get the flexibility and choice they need at an affordable cost.

ACPM also appreciates the need for risk to be balanced with the importance of security of more adequate retirement incomes. The best way to find the right mix of risk and security is to offer Canadians several options through a number of providers, combine it with clear information, and allow for informed choice.

There has been considerable commentary lately on costs charged to managing and growing retirement savings vehicles. There are views about the cost of private sector services compared to those provided by the CPP, and the implication for supplemental coverage. It needs to be emphasized strongly and repeatedly that third pillar group retirement savings vehicles are priced competitively. Cost of service is lowered by economies of scale and competition, and it is increased as higher service levels are demanded by clients.

Large pension funds are required in order to gain maximum benefits from economies of scale. A single large plan only would see the benefits of economies of scale offset by the lack of competition and focus on customer service. Similarly, maximizing investment returns requires size but is also about offering services that match individual needs with investment opportunities. A number of large pan-Canadian plans would ensure economies of scale are accomplished while meeting the varied needs of Canadians. It also ensures that risk is appropriately diversified.

Conclusion

We believe our paper, Improving Retirement Income Coverage in Canada, "The ACPM Five Point Plan" 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. We hope that the comments contained herein will assist Ontario in moving forward on much needed reform.

Improving Retirement Income Coverage in Canada

The ACPM Five-Point Plan

ACPM/ACARR

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FOREWORD

The Association of Canadian Pension Management (ACPM)

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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.

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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

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