



ACPM BRIEF TO THE PROVINCE OF BRITISH COLUMBIA MINISTRY OF FINANCE

**PENSION CONSULTATION PAPER:
MECHANISMS FOR EXPANDING
PENSION COVERAGE AND
RETIREMENT INCOME ADEQUACY IN
CANADA**

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**Prepared by:
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ACPM/ACARR

The Association of Canadian Pension Managers
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 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 ACPM appreciates the opportunity to again provide our input to the Government of British Columbia's consultation process regarding the expansion of pension coverage and retirement income in Canada. In this Brief you will find our perspective on this key issue as well as commentary on specific questions asked by the consultation process. We are also attaching ACPM's presentation deck summarizing the major issues and our proposed solutions to expanding coverage in Canada.

Section I - The Right Answer to Improving Retirement Income Adequacy

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 day to day 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 are confident that existing Pillar Three retirement income providers have a critical role to play in achieving that outcome.

Recently-released studies commissioned by government provide support for our approach. Work done by Mintz and by Baldwin that describes the problem not as a crisis affecting the structure of the system, but as a targeted one reflects what ACPM has been 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 this problem, we worry about the number of Canadians who appear to think retirement income adequacy is beyond their means. 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. Canadians need a range of appropriate choices with differing contributory levels to reflect not only their individual situations, but their retirement expectations and needs.

In ACPM's view, proposals to expand CPP/QPP miss the point that the problem is a targeted problem. The CPP/QPP are universal programs ensuring a minimum level of retirement income for all based on earnings. They function very well and will continue to do so into the future based on sound actuarial analyses of contributions from employers and employees. A one-size-fits-all mandatory increase in payroll contributions to generate a one-size-fits-all increase in retirement savings for all workers, including those already saving sufficiently, would be the most costly approach that could be taken, and it wouldn't recognize that many Canadians prefer to use their income to save for retirement in other legitimate ways, such as paying down a mortgage.

We do think that encouraging more opportunities for group savings is the right approach and that Canadians need to have several choices to augment their retirement incomes. A supplemental CPP/QPP, or the "ABC Plan" included in the Joint Expert Panel on Pension Standards (JEPPS) proposals, can be part of the answer, but it can't be the only answer if building greater retirement incomes for Canadians is to be done in an effective, cost-efficient and diversified manner.

All retirement income programs have costs to run them. 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, retirement income providers can and do provide flexible options and the desired levels of customer service, at the same or even lower cost than could a supplemental CPP/QPP.

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 echo's ACPM proposals advanced to a variety of forums including the JEPPS process. The list of proposed reforms noted under Section 2, Question 15 below, details the proposals that ACPM thinks would have the most success in increasing retirement income coverage and adequacy in Canada.

A last comment is warranted on Registered Retirement Savings Plans. Our proposals include the option of enhancing RRSP's to allow parity regardless of the path a Canadian may choose to secure his/her retirement. There has been considerable opinion offered on the value of enhancing these retirement savings devices. 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.

Once again, we appreciate the opportunity to provide our comments and to elaborate on our position on the issue of coverage and adequacy. We would be pleased to make ourselves available to respond to any issue contained in our commentary.

Section 2 – Responding to Consultation Questions

Q1 – 4: Expanding CPP/QPP Benefits

As indicated earlier, 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 taxes 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. And if they have to make a higher contribution during their working lives at the expenses 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. 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.

Q 5- 7: Supplemental Plans

ACPM believes that supplementing existing retirement income opportunities is the right choice. More opportunities for individuals, both employed and self-employed, to participate in group coverage would be a cost-effective way to see significant increases in coverage. Employers too would be attracted to the benefits of lower costs and increased certainty from access to multi-employer and other group options.

ACPM sees a number of large pan-Canadian plans as the best means to improving coverage. Options such as a supplemental CPP/QPP or provincially-encouraged plans could play a role, but it is only 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. 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. Specifically, every employer could enrol his/her employees in a pension plan. Employees would have the option of declining membership. The employer should also have the option to contribute or not. Individual companies and employees could decide which plans best meet their needs and choose a level of contribution similar to DC plans today. With a principles-based approach to regulatory oversight 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. All working Canadians including the self-employed should be permitted to join a plan. 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. That is one reason why one single mega-plan would not work effectively. 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.

Q 8-9: Pension Standards

For many years and on numerous occasions, the 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 to expand the definition of administrator and sponsor, allowing a good faith standard of care or safe harbour, removing requirements for similar benefits per class of plan member, and accepting electronic communications.

These changes need to be accompanied by 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.

Q 10: Economies of Scale

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.

Q 11: Income Tax

As mentioned in the response to a previous question, 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.

Q12 -14: Balance among the Three Pillars

In ACPM's view, Pillars One and Two are currently at appropriate levels. 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 increasing access to more 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 group investing available to individuals in an innovative and flexible way, and revitalizing workplace dialogue and involvement.

Q15: Measures with the Greatest Promise

The 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 Income Tax Act and the various federal and provincial pension benefits legislation. Below, we provide you with a list of proposed reforms that we feel would be beneficial in achieving this goal.

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
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

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