



Sept. 4, 2015

Catherine Adam
Federal-Provincial Relations and Social Policy Branch
Department of Finance
15th Floor, 90 Elgin St
Ottawa, Canada K1A 0G5

Email: cpp-consultations-rpc@fin.gc.ca

Dear Ms. Adam:

RE: Voluntary Supplement to the CPP - ACPM Consultation Response

The Association of Canadian Pension Management (ACPM) is a national, non-profit organization acting as the informed voice of plan sponsors, administrators and their service providers in advocating for improvement to the Canadian retirement income system. Our membership represents over 400 companies and retirement income plans that cover more than 3 million plan members.

Thank you for the opportunity to provide input to the Federal government's voluntary supplement to the Canada Pension Plan (CPP). The voluntary supplement to CPP may provide an additional tool to assist Canadians with their retirement savings, and we think that some Canadians will welcome more tools, however, it may add to the confusion of others around retirement savings options. Most importantly, we believe this voluntary supplement to the CPP needs to have two primary achievements – simplicity and low cost (including the cost of developing the administration system and the ongoing costs of investing and administering the assets).

Before addressing the questions contained in the Consultation Paper, ACPM would like to take this opportunity to share our perspective on the proposed voluntary supplement to CPP. We refer you to the ACPM's *Principles For Mandatory Public Pension Plans* (June 2014), a copy of which is attached. We urge a review of these Principles as a filter to formulating any changes to the Canada Pension Plan. In addition, we note the recent development of Pooled Registered Pension Plans (PRPPs) in Canada. The voluntary supplement to CPP does bear some resemblance to PRPPs and we are concerned that this continued introduction of retirement income system strategies for savings may add to the confusion that already exists amongst Canadians as to the most appropriate method of saving for their retirement. Finally, it should be noted that ACPM has developed a strategy to improve the health of the retirement income system in Canada – we refer you to ACPM's *Improving Retirement Income Coverage in Canada – The ACPM Five-Point Plan* (June 2010), a copy of which is attached. We urge the Federal Government to consider this proposal in the context of the continuing development of potential tools to assist Canadians with their retirement savings.

As the Federal government considers the strategy and implementation for the voluntary supplement to CPP, we urge the prioritization of certain basic characteristics:

- the plan should be simple and cost effective,
- it should not present an additional burden to employers, and
- it should not compete substantially with private sector investment management firms.

After reviewing the Consultation document, it appears to us that the goal of the voluntary supplement to CPP is to enhance the retirement system by introducing a lower cost, effective tool for retirement savings. Additional or expanded coverage could be a by-product of its introduction. The success of the program will depend, among other things, upon awareness of its existence. This is a good reason for the Government of Canada to raise awareness of this retirement option through a targeted marketing strategy. One method of raising awareness of the existence of the ability to contribute additional voluntary contributions to CPP could be to include a line item on each tax return.

The voluntary CPP should be structured as a defined contribution plan in order to maintain simplicity and to avoid any inter-generational transfers. It would also be important to emphasize in any communication materials that this is not expanding existing CPP benefits. Finally, from a taxation perspective, contributions to the voluntary CPP should form part of the Registered Retirement Savings Plan (RRSP) contribution limit.

The issue of locking-in of the voluntary contributions to CPP can be considered controversial. On the one hand, locking-in of these contributions ensures that the accumulated savings are used to fund retirement income. On the other hand, the non-locked-in accumulated savings could be used to fund home ownership, contribute to Registered Education Savings Programs and/or meet hardship requirements suffered by an individual. ACPM does believe that if contributions are locked-in, some individuals may prefer to save through Registered Retirement Savings Plans as they will have the ability to access their savings.

Simplicity is imperative for the success of this proposed program and allowing contribution holidays could potentially make the administration more burdensome. However, if contribution holidays are not allowed, this will limit the appeal of the voluntary supplement to CPP.

The retirement options available to contributors will be important. The availability of transfers to an outside LIF/RRIF, of annuitization (whether at an optional age, in gradual steps, or automatically at a prescribed age) or of optional benefit payments from the plan would increase flexibility around retirement options, potentially increasing the attractiveness of the plan. In particular, ACPM believes that it would be worth the effort to figure out how to make payments from the plan a viable option for participants. To ensure continued harmonization with existing withdrawal rules from LIF/RRIF's, it would be beneficial to mirror current withdrawal schedules. However, we would suggest that these withdrawal schedules require review to ensure their ongoing relevancy with current rates and the longevity of Canadians.

The investment structure for Voluntary CPP contributions needs to be kept as simple and cost efficient as possible. A possible way of doing this is to implement a series of Target Date Funds. Participants' contributions would be automatically invested in a fund that has a maturity date close to their assumed retirement date (for example, age 67).

We are concerned that the voluntary CPP supplement may have undesirable and substantial impacts on the private sector. If the contributions are managed by Canada Pension Plan Investment Board (CPPIB), there will be less assets for the private sector (investment management firms) to manage. The fact that the plan is sponsored by the Federal government may lead one to believe that the assets should be managed by the CPPIB, but that is not necessarily the case. We encourage the Federal government to reflect on the potential impact that such an approach would have on the private sector and to consider allowing the private sector the possibility of investing some of those assets, subject to the low cost imperative.

In his announcement speech, Minister Oliver indicated that one goal was not to impose additional costs on employers. One way to prevent this is to allow flexibility as to how contributions can be made to the plan. In addition to payroll deduction, financial institutions could be incented to accept and remit contributions.

Finally, the administration (recordkeeping) needed for the plan needs to be considered in the context of taking advantage of existing expertise. Building an administrative system is not easy and potentially requires a large investment of capital. The private sector has had many years to perfect recordkeeping systems for defined contribution plans. ACPM urges the government to keep an open mind when considering how to keep individual records for voluntary CPP contributions.

Consultation Questions:

Do you believe a voluntary supplement to the CPP should be an option for Canadians to save for retirement? Is this something you would use to increase your retirement savings?

A voluntary supplement to the CPP can be an additional retirement savings option for Canadians. Individual circumstances will determine the appropriateness of this option for each Canadian saving for their retirement.

How could a voluntary supplement to the CPP be designed to facilitate participation of individuals who may be at risk of undersaving for their retirement?

The voluntary supplement to the CPP needs to be designed so that it is simple, cost-effective and flexible. We have elaborated on our ideas concerning these characteristics in our comments above.

How much flexibility should there be for individuals who choose to participate? For example, what are your views on locking-in funds for retirement and providing variability in the contribution rates?

We have discussed our views on these issues above.

How could a voluntary supplement to the CPP be designed to provide a secure stream of retirement income?

Flexibility is the key to success for ensuring a secure stream of retirement income. One thing that ACPM believes would go a long way to assisting Canadians with this issue is to allow pay from the plan withdrawals, along the lines of LIF/RRIF withdrawals.

What retirement income options should be available upon retirement for savings accrued within a voluntary supplement to the CPP?

As discussed above, we believe flexibility in this area will increase the attractiveness of the voluntary supplement to the CPP.

Should transfers between a voluntary supplement to the CPP and other retirement savings vehicles be permitted? If yes, should there be any limits?

As discussed above, transfers to outside LIF/RRIF's should be permitted. We do not prescribe to any limits on these transfers. Transfers into the voluntary CPP would help this new plan reach economies of scale sooner.

While employers would not be required to contribute, what would be the appropriate role for employers?

Employers may facilitate payroll deduction and submission of contributions, if they choose. This should not be mandatory.

Who should be responsible for investing the contributions made to a voluntary supplement to the CPP?

As discussed above, we are concerned about the potential for a voluntary supplement to CPP and the management of the assets by CPPIB to remove huge sums from private industry and encourage the federal government to consider seeking various sources of investment expertise.

We thank you for the opportunity to provide comments in respect to Voluntary CPP and please feel free to contact us at anytime.

Sincerely,



Bryan D. Hocking
Chief Executive Officer