



**ACPM Response to  
Department of Finance Canada  
Consultation Paper on  
Tax Rules for Pooled Registered  
Pension Plans**

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## **FOREWORD**

### **The Association of Canadian Pension Management (ACPM)**

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

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

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

### **Introductory Comments**

ACPM is pleased to provide our comments on the questions posed in the Department of Finance Canada's consultation paper on tax rules for Pooled Registered Pension Plans (PRPPs).

We would be pleased to respond to any questions you may have concerning the content of this submission.

## RESPONSE TO QUESTIONS

### **I. Administrator**

**(a)** What restrictions, if any, should there be on the type of entity that would be permitted to be the administrator of a PRPP?

While the ACPM does not recommend specific restrictions on the type of entity that would be permitted to be an administrator it does recommend that any such entity have sufficient capital and/or errors & omissions insurance and fidelity bond to ensure that the effect on plan member balances from execution risk or malfeasance is minimized.

Any rules for an administrator within tax legislation should be consistent with the licensing rules provided in any other PRPP legislation or regulation.

### **II. Primary Purpose Requirement**

**(a)** Should there be a primary purpose test for PRPPs? If so, what should it be?

The ACPM supports the idea that a PRPP have a purpose as that reflects good governance practice. An example of such a purpose might be “to accept contributions from members and employers for the purpose of providing periodic payments in retirement”. We agree that the purpose for a PRPP should contemplate both the need to accumulate savings and to provide a retirement income given its status as a pension plan. In saying this we would want PRPP members to enjoy all of the existing portability rights applicable to pension plans.

We would welcome an opportunity to discuss the tax treatment of the retirement income options available in a PRPP with a view to ensuring equitable tax treatment both among the options and as between the PRPP and other pension plans.

### **III. Contributions / Limits**

**(a)** Which approach – using the existing system of dual PA/RRSP limits or permitting contributions under the RRSP limits only – is the most practical?

The ACPM supports permitting PRPP contributions under the “RRSP Limits Only” approach.

This approach suggests that even though employer contributions are receipted to the member, the employee takes the deduction only for the employee contribution.

This also means that the employer takes the deduction for the employer contribution as a PRPP contribution and not as salary, thus the employee would not have payroll tax applied to the employer contribution amount.

The issue is raised of how to ensure the employee takes a deduction only for their contributions. We recommend that the PRPP receipt reflect 2 amounts: 1) the employee contribution with instructions that this is the amount for which the employee may take a tax deduction, and 2) a total (employer & employee) contribution amount, like a PA, which must be taken into account by the member when he/she calculates his/her RRSP/PRPP contribution limit for the year and which CRA can use to monitor contributions against the limit.

**(b)** Would there be any administrative or compliance issues with reporting PAs for PRPP members of participating employers and issuing contribution receipts for other members?

The dual PA/RRSP Limit proposal would place an undue administrative burden on participating employers and creates a good deal of complexity. Given the size of the businesses likely to join a PRPP, this would introduce considerable risk of error (and resulting added costs to correct, communicate, etc).

The RRSP Limits Only approach is preferred.

**(c)** Should employers be solely responsible for determining and reporting PAs, as is currently the case for employers sponsoring an RPP, or should PRPP administrators determine PAs and provide them to employers to report on T4s? Alternatively, should administrators, instead of employers, be responsible for reporting PAs and employee PRPP contributions directly to members?

We recommend using the RRSP receipt model, thereby eliminating the need for traditional PA reporting for PRPP.

**(d)** How should the tax rules address contributions in multiple PRPPs that exceed the contribution limits that otherwise apply for RPPs?

Using the RRSP limit only approach should eliminate this concern since it will be the member's responsibility to ensure that they have not exceeded their contribution limit.

We are in favour of applying the current "mandatory RRSP contributions" provision, or a variation on it, for the purpose of dealing with PRPP over-contributions. This rule allows for mandatory contributions not to be considered for over-contribution purposes to the extent that voluntary RRSP contributions are not also made. We feel that it would be reasonable to treat employer contributions to the plan for those members that opt out similar to mandatory RRSP contributions.

**(e)** Under the RRSP-limits-only approach, what would be the best way to take into account direct employer contributions to a PRPP that would reduce a PRPP member's RRSP limit but that would not be deductible to the member as an RRSP contribution? Should the employer or the administrator be required to report such contributions to the member? Would this approach raise RRSP limit compliance issues for PRPP members with a participating employer?

As noted in (a) above, we would recommend (i) employer contributions to a PRPP be treated as pension contributions and (ii) that the Administrator provide members with receipts which would include information on the total employer and member contributions (if the employer was also contributing) that could be used by the employee in calculating their RRSP contribution room. This approach should help to reduce compliance issues with RRSP limits for PRPP members with a participating employer.

#### **IV. Pensionable Service**

**(a)** Should any past service purchases (under a defined benefit RPP) of PRPP years of employment be permitted?

No, as it creates excessive complexity. Existing pension alternatives can provide a solution for this issue.

**(b)** If so, should past service purchases be restricted to those PRPP years where a PA was reported?

No, in non-participating employer and self-employed scenarios, PA reporting is not contemplated.

**(c)** If past service purchases were to be permitted for PRPP years where a PA was not reported but where there was employer oversight of PRPP participation (i.e., where an employer did not make direct contributions but oversaw the remittance of employee contributions), what mechanism could be used to verify years of pensionable service with an employer? What would be the associated compliance considerations?

See above.

**(d)** Are there any practical ways to recognize years of participation in a PRPP for past service purchases in respect of self-employed individuals (i.e., individuals for whom there is no employer oversight) that would not raise significant verification and compliance issues?

See above.

## **V. Leaves of Absence and Periods of Reduced Pay or Disability**

**(a)** Should the RPP prescribed compensation rules be extended to PRPPs?

Ideally, employment standards law would be amended to exempt PRPP in order to minimize complexity to the employer. Perhaps this is something that the Department of Finance can influence.

**(b)** If so, what should be the level of employer PRPP involvement required under such provisions? What would be the associated compliance considerations?

n/a

## **VI. Transfers**

**(a)** Would it be feasible and appropriate to allow transfers of surplus from a defined benefit RPP to a PRPP? If so, to what extent should such transfers be permitted?

In view of the PRPP goal of simplicity and given the existing pension alternatives for employers wishing a solution to this issue we would recommend that a PRPP not be eligible to receive transfers of defined benefit surplus.

## **VII. Qualified / Prohibited Investments**

**(a)** What modifications, if any, should be made to the prohibited investment rules for RPPs to adapt them to PRPPs?

As the investment selection for a PRPP will be made by the Administrator, who generally will not be related to the employers participating in the plan, there should not be a need to have rules regarding prohibited investments except in the early stages when only a few employers are participating.

**(b)** Should there be qualified investment rules for PRPPs (for example, similar to those that currently apply to RRSPs)?

No, RRSP-style qualified investment rules should not apply. We would support some level of investment rules similar to those that currently apply to RPPs to address the perceived issue with tax-planning through self-dealing but note that the licensing of administrators should prevent IPP-like PRPPs and the tax issues that IPPs raise.

### **VIII. Minimum Employer / Membership Requirement**

**(a)** Should there be rules requiring PRPPs to be established for a minimum number of employers or self-employed members?

This should really be at the discretion of the PRPP Administrator, provided they can still offer a low cost solution. The licensing and registration regime proposed should ensure healthy plan design.

**(b)** If so, how many employers/members should be required to participate?

n/a

### **IX. Forfeitures / Refunds**

**(a)** Are there issues around vesting and auto-enrolment that could increase complexity and compliance costs for employers and/or administrators in relation to the tax rules for PRPPs? If so, how could these issues be addressed?

We see the solution to forfeitures as being the adoption of immediate vesting by all pension jurisdictions for the PRPP.

With respect to auto-enrolment, if there was no requirement to postpone the remittance of contributions until after the opt-out window, this could result in additional complexity for reporting refunded contributions. We would recommend that contributions not be remitted until after a suitable opt-out window has passed. After the opt-out window has passed, contributions would be locked-in, but pension rules may permit withdrawal of small balances in cash if the member opts-out of the plan after the opt-out window passes. Depending on the length of the opt-out window, this could have an impact on seasonal workers being able to participate in a plan via their employer. Consideration could be given to allowing short-term/seasonal workers to join the plan similar to self-employed workers.