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

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Decumulation 2.0: Converting Retirement Savings to Lifetime Income - A Prescription to Help Canadians Navigate their Retirement Income Needs

Dedicated to the memory of our friend and colleague, John Hallett.

ACPM CONTACT INFORMATION
Mr. Ric Marrero
Chief Executive Officer, Association of Canadian Pension Management
1255 Bay Street, Suite 304, Toronto ON M5R 2A9
Tel: 416-964-1260 ext. 223; Fax: 416-964-0567
Email: ric.marrero@acpm.com; Web: acpm.com

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PREFACE

ACPM is the leading advocacy organization for a balanced, effective and sustainable retirement income system in Canada. Our private and public sector retirement plan sponsors and administrators manage retirement plans for millions of plan members, including both active plan members and retirees.

In March of 2017, ACPM published *Decumulation, The Next Critical Frontier: Improvements for Defined Contribution and Capital Accumulation Plans* ("2017 Paper"). The 2017 Paper was a seminal work that illuminated the need for significant improvements in the Canadian retirement income system to meet the imminent needs of a very large cohort of Canadians approaching retirement.

The 2017 Paper was well-received in Canada by practitioners, plan sponsors and administrators, legislators, and regulators alike. In fact, the paper proved to be an important contribution to the Canadian retirement income and decumulation conversation and played a role in encouraging significant changes to Canada's Income Tax Act (ITA).

In 2018, ACPM directly participated with a coalition of industry stakeholders in advancing a number of the changes advocated in the 2017 Paper in a letter to the federal government which directly led to the federal budget announcement making these changes a reality (ACPM et al, 2018). [1] These changes have opened the door for the eventual introduction of products like the Variable Payment Life Annuity (VPLA) and Advanced Life Deferred Annuity (ALDA) and, more generally, have encouraged innovation and fresh thinking about how legislators, regulators, plan sponsors, service providers and industry practitioners can best help retiring Canadians secure financial independence in retirement.

Over the past few years, we've seen the introduction of innovative decumulation products in the Canadian marketplace providing benefits like pooling of investment and longevity risk, access to lower fees and simplified investment choice; all things ACPM advocated for in the 2017 Paper. We've also seen the publishing of important academic and industry-led research and literature further highlighting the importance of getting decumulation right in Canada. These have been very welcome and important contributions to the Canadian decumulation and retirement income system conversation. So why is another ACPM paper on decumulation ("Decumulation 2.0" as it's come to be known within ACPM) necessary only five years after the 2017 Paper?

Quite frankly, there remains a lot to do. ACPM has been very encouraged by the courageous steps taken by Federal legislators to amend the ITA in recent years and encourage innovation in the Canadian retirement income system. Through their leadership, those critical and foundational first steps have been taken and it is now up to all of us – legislators, regulators, plan sponsors and administrators, service providers and industry practitioners – to pick up the baton and complete the next leg of the journey.

[1] *Enhancing the efficiency of retirement income options for older Canadians*, Association of Canadian Pension Management (ACPM), Canadian Association of Retired Persons (CARP), Canadian Institute of Actuaries (CIA), Canadian Life and Health Insurance Association (CLHIA), Common Wealth (CW), International Centre for Pension Management, Rotman School of Management, University of Toronto (ICPM), National Institute on Ageing (NIA), Pension Investment Association of Canada (PIAC). (2018).

The above description may leave the reader thinking that the 2017 Paper, and perhaps this one, are simply about providing more or different retirement income options to retirees. They are not. While different solutions (such as the VPLA) certainly need to be more broadly accessible in Canada, the larger issue is the need to provide Canadian retirees with a comprehensive toolset -- a complete solution they can personalize to create financial security in their retirement. Financial security is the foundation to support overall retirement wellness. But beyond its importance from an individual retiree perspective, the financial security of Canada's elderly bears important consequences from a societal, social and public policy perspective. We need to get this right for all Canadians – that is what is at the heart of this paper.

ACPM is very pleased to share our views on how to continue the momentum that has been achieved in recent years and, ultimately, to contribute to creating an effective and sustainable retirement income system under which all Canadians can benefit.

EXECUTIVE SUMMARY

"There is a fundamental fact that whatever you do at the time of decumulation, that decision has twice as much effect on your retirement income than all things you've done until you retire…"[2]

A very significant number of Canadians are reaching their retirement years (or are there already), many of whom hold their entire workplace retirement savings in capital accumulation plans (CAPs). These individuals are responsible to ensure their workplace CAPs and other retirement savings will provide them with adequate and sustainable income for the rest of their lifetimes.

In its 2017 paper, Decumulation, The Next Critical Frontier: Improvements for Defined Contribution and Capital Accumulation Plans ("2017 Paper"), ACPM made the case for Canada to introduce retirement income products for retirees that allowed them to pool investment and mortality risk, amongst other retirement and decumulation considerations. The paper was well received and contributed to the Canadian decumulation conversation and the amendment of the Income Tax Act (ITA) introducing Variable Payment Life Annuities (VPLA) and Advanced Life Deferred Annuities (ALDA).

Since the 2017 Paper was published, there have been significant research and literature published on decumulation in Canada as well as internationally (Canada is not alone in having large numbers of retirees with significant retirement assets in CAPs). In addition, several jurisdictions have introduced decumulation products including an Australian Superannuation Plan that modelled their offering on a Canadian workplace VPLA that is still not broadly available to the Canadian public.

The growth in the number of retiring Canadians has highlighted the significant challenge these individuals face in making appropriate and effective decisions to convert their retirement savings into secure lifetime retirement income. We hope the increased awareness in the pension industry of these challenges support a focus on the critical and urgent need for Canadians to have access to:

(1) retirement income products that allow them to create financial security in retirement through pooled investment and longevity risk, and

(2) the planning and modelling tools, information and education resources, and objective, qualified advice to ensure the products available are utilized appropriately.

Progress has been made in Canada regarding the availability of retirement income products, including changes to the ITA. However, there still remains much work to do. For example, pension standards legislation across Canada needs to be amended to allow the implementation of the changes made to the ITA. Large numbers of Canadians are retiring now who need access to enhanced products and services to ensure they are able to create the adequate and sustainable income needed throughout their retirement years.

[2] https://www.benefitscanada.com/pensions/cap/should-plan-sponsors-help-with-decumulation/

The ACPM National Policy Committee has developed this paper to highlight the complexity and scope of the decumulation challenge in Canada, the work that remains to be done, and to encourage all within the industry – legislators, regulators, plan administrators and sponsors and their record keepers/services providers, and industry practitioners – to build on the momentum achieved in recent years to get decumulation right in Canada. There is an urgent need for change now to provide retiring Canadians who are members of CAPs the best opportunity to create financial security for themselves in retirement.

ACPM'S CALLS TO ACTION

A number of "calls to action" have been put forward in this paper to illuminate what ACPM believes are the most pressing items to address Canada's current decumulation challenges:

1. **Create a Dashboard Providing Clear and Complete Picture of All Individual Retirement Income Sources.**

   Canadians, approaching and in retirement, need a comprehensive tool that presents their sources of retirement income simply and understandably. Understanding potential retirement income requires estimating the income stream(s) that could be generated from accumulated assets in their various capital accumulation {such as defined contribution (DC) pension plans, registered retirement savings plans (RRSPs), Deferred Profit Sharing Plans (DPSPs), Pooled Retirement Pension Plans (PRPPs) and Tax Free Savings Accounts (TFSAs)} and combining these with projected retirement income from workplace DB pension plans and government programs. This is a very challenging exercise for most people. Canadians are currently not able to see all their available sources of retirement income and the estimated aggregate income from all those sources - government benefits, employment-based pensions and retirement income and individual savings.

   An enabling tool is a critical element of improving Canadians' retirement income. Australia, Belgium, Denmark, Israel, The Netherlands, and Sweden already have functioning retirement dashboards to consolidate and track retirement accounts and benefits of their citizens. ACPM recommends that a Canadian retirement dashboard be created utilizing individual retirement information available through the Federal government and the Canada Revenue Agency (CRA).

2. **Provide Regulatory Guidance on Computer-Based Retirement Income Modeling Tools for CAP Members**.

   While the retirement industry provides modelling tools that provide good decision support for CAP members during the enrolment and accumulation phase, there is a growing need for the development of robust modelling tools to support and guide decision making for CAP members who are exiting their CAP (or starting retirement income from within their plan) and throughout the retirement income phase. It is not a trivial exercise to plan and design retirement income that successfully combines periodic, predictable lifetime income needs with less predictable lifestyle spending needs and wants. CAP members and retirees need guidance to structure their government and workplace pensions, and other retirement savings and assets to effectively solve their personal retirement income puzzle. Post-retirement computer-based financial planning modelling tools help to put these pieces together to understand and evaluate alternative options and strategies to achieve the desired decumulation income stream.

ACPM recommends that Canada's pension regulators provide industry guidance that directs CAP sponsors and providers to make available to their members modelling tools with certain best practice attributes (as set out later in this paper) to assist them with managing CAP decumulation. Such tools should also allow for CAP members to develop retirement income investment plans with investment strategies for each portion of the member's stream of income and their risk tolerance, as well as the contingency strategies that can be put in place to mitigate stress scenarios.

3. **Provide Canadians Access to Unbiased Advice**.

   People who work with advisors tend to manage their wealth more effectively than those who do not. Canadians need access to qualified, objective advice with transparent fee disclosure. ACPM recommends that all jurisdictions in Canada implement legislation that defines regulated areas of practice and titles for professionals working in retirement and financial planning; not unlike legislation that exists for legal, accounting and other professionals. Transparency on compensation should also exist.

4. **Make Legislative Changes to Simplify the Decumulation Phase and Enable Effective Decumulation Solutions**.

   Legislative changes are needed to facilitate and simplify decumulation of CAP assets. Due to increased labour mobility in Canada[3], CAP members are increasingly accumulating retirement assets and pensions in multiple Canadian pension jurisdictions. The complexity of the different pension regulations applicable to these CAP assets are impeding CAP sponsors and their providers from offering effective decumulation solutions to CAP members and retirees. In this regard, ACPM makes the following recommendations to pension policymakers for changes to Canadian pension and tax legislation:

   - Permit DC pension plan retirees to elect a common set of pension standards rules to apply to all their DC pension plan account assets, such as the province of residence at retirement (a "jurisdiction of final destination"), or the federal (*Pension Benefits Standards Act, 1985*) rules;

   - Permit unlocking (where unlocking provisions exist) of Variable Benefit Payments (VB);

   - Where applicable pension standards legislation does not allow a one-time 50% unlocking of DC pension plan accounts, permit a withdrawal of an annual "bridge income amount" equal to the annual maximum Canada/Quebec Pension Plan (CPP / QPP) plus Old Age Security (OAS) benefit each year until age 70; and

   - Permit pension income splitting on retirement income received prior to age 65 from DC pension plan Variable Benefits Payments, all DC annuity payments, VPLA, RRIF income and LIFs (i.e., funds that originated from an RPP).

[3] Labour mobility is being supported and encouraged in Canada to improve labour availability. For example, in Budget 2022 the Government of Canada announced funding to support mobility of skilled workers: https://www.canada.ca/en/employment-social-development/news/2022/04/government-of-canada-invests-in-labour-mobility-to-boost-skilled-trades.html

5. **Provide Regulatory Guidance on Duties Relating To Offering Decumulation Options.**

   As the competitive landscape for decumulation features begins to evolve and these are embraced by more and more plan sponsors as being in the best interests of their CAP plan members, CAP plan sponsors and administrators are looking for more guidance on how to govern them and manage their applicable obligations. ACPM recommends that industry decumulation regulatory guidelines be developed to clarify how CAP plan sponsors and administrators can manage duties associated with offering group decumulation options (e.g., VB, Group LIF/RRIF, VPLA).

6. **Resuscitate the PRPP as an Effective Decumulation Vehicle**.

   While PRPPs have not proven to be a popular option for plan sponsors since they were introduced in 2012 and have been criticized as costly, ineffective and administratively burdensome by some industry practitioners and service providers, it is ACPM's view that the product concept as a pooling vehicle is sound. ACPM recommends legislative changes be made to PRPP legislation to eliminate the requirement for employer participation, allow for the possibility of decumulation-only PRPPs, and reduce the administrative burden and costs associated with PRPPs.

   These changes will allow all Canadians who have earned employment income to: i) participate in a pension plan, ii) aggregate their deferred-tax retirement savings (DC, RRSP, RRIF, LIF, DPSP, etc.), and iii) have access to coherent and well-managed retirement income options. In ACPM's view, the focus for policymakers should be on providing CAP members and all Canadians with easy access to PRPPs or similar vehicles to collate retirement savings and the purchasing of VB and VPLA products.

   Creating current and future generations of financially secure and independent retirees is an important Canadian policy objective. We believe fulfilling the calls to action presented herein will significantly assist in achieving that objective. ACPM is looking forward to working with all interested stakeholders to advance the recommendations described within this paper to continue to build and improve the Canadian retirement income system.

SECTION 2 INTRODUCTION

In Canada, waves of employees are now retiring with their entire workplace retirement savings in CAPs. With Canadian CAP membership growing and CAPs maturing, there is an increasingly urgent need for improved, and more widely accessible, decumulation[4] products and services than those currently available. Whether offered individually or as group arrangements, within or in conjunction with workplace CAPs, retirees need decumulation solutions designed to guide them to better outcomes – solutions that will provide adequate income and help individuals manage investment, spending and longevity risk in retirement.

On March 27, 2017, ACPM released its paper entitled, "Decumulation, The Next Critical Frontier: Improvements for Defined Contribution and Capital Accumulation Plans" (the "2017 Paper")[5]. The 2017 Paper outlined challenges faced by CAP sponsors when considering decumulation options for their members as well as the decumulation products and services available in Canada at that time. It also set out some proposed CAP decumulation design principles and ACPM's suggested changes to improve outcomes for CAP retirees together with the regulatory changes that would be required to achieve these outcomes.

Summary of ACPM's key Calls to Action in the 2017 Paper

2017 Paper Call to Action	Status
1. Develop national, best-practice guidelines for the decumulation of CAP balances	• Partially addressed – CAPSA[6] has incorporated enhanced decumulation considerations into Guidelines 3 and 8 and continues to work on a National VPLA framework.
2. Amend pension and tax legislation, as follows:	
• Income Tax Act to permit deferred annuitization after age 71	• Addressed with changes to the ITA allowing ALDAs.
• Pension and tax legislation to permit uninsured variable lifetime annuities to be offered either within CAPs, or as related or unrelated group retirement income options	• Partially addressed – ITA changes in force; pension legislation amendments not started
• Tax legislation so retirees receiving periodic retirement income directly from a registered DC pension plan are permitted to claim pension income credit or split pension income until age 65 (identical to the current treatment for DB pension income)	• Not addressed

[4] The term decumulation is used broadly throughout the paper to mean the de-accumulation and conversion of retirement assets into one or more streams of retirement income.

[5] https://www.acpm.com/ACPM/media/media/resources/7/media/AGR/Publication/Decumulation-Improvements-for-DC-and-CAP-(27-Mar-17).pdf

[6] CAPSA (Canadian Association of Pension Supervisory Authorities) is the national association of pension regulators whose mission is to facilitate an efficient and effective pension regulatory system in Canada.

3. Introduce multi-component, risk-pooled decumulation defaults that include:	
• Investment choices with risk/return profiles suitable to provide long term growth and regular retirement income	• Partially addressed – new product(s) in marketplace
• Managed withdrawals based on remaining funds and expected returns	• Not addressed
• Annual depletion date estimates based on current payment levels and expected returns	• Partially addressed – inconsistent practice in market
• Deferred annuitization or longevity pooling to reduce the risk of exhausting available funds before death	• Partially addressed – pension legislation changes needed
• Transparent, unbundled disclosure of all fees and cost	• Not addressed
• Controlled access to liquidity (cash lump sums)	• Partially addressed
• The opportunity for partial inflation protection where desired	• Partially addressed
• Portability of funds during the decumulation phase	• Not addressed

Canadian developments since the release of the 2017 Paper

Since the release of the 2017 Paper, ACPM is pleased to note a number of developments and innovations in Canadian retirement policy intended to facilitate expanded decumulation options and products for CAPs, including the following:

- CAPSA's comprehensive overhaul of the Capital Accumulation Plan Guidelines (Guideline No. 3), released for consultation in May 2022, includes additional focus on decumulation of CAP member assets.

- Changes to pension standards legislation in most Canadian jurisdictions to permit variable benefits to be paid directly from a registered defined contribution (DC) pension plan.

- The changes to the *Income Tax Act* (Canada) announced in the 2019 Federal Budget to enable new types of decumulation products for certain types of CAPs: Variable Payment Life Annuity (VPLA) and Advanced Life Deferred Annuity (ALDA). Legislation to amend the *Income Tax Act* for the introduction of VPLAs and ALDAs is now in force. Key features of VPLAs and ALDAs are summarized in Appendix A.

Pension standards legislation in each jurisdiction will need to be amended to accommodate VPLAs. CAPSA has set up a working group with Canadian pension regulators regarding the development of the proposed VPLA legislation that will be required.

A solid step forward but more yet to do

While most jurisdictions[7] in Canada now permit variable benefits to be paid from DC pension plans, the rules differ from jurisdiction to jurisdiction making the implementation of variable benefits from a multi-jurisdictional plan difficult. This lack of harmonization presents a challenge for DC pension plan service providers to make variable benefits products and services available to plan members at a reasonable cost. In addition, in a number of cases, unlocking provisions do not seem to be addressed within the variable benefit legislation, instead forcing retirees to transfer funds out of the DC pension plan in order to avail themselves of the unlocking provisions of the applicable pension legislation.

If ALDAs become widely available, they will be a useful tool to reduce the risk of exhausting available funds before death. Similarly, VPLAs could go a long way towards addressing ACPM's call for multi-component, risk-pooled decumulation defaults. VPLAs permit variable lifetime income to be paid directly from a DC pension plan or the DC component of a registered pension plan or Pooled Retirement Pension Plan (PRPP) / Voluntary Retirement Savings Plan (VRSP)[8].

Future payments for participants in a VPLA pool vary based on the investment performance of the underlying fund and the pool's mortality experience. The mortality risk pooling is a critical factor to support lifetime income for all VPLA participants; however, our discussions with plans currently offering VPLAs indicate that the periodic adjustments to member VPLA payments are driven primarily by investment changes rather than mortality-related factors. VPLAs should provide members sufficient scale to pool investment risk and attain exposure to a broad range of investment options and potentially higher investment return profile, compared to what is available on an individual basis. This greater scale also results in lower investment and administration fees. Mortality and investment risk are not underwritten by the plan and instead shared amongst all retirees in the pool.

However, the limitation that VPLAs can only be offered through registered pension plans and PRPPs (VRSPs in Quebec) means that members of other types of CAPs (recently estimated to hold almost nine times the amount held in pension plans)[9] in Canada still do not have direct access to a pooled decumulation solution. Additionally, there are certain jurisdictions (e.g., British Columbia) that do not permit transfers from a DC pension plan to a PRPP due to statutory locking in rules. Therefore, members of BC-registered CAPs will not be able to access this innovative decumulation option unless the DC pension plan itself implements a VPLA option.

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[7] New Brunswick and Newfoundland and Labrador are the exceptions.

[8] For brevity, PRPP is used throughout the paper to mean PRPP and VRSP. Where a distinction is required (for example to identify a difference of significance, between VRSP and PRPP, we will use VRSP in addition to PRPP. We note that the VRSP currently has a number of features not currently available in PRPPs; it would be beneficial to consider these features when contemplating any change to PRPP legislative.

[9] MacDonald, B.-J., Sanders, B., Strachan, L., Frazer, M. (2021). Affordable Lifetime Pension Income for a Better Tomorrow. How we can address the $1.5 trillion decumulation disconnect in the Canadian retirement income system with Dynamic Pension pools. Toronto, ON: National Institute on Ageing, Toronto Metropolitan University and Global Risk Institute.

Decumulation is not simply a product problem to solve, nor can it be solved completely through smart plan design.[10] There have been countless resources published in recent years describing the complexity of decumulating assets in retirement. It is complicated for individual Canadians and CAP industry practitioners alike. This paper focuses on "decumulation products and services" to reflect that the solution to the decumulation challenge can be achieved through a mix of appropriate products, knowledge, tools, education, and advice.

As larger cohorts of Canadian CAP members approach and enter retirement[11], ACPM believes there is an opportunity and a critical need to develop and broadly implement decumulation products and services (including access to unbiased advice) that will produce better outcomes in retirement for individuals. Encouraging innovation to ensure CAP retirees thrive and contribute to Canada's economy should be a goal of all Canadian governments and policymakers.

SECTION 3 INTERNATIONAL AND INDUSTRY UPDATES

Since the release of the 2017 Paper, there have been a number of international developments related to workplace retirement savings decumulation as well as the recent publication in Canada of a report by the National Institute on Ageing[12] (NIA) and the Global Risk Institute[13] (GRI) Report entitled, "Affordable Lifetime Pension Income for a Better Tomorrow: How we can address the $1.5 trillion decumulation disconnect in the Canadian retirement income system with Dynamic Pension pools" (the "NIA Report"). In addition, the Canadian insurance industry has recently proposed to the Department of Finance Canada the notion of a "standalone VPLA" to make VPLAs more accessible to Canadians. This section summarizes international developments as well as the key takeaways from the NIA Report and the Canadian insurance lobby's proposal.

International developments

Since 2017, international developments of note include:

- The Organisation for Economic Cooperation and Development (OECD) and its Working Party on Private Pensions have updated the OECD Roadmap for the Good Design of Defined Contribution Retirement Savings Plans[14] , which acknowledges the emergence of variable

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[10] See Improving Financial Literacy: A Key Ingredient in Helping Canadians Make Better Financial Choices and Prepare for Retirement published by ACPM in March/2021 for a fulsome discussion of the need for and interaction of smart plan design, financial wellness and literacy strategies, and access to unbiased financial advice in helping Canadians ultimately achieve financial security in retirement.

[11] Statistics Canada reported on April 27, 2022 that "Never before has the number of people [in Canada] nearing retirement been so high. More than 1 in 5 (21.8%) persons of working age are aged 55 to 64.

[12] The National Institute on Ageing (NIA) is a public policy and research centre based at Toronto Metropolitan University in Toronto. The NIA is dedicated to enhancing successful ageing across the life course. It is unique in its mandate to consider ageing issues from a broad range of perspectives, including those of financial, physical, psychological, and social well-being.

[13] The Global Risk Institute (GRI) is a premier organization that defines thought leadership in risk management for the financial industry. GRI brings together leaders from industry, academia, and government to draw actionable insights on risks globally.

[14] See at https://www.oecd.org/pensions/private-pensions/OECD-Roadmap-Good-Design-Defined-Contribution-Retirement-Plans_Public-Consultation.pdf. In its letter to the OECD dated April 12, 2021, ACPM noted its support for this new roadmap wording.

benefits and drawdowns paid from CAPs as a solution in addition to annuitization by saying "flexibility could be provided by allowing for partial, deferred or delayed lifetime income combined with programmed withdrawals";

- The American *SECURE Act 2019*[15] was signed into law on December 20, 2019, allowing Pooled Employer Plans. For workplace DC plans, it introduced a fiduciary "safe harbor" on the selection of an insurer to provide guaranteed retirement income products and the ability of participants to transfer annuities to another eligible employer or individual plan;

- United Kingdom's *Pension Schemes Bill 2019-2021* became law on February 11, 2021, and it created Collective Money Purchase Schemes (CMPS)[16] where retirement risks – economic, financial, and longevity – will be shared among participants collectively. CMPS will offer participants a target pension level based on their contributions; and

- In Australia, there has been a steady accumulation of large pools of retirement savings in its superannuation funds, but with no lifetime income option at retirement. A 2016 Australian Treasury report called for the super industry to find a solution to this problem, which led to the development and implementation of QSuper's Lifetime Pension Option on March 1, 2021, (design based on the University of British Columbia's Faculty Pension Plan VPLA). This Lifetime Pension benefit provides income for life, adjusted periodically to reflect the experience of the pool and includes survivor benefits as well as an underwritten guarantee of refund of the initial amount invested (either in income payments or death benefit).

ACPM applauds the jurisdictions noted above for recognizing the need to introduce legislation, products and other measures to help individuals manage the extremely complex problem of achieving financial security in retirement. It is critical that Canadian legislators and policymakers continue to expediently forge ahead with changes that help individual Canadians address the very real complexities of optimally transitioning their assets into a financially secure retirement.

<u>Canadian Industry Update: NIA Report</u>

In October 2020, a new research project was announced by the NIA and GRI with the goal of establishing a "road map for how best to structure, implement, and provide Canadians with added financial longevity protection through VPLAs."[17] On November 16, 2021, the NIA and GRI published the NIA Report.

According to the NIA Report, dynamic pension pools (the NIA Report's term for a VPLA vehicle) can assist CAP members to produce sustainable lifetime retirement income by pooling longevity risk and keeping retirees invested in capital markets. The NIA Report notes that while these pools are already used as a decumulation solution in other countries (as reviewed above), they are not broadly available in Canada.

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[15] The Setting Every Community Up for Retirement Enhancement Act of 2019, better known as the SECURE Act, amongst other things, makes it easier for small business owners to set up "safe harbor" retirement plans that are less expensive and easier to administer.

[16] Often referred to as CDCs or Collective DC Plans.

[17] See announcements at https://globalriskinstitute.org/wp-content/uploads/2020/10/Addressing-the-Risk-of-Outliving-Savings.pdf and https://www.nia-ryerson.ca/commentary-posts/2020/10/29/addressing-the-risk-of-outliving-savings-new-project-will-create-a-practical-roadmap-for-implementation-of-variable-payout-life-annuities.

The NIA Report notes the recent release of the VPLA rules in the ITA, but highlights that permitting VPLAs only under DC pension plans and PRPPs makes them fall short of a broad solution. The key takeaways from the NIA Report are:

- Canadian Income Tax Regulations now allow sponsors of DC pension plan and PRPP providers to set up VPLA pools (referred to in the Report as Dynamic Pension pools or DP pools) and make them available to members within those plans. The NIA Report notes that this is a step in the right direction, but DC pension plan assets are just a small proportion of individual savings, "representing just 10% of the $1.5 trillion of registered individual savings nationwide and covering less than 7% of working Canadians". In addition, the uptake of PRPPs has been low due to the obstacles that have been faced by PRPP providers (as discussed later in this paper), and perhaps because PRPPs were not introduced with mandatory employer participation provisions as was the case with the introduction of VRSPs in Quebec. The NIA Report stresses, in the absence of changes to the current regulatory framework, "dynamic pensions (e.g., VPLAs) will likely be out of reach for the vast majority of Canadians."[18]

- Not only can DP/VPLA pools protect the financial security of individual Canadians, but they can also protect the public purse by reducing reliance on income-tested federal and provincial senior social programs.

- The report urges policymakers to adopt a universal DP/VPLA pool framework that is available to all Canadians regardless of their employment histories, accepts all types of individual registered retirement savings accounts and encourages a broad range of providers. The regulatory framework needs to support the following six objectives[19]:

    1. *Uniform treatment of registered savings*: DP/VPLA pools should be able to accept assets from any registered retirement savings vehicle {i.e., registered pension plans (RPPs), DPSPs, RRSPs, RRIFs and their locked-in variants}.

    2. *Universal member eligibility*: Affordable lifetime pension income must be accessible to all retiring Canadians, regardless of their employment histories.

    3. *Effective protection from longevity risk*: The DP/VPLA pool must be large enough to provide meaningful longevity risk pooling.

    4. *Robust governance*: DP/VPLA pool providers must have a fiduciary duty to the members, and the pool must operate transparently with appropriate controls and oversight.

    5. *A diverse ecosystem of providers that are willing and able to bring DP/VPLA pools to scale quickly*. The product must be attractive to, and feasible for, a variety of providers to achieve appropriate scale. The framework should support a range of providers, including not-for-profit entities, to foster competition.

[18] Ibid.

[19] Ibid, p.7

6. *Clear, simple and harmonized regulations*. Legislation must be clear and unambiguous: the rules must be explicit to facilitate providers' understanding and ease implementation.

- With supportive legislation, access to DP/VPLA pools has the potential to transform decumulation and the Canadian retirement income landscape.

- ACPM supports the conclusions and calls to action set out in the NIA Report; however, we believe efforts to achieve the target outcomes should focus on leveraging the existing PRPP and VPLA legislation with certain amendments (discussed later in this paper) rather than introducing new legislation. We appreciate that improving current PRPP and VPLA legislation is not the only path available to making VPLAs broadly available to Canadians. However, given the urgency to make this solution available to Canadians as soon as possible, we believe the most expedient and practical path is to improve existing legislation rather than introduce new legislation. We urge policymakers to make the legislative changes needed to establish the appropriate regulatory framework to enable all Canadians to access VPLAs with their workplace CAPs and personal RRSP/RRIF savings.

Canadian Life and Health Insurance Association

On May 3, 2022, the CLHIA submitted a letter to the Department of Finance Canada calling for "expanding the scope of the VPLAs to enable more Canadians to access retirement income security". Similar to the NIA paper noted above, the CLHIA is calling for change to allow significantly more Canadians access to VPLAs than under the current legislation. ACPM wholeheartedly agrees with an initiative to increase access to VPLAs for all Canadians, rather than only those who are members of a defined contribution pension plan (or the DC component of a registered pension plan).

Another important concept put forward by the CLHIA in their letter is the ability for Canadians to pool some or all of their registered retirement assets into a VPLA. This would provide the opportunity to significantly simplify the management of the assets providing retirement income. ACPM very much agrees with this and is proposing a similar concept in this paper.

As part of their 'standalone VPLA' proposal, the CLHIA has assumed that VPLAs will be issued by licensed annuity providers. However, as no risk is underwritten by a plan offering VPLAs to its members (longevity and investment risk is borne by the members), other organizations should be allowed to provide VPLAs, including those who are permitted as administrators of RPPs, JSPPs and PRPPs.

ACPM supports CLHIA's call for more widespread access to VPLAs for all Canadians and for Canadians to be able to consolidate their registered retirement assets into a single VPLA. Modifications to existing RPP and PRPP regulations could be made to better enable this kind of pooling.

SECTION 4 MEMBER CONSIDERATIONS

Managing any type of retirement income plan – whether on an individual or group plan basis – is challenging for even the most experienced plan administrators and sponsors and their professional advisers. Blake[20] very succinctly summarizes why the retirement planning problem is so complex:

"A rational life cycle financial plan requires people to accurately forecast: total career income, total available retirement resources, asset returns, interest rates, tax rates, inflation, their longevity or life expectancy, and minimum essential expenditure over the lifecycle, including medical and other health expenses. Most people do not have the skills to do this— in fact, nobody does."

The collective experience of ACPM's members, as plan administrators, sponsors, CAP service providers and advisers, confirms Blake's assertion. Most CAP members are not equipped with the necessary skills, knowledge, and motivation, to take on the particularly onerous tasks of understanding and quantifying their retirement income needs and managing their individual retirement savings accounts, such as:

- deciding whether they are ready for retirement (financially and otherwise);
- determining how much money they need for their basic needs (food, shelter, clothing, utilities, etc.), for lifestyle spending (vacations, gifts for family and friends, charitable giving, etc.), and for contingencies (emergency funds for home and car repairs, illnesses, etc.); and
- how they are going to structure their retirement savings and other assets to meet their income needs for their retirement, with due consideration to the tax efficiencies of different savings and income vehicles in combination with government sources of income such as C/QPP, OAS and GIS.

The challenges are many for CAP members and retirees – such as understanding whether and how long to defer government retirement income benefits, choosing from the plethora of retirement income vehicles, and understanding investment and longevity risk and how these relate to their own circumstances. On top of this, an individual faces a daunting amount of work to organize their potentially multiple sources of retirement income, especially when one person may have several retirement savings accounts, each with their own set of regulatory rules and administrative requirements. Also, as retired CAP members age, their interest and ability to manage their retirement accounts diminish over time.

We strongly believe that retiring CAP members would be well served by having available to them a combination of the following:

1. Lifetime income consisting of government benefits, any legacy DB pensions, and lifetime annuities (including any VPLAs);
2. Tax sheltered retirement savings accounts consisting of DC pension plan accounts, RRSPs and TFSAs; and

[20] Blake, David. 2022. Nudges and Networks: How to Use Behavioural Economics to Improve the Life Cycle Savings-Consumption Balance. Journal of Risk and Financial Management 15: 217.

3. Non-registered assets including taxable investment portfolios, home equity, and inheritances.

After-tax savings (like TFSAs and home equity) can be particularly helpful in minimizing tax inefficiencies for large contingency needs, but also for larger, less frequent extra lifestyle spending desires. These can also be helpful in implementing a strategy to take advantage of CPP/QPP deferral opportunities.

To fit these pieces of the puzzle together, CAP members and retirees need access to information, education, robust modelling tools, and access to unbiased advice. In this section, we first address the challenges and obstacles in creating smart pension plan design and executing drawdown / decumulation strategies for pension plan members. We next discuss the post-retirement financial planning modelling tools that can help CAP retirees to create the desired after-tax income pattern. We then review investments of retirement assets, the important role advisors can play in helping members navigate their way into and through decumulation, and communications of retirement information and options. Lastly, we propose the development of a Retirement Income Dashboard for Canadians as other countries have successfully done.

Smart Pension Plan Design

We have long known the benefits of smart CAP design to individual members' wealth accumulation. Auto-enrollment and a suitable default investment vehicle, for example, can ensure an adequate retirement income for CAP members who are incapable of, or not wanting to, make decisions about joining the plan or how to invest their contributions.

We believe smart design, particularly in regard to defaults in decumulation, could also be highly beneficial for CAP members given the complexities involved in designing and managing an appropriate retirement income plan; however, the availability of products to design an appropriate decumulation default do not yet exist in Canada. Therefore, a key focus of this paper is to encourage the expedient implementation of a variety of legislative and other changes to better enable a complete suite of decumulation products and services to come to fruition.

ACPM Recommendations: Legislative change is needed to enable the availability of appropriate products and services will allow industry participants to develop innovative solutions that address CAP members' retirement income needs.

Drawdown / Decumulation Challenges and Obstacles

Most CAP members will have the majority of their savings in deferred tax savings vehicles, like DC pension plans, DPSPs, and Group RRSPs and TFSAs. The DC pension plan accounts in many cases will be fully or partially locked-in, meaning applicable pension legislation will govern when and how a retiree can draw on those accounts in retirement. The DPSPs and Group RRSP/TFSA savings are "unlocked", except for any portion of an account that originated from a previous pension plan transfer. There are two primary challenges that exist in the decumulation phase:

(1) *Multi-jurisdictional Challenges*: Retiring CAP members who have worked in different pension jurisdictions (provincial and/or federal) over their careers may have accumulated savings in several DC pension plan accounts during those periods of employment that are subject to

different pension standards legislation. Multiple accounts with differing pension standard rules on locked-in funds can present a challenge in determining how the income they produce fit together. Why? Pension standards legislation does not permit the commingling of locked-in accounts that are subject to different statutory rules. Some jurisdictions will allow the unlocking of retirement accounts under certain conditions, and some will allow hardship withdrawals with very specific criteria. Further complicating matters, each jurisdiction may have their own rules for determining the maximum annual withdrawal amounts[21].

(2) *Challenges that Impede Valuable Decumulation Strategies*: To convert retirement savings accounts to income, CAP members can currently choose to employ a retirement spenddown vehicle like a RRIF or LIF, a variable benefit payment directly from their pension plan (where permitted), a guaranteed immediate or deferred annuity, or a variable annuity product like the new VPLA (where pension standards legislation allows).

There are also strategies available for CAP members to try to optimize their total retirement income streams, such as electing to defer their CPP/QPP or OAS entitlements or utilizing the pension income credit available under the ITA as well as income splitting with a spouse. For example, a retiring CAP member may choose to source their income in their early retirement years from non-locked-in funds like RRSPs or TFSAs and other non-registered assets to allow them to defer receiving their CPP/QPP and OAS to as late as age 70, resulting in an increased level of guaranteed retirement income.

For CAP retirees who participated in workplace pensions during their accumulation years, including those who transferred commuted values out of defined benefit pension plans, registered pension assets are often the primary source of retirement income. However, locking in rules applicable to these registered assets in some jurisdictions prevents the retiring CAP member from taking advantage of these strategies that can optimize their retirement income stream.

ACPM Recommendations: To address the above challenges that DC pension plan members face relating to the drawdown of retirement income and implementing valuable decumulation strategies, ACPM has the following recommendation for pension policymakers for legislative reforms:

- DC pension plan retirees should be permitted to “elect” a common set of pension standards rules to apply to all their DC pension plan account assets, such as the province of residence at retirement, or the federal (*Pension Benefits Standards Act, 1985*) rules.

- Where applicable pension standards legislation does not allow a one-time 50% unlocking of DC pension plan accounts, pension standards legislation should permit a withdrawal of an annual “bridge income amount” equal to the annual maximum CPP / QPP plus OAS benefit each year until age 70; and

- Pension income splitting should be allowed on retirement income received prior to age 65 from DC pension plan Variable Benefits Payments and LIFs (i.e., funds that originated from an RPP).

[21] Minimum annual withdrawal amounts are provided for in the *Income Tax Act* (Canada) and its Regulations.

Post-Retirement Financial Planning Modelling Tools

Post-retirement computer-based financial planning modelling helps CAP members and retirees to assess how long each savings account may last and the likelihood that basic income needs will be satisfied for the remainder of the member's life.

While the retirement industry provides modelling tools that provide good decision support for CAP members during the enrolment and accumulation phase, there is a growing need for the development of robust modelling tools to support and guide decision making for CAP members who are exiting their CAP (or starting retirement income from within their plan) and throughout the retirement income phase. Many attributes of the best modelling tools for decumulation modelling include the following:

1. User friendly, with clear, meaningful and customizable output;

2. Allow for differing assumptions about the economic environment - assumptions for capital market expectations (including potential market shocks), inflation and interest rates that are (a) robust and continually revisited; and (b) employed in a stochastic framework to enable a distribution of outcomes;

3. Investment returns that are on a net of fee basis and spending needs that are expressed in "real" or inflation adjusted dollars, which would have a significant impact on the modelled results and the guidance provided;[22]

4. Have the ability to model spendable income rather than gross income, thereby accounting for federal and provincial income tax, government-provided income-tested benefits and other age-specific provisions such as income splitting and minimum and maximum withdrawals for various forms of savings;

5. Include appropriate initial personal financial conditions, including financial assets (RRSP, TFSAs, non-registered savings), housing equity, and outstanding debts (mortgages, car loans, and/or consumer debt);

6. Have the ability to adjust annual retirement lifestyle costs and/or annual cash needs that may vary for different phases of retirement, including late life and end of life transactions, (such as late life health care and tax consequences for estates);

7. Provide flexibility to model retirement income needs and drawdown scenarios for a "household" rather than an individual member basis;

[22] Model developers should also reflect the trade-offs between risk and reward in the portfolio construction process as this is particularly important during the decumulation phase when time horizon is shortening and additional saving opportunities to counter any capital losses are not available.

8. Provide guidance on developing a longevity assumption for the retiree (and any spouse), taking into account current health status, marital status, family longevity, and income, and the ability to perform scenario analysis on outcomes under different longevity assumptions;

9. Include government income estimating tools or the ability to modify CPP/QPP entitlements for a member and their spouse based on actual benefits earned as well as impacts on annual incomes for different start dates;

10. Provide flexibility to model adjusted retirement income needs and drawdown strategies following the death of a spouse;

11. Have the ability to capture certain "retirement spending shocks" for sensitivity of the retirement income plan[23];

12. Have the capacity to identify and test alternative drawdown strategies, and compare how the consequences from one strategy compare to those for another strategy[24]; and

13. Address individual differences in terms of goals, which includes not just risk tolerances, but also personal discount rates, need for predictability versus ability to make income adjustments over time, attitudes regarding estates and legacies, etc.

ACPM Recommendation: Regulatory guidance regarding CAP decumulation should direct CAP sponsors and providers to make modelling tools covering points 1 through 12 above available to their members (included in the plan expenses paid by plan members), with point 13 being of additional benefit.[25]

Investment of Retirement Assets

There is merit in aligning the investment of retirement savings with their intended use. As such, CAP members should consider what portion of their savings might be used to ultimately purchase an annuity, provide for flexible income over their lifetime, or provide for a temporary income over a shorter time period (like to age 70 in the case of deferring CPP/QPP and possibly OAS as well), by notionally dividing up their savings into the following portions:

[23] Examples include large unanticipated home repairs, non-insured health care issues or disability, and assisted retirement living needs.

[24] Alternative drawdown strategies could include, for example, the proportion of savings drawn each year, the order that alternative accounts are drawn from (e.g. RRSP vs TFSA), the take-up of government pension benefits, and the paying down of debt (which is becoming increasingly common for retiring Canadians). This could also take into account opportunities to maximize income tax age and pension income credits, income splitting strategies and the ability to base minimum RRIF withdrawals on the age of a younger spouse, if applicable, to minimize OAS clawbacks or reductions of GIS entitlements in retirement

[25] While our focus in this paper is decumulation in a CAP context, we are of the view that modelling tools can be just as applicable to Canadians who are not members of a CAP. Further, we note that a certain level of financial literacy is likely necessary to utilize these tools effectively. ACPM has expressed its views on the important contribution financial literacy makes to good retirement outcomes in a paper published March 15, 2021, called Improving Financial Literacy: A Key Ingredient in Helping Canadians Make Better Financial Choices and Prepare for Retirement.

- The portion to ultimately be used to purchase a lifetime annuity could be placed in a fixed income portfolio or short-term investment vehicle that minimizes the variability of the monthly income they will be able to purchase;

- The portion devoted to longer term variable income over their lifetime could be invested in a diversified portfolio, subject to a member's overall risk tolerance for that portion of their savings and income source; and

- Savings to be used to provide income over a relatively shorter temporary period could be invested in a fixed income portfolio (e.g., a laddered series of GICs or bonds maturing annually) that will produce targeted annual income for the desired period.

Investing assets will remain a challenge for CAP members in retirement. In particular, liquidity and sequencing risk remain important considerations. For example, a retiree who faces a major equity market crash in their early years of retirement is subject to sequencing risk. Having some assets to draw upon without being forced to sell their equities at depressed prices could be particularly helpful, whether a safety nest egg or a portion of a "spend-down" account that is liquid and has not suffered from a sudden drop in value. Of course, having the majority of basic income needs covered by guaranteed lifetime income sources will significantly reduce the stress of dealing with these situations.

ACPM Recommendation: It is recommended that Canada's pension regulators provide industry guidance that directs CAP sponsors and providers to make tools available to their members that allow them to develop retirement income investment plans with investment strategies for each portion of the member's stream of income and their risk tolerance, as well as the contingency strategies that can be put in place to mitigate stress scenarios. While some retirees will be capable of building this investment plan themselves, the vast majority could use the assistance of tools developed by the CAP sponsor or provider such as component-level model portfolios. Many will need access to an objective, independent advisor in creating such a plan.

<u>Use of Objective, Credentialed Advisors</u>

CAP members approaching retirement face important decisions that can have repercussions for many years. Retirement planning should begin (at least) several years before retirement to assess needs (such as basic income needs, extra income desires, and contingency funds) and identify how a CAP member pictures their retirement (such as where will they live, what will drive their basic income needs, the additional lifestyle spending requirements they may have as well as their health care needs and desired estate goals).

Research in behavioural economics has shown that good communication and education alone are not enough (Blake 2022).[26]

[26] Ibid., Blake discusses the importance of "nudges" to encourage appropriate decumulation behaviours as well as the need for good default approaches to decumulation as the majority of individuals will not be able to design their own retirement income program without help.

There are various sources of information available to assist CAP members in thinking through their retirement planning needs such as that provided by the Financial Consumer Agency of Canada.[27] CAPs have been increasingly introducing retirement planning resources to their members but there is no guarantee that plan members will utilize those resources.

Once a picture starts to develop for the monthly after-tax income needs and desires, the individual can then begin to link their income needs to income sources and savings and identify what extra steps they may need to do to get ready for retirement. Many individual CAP members will need or want an independent advisor to help pull the picture together[28]. Retirement planning is complicated, and members should ideally consult an expert[29] earlier rather than later to ensure they adopt a strategy adapted to their needs and reality. However, finding the right expert can also be a complex undertaking in itself. There are several professionals who can work together to help CAP members make the best choices, based on their needs and situation and according to their respective areas of expertise, such as financial planners, accountants and tax and estate specialists.

A financial planner's role is to help define financial goals. They will develop a comprehensive financial plan customized to the needs of each individual (or household) and will consider cash flow budgeting, savings, investments, insurance needs, income taxes and estate planning. In many Canadian provinces, financial planners or advisors are not required to hold specific certifications, and their education, training, experience and qualifications may vary.

It is critically important for CAP members to understand the fees and potential conflicts of interest associated with the services provided. Like most services, fees will vary from one expert to another. It is important for CAP members to consider the level of fees, and also how the planner or advisor's compensation works to ensure that they are offering solutions based on members' best interests and not their own. Fixed or hourly rates favours better alignment to CAP members' interests over commissioned or asset-based type compensation, but the transparency of the compensation (in dollar terms) can help even if the only options available are commissioned or asset-based compensation.

ACPM Recommendation: We recommend that all jurisdictions in Canada implement legislation that defines regulated areas of practice and titles for professionals working in retirement and financial planning; not unlike legislation that exists for legal, accounting and other professionals. Transparency on compensation should also exist.

[27] https://www.canada.ca/en/financial-consumer-agency/services/retirement-planning.html

[28] An argument can be made that individuals routinely make significant and complex financial decisions during their working lives (e.g., purchasing a home with mortgage financing, financing the purchase of vehicles through consumer debt or lease financing, and the like) without the aid of a financial advisor so why would we emphasize the need of an advisor for retirement planning? In the case of a home or vehicle, the decision can be reversed by selling the assets and the consumer very likely remains employed and therefore can recover any losses incurred from a poor decision. In retirement, the decisions being made are arguably more complex, in some cases irreversible, and the consumer is very likely no longer employed and therefore unable to generate employment income to offset losses from a poor retirement income decision.

[29] Unfortunately, there is a multitude of titles used in the marketplace (e.g., licensed advisor, advisor, planner, retirement planner, and so on) which makes it very difficult for plan members to select an expert that to assist them. We applaud the recent changes in several Canadian jurisdictions to define and regulate terms such as "financial planner" and "financial advisor".

Communication Considerations

Communications focused on financial literacy are crucial in assisting CAP members in understanding their retirement income needs and how to meet them. CAP members must manage several risks during retirement: investment risk, inflation risk, longevity risk, risk of errors and cognitive decline. A retirement income-centric financial literacy program built around key milestones would be valuable to CAP members. In the earlier part of a CAP member's career, communication should be focused on building basic knowledge on investment products, on how to maintain purchasing power overtime, as well as building basic budgeting skills. As retirement gets closer, CAP members need to understand financial retirement income vehicles and the benefits of having different sources of income (e.g., flexible income sources and lifetime income sources). Understanding longevity risk and how the use of different sources of income can mitigate this risk is key. An understanding of government retirement income sources and the potential benefits of delaying the start of those income sources in exchange for larger indexed lifetime retirement income is essential, as are the tax consequences of drawing on various retirement income sources. Ultimately, they need to be able to assess their desired level of retirement income at various points in the future.

Poor financial literacy impedes an individual's ability to make informed decisions, navigate a dynamic market, and plan for the future. It may also lead to higher susceptibility to make decisions not in the CAP member's best interest, fraud and financial elder abuse. For example, a CAP member or retiree may choose retirement income products with fees that exceed the value derived from them. In retirement, budgeting is still important, but CAP members also need to consider managing longevity risk, fraud risk, the potential need for long-term care, and any desired legacy. As retired CAP members age, their interest and ability to manage their retirement savings and income may also diminish. It is therefore important for crucial decisions to be made in the earlier years of retirement. For example, choosing a lifetime income for the latter part of retirement, e.g., using an ALDA, could reduce the risk associated with cognitive decline.

ACPM Recommendation: We recommend that CAP sponsors and administrators provide communications and education to assist CAP members in understanding their retirement income needs and how to meet them and that they be adapted to and articulated at key milestones over a CAP member's career[30]. Budgeting skills, basic investment knowledge, financial retirement income vehicles and strategies are some of many subjects that should be included in a financial literacy program for workplace CAP members.

Comprehensive Retirement Data to CAP Members: Bringing All Sources of Retirement Income Together

The Canadian retirement income system is segmented. Government benefits include the CPP/QPP, OAS and Guaranteed Income Supplement (GIS) and there are also additional provincial programs. Employment-based pensions include (DB) pension plans, DC pension plans, shared risk and jointly sponsored pension plans (JSPPs) and target benefit pension plans. Employers may also contribute to DPSPs and/or PRPPs. Individuals and some employers through group arrangements also save in RRSPs and TFSAs.

[30] See ACPM's paper Improving Financial Literacy: A Key Ingredient in Helping Canadians Make Better Financial Choices and Prepare for Retirement, published March 15, 2021, for more discussion on this subject.

Many Canadians will have several employers over their working lives and, therefore, potentially multiple retirement arrangements in which they participate over their working lifetime. Understanding potential retirement income requires estimating the income stream(s) that could be generated from accumulated assets in DC pension plans, RRSPs, DPSPs, PRPPs and TFSAs and combining these with projected income from workplace DB pension plans and government programs. As noted earlier, this is a very difficult exercise for most people. Canadians are currently not able to see all their available sources of retirement income and the estimated aggregate income from all those sources - government benefits, employment-based pensions and retirement income and individual savings. An enabling tool is a critical element to improve Canadians' retirement income.

<u>ACPM Recommendation: Retirement Income Dashboard for Canadians</u>

While the Canadian system does have a great many retirement savings and income vehicles, some other countries grappling with similar circumstances have created a retirement income dashboard to consolidate and track retirement accounts and benefits. Australia, Belgium, Denmark, Israel, the Netherlands, and Sweden already have functioning retirement dashboards. The United Kingdom is working to complete their retirement dashboard and a retirement dashboard is being discussed for the United States. It is time for Canada to begin in earnest to build a dashboard – ideally facilitating the combining of all household retirement income sources – focused on improving the lives of Canadians nearing, and in, retirement.

A starting point for a Canadian retirement dashboard could utilize information available through the Federal government (e.g., CPP, OAS and GIS information available to individuals, ideally by household). As CRA currently has registration details for RRSPs, RRIFs, and TFSAs (but not necessarily all contribution details), at the outset CRA could simply make the information it has accessible to individuals in a format that allows aggregated sources of retirement income. We note that the 2022 Federal Budget included a proposal requiring Canadian financial institutions to annually report to the CRA the total fair market value of each RRSP and RRIF account they hold. If implemented, this proposal will provide CRA with a tremendous cache of key individual data to set up a comprehensive Canadian retirement dashboard. Such a project will require a "champion" in the Federal Government with sufficient allocated time and resources for the design and implementation of a retirement income dashboard.

The information must be well protected and secure to ensure individual Canadians are comfortable utilizing the dashboard. Cybersecurity is one of the significant issues with which many dashboards have struggled and which have resulted in some countries choosing a "live request" model rather than a "central database" model. ACPM does not claim cybersecurity expertise but believes the "live request" approach, if securely implemented, is preferable as it would ensure the most current data is being exposed through the dashboard and does not create a secondary store of that data (e.g., a rich potential target for cyber criminals). This will be a significant undertaking so it should be expected that it be built out iteratively. Iterative releases of dashboard functionality would provide Canadians access to more than they have today.

Ideally, the dashboard should include a tool to convert the RRSP, RRIF and TFSA savings (and any DC and/or non-registered savings balances as noted below) to an estimated annual income based on default assumptions and/or assumptions chosen by the member. There should be default assumptions to at least guide individuals.

Given that the information in this database is already in the Federal government's control it should be possible to create this dashboard without the competing interests of the private sector financial institutions. The U.K. dashboard initiative seems to have been delayed by such interests. The question of the cost of creating such a dashboard would have to be addressed.

The workplace pension entitlements of Canadians would then need to be "added" to the dashboard. It would theoretically be possible to require employers to submit both DB pension and workplace CAP information to the Federal government for inclusion, perhaps from annual statements. The differences in statement requirements across the country may create impediments in this regard. In addition, such a requirement creates constitutional issues[31] and additional burden on workplace pension providers which are impediments to the Canadian dashboard initiative that need to be addressed.

Alternatively, it should be possible to build the dashboard with the capacity for the individual to input the data from their annual pension or CAP statement.[32] The dashboard could also be designed to allow individuals to input on a confidential basis their RRSP, RRIF and TFSA balances plus non-registered savings for the purposes of calculating their aggregate retirement income. The technology should permit this inclusion on a basis that would not provide that information to the Federal government unless the member authorizes such sharing.

Individuals might be concerned about the security of any dashboard containing so much information and also not wish to provide that information to the Federal government. Technological innovations, such as the open banking initiative, should permit members to aggregate their financial data into a comprehensive view while providing them control over who is allowed to see that complete financial picture.

Another potential feature of such a dashboard could be to address the missing members issue by allowing pension plan sponsors to provide the Federal government with notice of individuals (with their SINs) that the sponsor has not been able to locate. The dashboard could include a list of any pension plans that the individual should contact relating to missing pension entitlements.

Finally, the dashboard could include links to retirement planning tools, calculators and relevant educational material as discussed earlier in this paper.

SECTION 5 EMPLOYER/PLAN SPONSOR CONSIDERATIONS

Decumulation is a critical issue for CAP members, since the decisions they make, both at the time they leave the plan and select from the available termination/retirement options as well as throughout their retirement, can have significant impacts on their ability to provide sufficient lifetime retirement income.

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[31] Pension standards and employment standards legislation exists in all jurisdictions in Canada (federal and provincial). Jurisdictional boundaries as laid out in the Canadian Constitution must be respected. The lack of harmonization across jurisdictions presents challenges for plan sponsors and administrators.

[32] The open banking movement in Canada (https://www.obicanada.ca/), which will provide consumers the freedom to securely and conveniently control and share their financial and other data with third-parties, shows great promise here in enabling a mechanism for consumers to create a comprehensive financial picture.

“There is a fundamental fact that whatever you do at the time of decumulation, that decision has twice as much effect on your retirement income than all the things you’ve done until you retire,” said John Por, President of the Decumulation Institute. In fact, he noted, 60 cents [of every dollar] of your retirement income is actually earned *after* you retire.[33]

Is decumulation an area plan sponsors really want to support? With regard to workplace CAP decumulation, many employers do only the minimum required - follow CAPSA Guideline No. 8 which provides guidance on information to provide to members who are approaching retirement and includes options available to the member, any actions the member must take, any deadlines for member action, any default option that may be applied if no action is taken, and the impact that the termination of plan membership will have on each investment option.

Many plan sponsors have delegated these activities to their third-party plan administrators or to selected advisors who may support members in making their elections by providing termination / retirement option packages, hosting “pre-retirement” education sessions, call centre support, outbound call centre support and in the last several years an increasing prevalence of advisory services that include one on one counselling with members. Often, the third-party administrator or advisor will offer a proprietary savings or income product that will accept transfers from the terminating or retiring member that would then be invested in the administrator’s own investment products or investment platforms– often at fees that are preferential to retail levels (incurred if the member transferred their assets to other financial institutions). The potential for conflict of interest in these circumstances – whether real or perceived – is undeniable, and plan sponsors should take measures through their governance processes and monitoring of their service providers to ensure that support provided at the time is impartial and balanced, including the impartiality of advice on questions such as whether to defer CPP / OAS, whether to consider the purchase of a deferred annuity for some portion of retirement income, how to invest and how to structure a reasonable drawdown of assets through retirement.

Some plan sponsors are reluctant to provide retirement income products and services within their plan and have taken a proactive approach, with the support of their third-party administrators, to encourage terminated and retired members to transfer their assets out of the CAP. The offering of decumulation features within a workplace CAP to facilitate the production of a retirement income stream is perceived by many plan sponsors and administrators as potentially involving increased fiduciary risk and administrative burden that would be eliminated or transferred to a third party together with their CAP assets. In addition, some CAP plan sponsors believe that workplace retirement savings plans should be primarily focused on competitiveness during the accumulation period, and therefore may not be inclined to include decumulation options or focus much effort on the retirement income options for members.

There has been some movement in the provision of decumulation options in CAPs. Based on an informal survey conducted earlier this year by LifeWorks Inc. of the top four DC third-party plan administrators in Canada, over 200 plan sponsors today offer some form of sponsored decumulation program (plan sponsored Group LIF/RRIF, acceptance of locked-in transfers from prior employers to allow members to consolidate retirement assets, or the offering of in-plan variable benefit payments) for terminating and retiring members.

[33] https://www.benefitscanada.com/pensions/cap/should-plan-sponsors-help-with-decumulation/

These members may continue to remain invested in the same investment options at competitive fees[34] as applied during their accumulation years and who continue to have the benefit of their sponsor's governance processes, education and communication programs and website and decision support offerings. A couple of examples are as follows:

Example #1: Federally regulated DC Pension Plan – Large Case Illustration

> A variable benefit payment option is provided to enable retiring members to commence a drawdown of assets to support retirement income directly from the pension plan. It is offered alongside other decumulation options, including the traditional transfer of assets to purchase an annuity or to a LIRA or LIF account at a financial institution of the member's choosing. Members selecting the variable benefit payment option continue to have access to the same investments at the same investment management fees enjoyed during the accumulation period.
>
> In deciding to offer a variable benefit option, the plan sponsor believed that it was in the best position to provide unbiased and conflict-free support to its members in making decisions that would impact their retirement incomes. The plan sponsor also believed that all members, including retired members, could benefit positively from the sponsor's rigorous oversight of the investments and negotiation of competitive fees for the program in aggregate.

Example #2: Provincially regulated DC Pension Plan – Small-Mid Case Illustration

> A sponsored Group LIRA/LIF option was implemented to accept the direct transfer of DC Pension Plan assets of terminated/retired members and to facilitate the drawdown of assets to support retirement income. This option is offered alongside other options, including the traditional transfer of assets to purchase an annuity or to a LIRA or LIF account at a financial institution of the member's choosing. Members selecting the plan sponsored Group LIRA/LIF continue to have access to the same investments at the same investment management fees enjoyed during the accumulation period.
>
> Like the Large Case example above, the plan sponsor believed that, by enabling members to continue to be invested in the same funds and at the same fee levels negotiated for the aggregate group, retirement outcomes would be improved and that this aligned with the program objectives to support a retirement income.

Getting back to the earlier question (*Is decumulation an area plan sponsors really want to support?),* ACPM believes that CAP sponsors are realizing that they really do want to support decumulation for a number of compelling reasons:

- In both examples provided above, and for any CAP sponsor who introduces decumulation features, the advantage of an accelerating pool of assets for which fees can be continuously monitored and negotiated offers the advantage of improved retirement outcomes not just for decumulating members, but importantly for accumulating members as well.

[34] Members utilizing in-plan retirement income options typically benefit from lower fees than what is available in the retail marketplace, although those fees may be higher than they incurred while accumulating assets in their working years.

For employers who offer their programs primarily for the purpose of providing retirement income, enabling or facilitating decumulation as part of the design of the program aligns well with that objective, since it can have a greater impact of the retirement income of an employee than all the years of accumulation as already discussed. With their ability to provide improved retirement outcomes for their members, CAP programs that offer managed decumulation features can therefore be a more effective tool for attraction and retention purposes as well as for workforce planning.

- Where employees are delaying retirement, in part because of their financial unpreparedness and in part because of a lack of education and transition support, the delay in retirement can create bottlenecks in the workplace and can limit hiring and upward mobility for younger workers, which can be a competitive disadvantage. In addition to the Human Resources implications of poor workforce morale, there is a real cost impact as those nearing retirement typically earn higher wages and incur more expensive benefit costs such as health care. There is an argument that by enhancing the decumulation phase, therefore, an employer can improve employee morale and engagement, lower costs and become a more attractive place to work as the retirement plan comes to be appreciated as a program delivering retirement pension income rather than an "accumulation" program. A "good exit" is also important to morale in a business and protects fiduciary obligations.

- Alternatively, employers who are impacted by labour shortages, as many Canadian organizations are today, can use their plan decumulation features as a tool to attract and retain older employees critical to the effective operation of the business. Much research is conducted annually measuring the negative health and efficiency effects of financial stress.[35] Employers demonstrating to their employees their concern for a good retirement outcome by providing decumulation options can help to mitigate employee financial stress.

- Many CAP sponsors offering decumulation features today believe that their fiduciary obligations are being better managed than without them as improved outcomes in retirement are aligned with their CAP's purpose to support retirement savings and are arguably in their members' best interests. Governance processes relied upon to discharge fiduciary duty over accumulating assets are highly leverageable over decumulating assets and many sponsors are comfortable and confident that plans that are well governed – in both accumulation and decumulation phases – produce better results for their members. Many CAP sponsors nonetheless are concerned with the obligations, fiduciary and otherwise, that they would be undertaking in providing for decumulation.

As the competitive landscape for decumulation features begins to evolve and these are embraced by more and more plan sponsors as being in the best interests of CAP members, sponsors are looking for more guidance on how to govern them and manage their fiduciary obligations.

[35] One example is the Financial Stress Index published annually by FP Canada (2021 version: https://fpcanada.ca/docs/default-source/default-document-library/2021-financial-stress-index-white-paper.pdf).

For those who may see their programs' purpose more aligned with capital accumulation objectives, but who may still want an alternative option for terminated CAP members and retirees to improve retirement outcomes, there are other pooled arrangements that could be considered. A widely accessible retirement income option that allows for the consolidation of retirement savings such as that being proposed in this paper (and by others in the industry) would go a long way to resolving the complexities identified above for employers and sponsors.

SECTION 6 REGULATORY / LEGISLATIVE CONSIDERATIONS

ACPM continues to view harmonization of pension standards legislation across jurisdictions as vital; and increasingly so given the issues for CAP members, plan sponsors and administrators, and their service providers, noted throughout this paper. In addition, given that the primary responsibility each Canadian CAP member has for their own financial security in retirement, it is important that the regulatory environment be kept as simple as possible to enable everyday Canadians to simplify the challenging task of transitioning their retirement savings into retirement income.

In this section, we summarize a number of current regulatory, legislative, and administrative complexities[36] that are borne by CAP members and their plan sponsors/administrators. In addition, we provide comments on numerous principles for consideration to help get decumulation "right" in Canada.

Simplicity is the Greatest Virtue

Canadians want to be able to retire with dignity and enjoy their retirement. They also wish to be treated the same as their neighbor, regardless of which vehicle they are using to fund their retirement. What should be a joyous time sometimes ends up being one that is frustrated by rules that differ between sources of income and from one jurisdiction to the next. The unfortunate reality is that many CAP members approaching retirement need to understand a myriad of complex rules to make truly informed retirement income choices. As discussed earlier, qualified and objective advisors can be valuable resources in helping CAP members ensure their retirement income choices will support their goals in retirement.

With a Canadian workforce that is increasingly mobile, individuals moving from one province to another (which can mean one pension and employment legislative jurisdiction to another), it is imperative that rules impacting CAP decumulation do not create unnecessary barriers to members enjoying their retirement. The increasingly complex legislative environment should be simplified, making it easier for individuals to understand, while also keeping the costs of administering CAPs at a fair level. Complexity equals additional costs, which equal less funds for a CAP member to utilize for their retirement goals.

Caveat Emptor

CAP members have significant responsibility for making the most of their retirement assets. Yet, as noted earlier in this paper, most do not have the financial acumen required to effectively navigate the labyrinth of applicable legislation(s), nor make the required effective investment decisions.

[36] Appendix B provides more detailed coverage of these complexities.

Both CAPSA Guideline No. 3 (Guidelines for Capital Accumulation Plans) and No. 8 (Defined Contribution Pension Plans Guideline)[37] detail significant responsibilities for both the CAP administrator/sponsor and CAP member when it comes to retirement.

Regulatory guidelines and industry best practices, viewed through an accumulation lens, have had the benefit of many years of practice, research, and iterative review. While the guidelines continue to be regularly reviewed and improved, they are generally viewed by the retirement industry as sound and effective best practices in operating CAPs. When viewed through a decumulation lens, the same assessment cannot be made. ACPM supports the maintenance of the current regulatory regime for CAP members prior to retirement, but upon retirement (or the initiation of retirement income, if it is later than retirement), the rules should be simplified and harmonized across the country. This would simplify the decumulation process for CAP members, sponsors, administrators, and record-keepers as well as pension regulators. One regulatory body could govern the rules, or each regulator could continue to govern based on a harmonized legislative environment. This would introduce the added benefit of keeping CAP administration costs lower and contribute to better financial outcomes for CAP members in retirement.

Learning from the Current Landscape

The following table is not intended to be exhaustive, but rather demonstrative of the types of problems caused by the lack of full harmonization of pension legislation across the country. These problems add to the complexity for CAP members and can add cost to the administration of CAPs which are also borne by CAP members, both of which lead to sub-optimal outcomes for CAP retirees.

Area of complexity / lack of harmonization	**Description / Recommendations**
Eligibility	An individual no longer working on a full-time basis should be able to commence retirement income under their DC pension plan, provided they have met the minimum age requirement to “retire” under their plan. A spouse of a deceased DC pension plan member who is entitled to a death benefit under the pension plan should be able to elect to roll into a retirement income product.
Spousal Consideration	If a DC pension plan member who has a spouse chooses a retirement income product other than a life annuity, the spouse must waive their right to a survivor pension upon the member’s death. The forms required and the timing of when the forms must be executed vary by jurisdiction.
Consolidation of assets can make them subject to pension legislation	Members consolidating non-pension assets (e.g., RRSP, DPSP) with pension funds may risk making the non-pension assets subject to restrictions under the pension standards legislation.
Phased Retirement	Where it is acceptable to the employer, DC pension plan members may take advantage of phased retirement whereby they continue to work at less than full-time and begin receiving retirement income, while eventually easing into full retirement.

[37] Both guidelines referenced here are accessible at CAPSA’s website: https://www.capsa-acor.org/GuidelinesforIndustry.

	If they continue to participate in a DC pension plan that requires them to contribute on their pensionable earnings, there can be a significant administrative burden to ensure compliance.
Rehire Provisions	Members who choose or are forced to retire and begin drawing retirement income from their DC pension plan, but later return to work should be allowed to stop retirement income payments and once again contribute to the DC pension plan.
Funds Transfer In / Out of CAP	In the case of CAP retirement income products that are not irreversible (e.g., not life annuities, VPLAs, etc.), DC pension plans should be able to develop their own rules regarding permitting transfers in / out of the plan (subject to locking in / unlocking provisions).
Unlocking	Many jurisdictions allow unlocking of retirement assets but the conditions are not consistent across jurisdictions.
Payments from Variable Benefits Accounts	There is consistency of minimum payments with RRIF/LIF accounts (set by the ITA) but there is not consistency on maximums.
Disposition of Death Benefits	There is not consistency of options for disposition of a death benefit to a spouse of a deceased plan member across jurisdictions.

<u>Taxation Disparities between DB pension plans and CAPs</u>

Retiring CAP members are currently subject to different tax treatment than those retiring from DB pension plans. It is our view that this discrepancy is problematic and inequitable. Currently a retiree of any age in receipt of income from a DB pension plan is allowed to income split with their spouse for tax purposes, and they are eligible for the pension income credit. Unfortunately, these opportunities do not apply to individuals retiring from CAPs, such as DC pension plans (e.g. variable benefits) and Group RRSPs, until they attain age 65, unless they opt to purchase an immediate life annuity, which for many reasons may be undesirable. Individuals may opt to retire prior to age 65 for numerous reasons (including special circumstances like COVID-related business closures in the member's specific circumstance). The taxation of retirement income should not differ based on the type of pension plan or retirement income vehicle. Life annuities alone (where income splitting and access to the pension credit are available) do not provide the flexibility that CAP members may want or need to effectively manage their retirement assets.

ACPM Recommendation: The inability to income split and access the pension credit for retirees under the age of 65 should be addressed to ensure there is equity across all types of retirement income options.

<u>Pension Legislation</u>

In addition to the complexities noted above, the lack of harmonization of pension standards legislation across the various jurisdictions in Canada also creates complexity in determining how best to decumulate retirement assets. It is difficult to justify that Canadians retiring in one jurisdiction in Canada have uniquely different retirement income needs than Canadians retiring in another jurisdiction in Canada.

Further exacerbating this issue is the fact that Canadian workers are mobile, will typically work for several employers in their lifetime, and will accumulate retirement assets governed under different jurisdictional legislation. This makes an already complicated planning and decision process even more precarious.

Besides the challenging planning and decision environment this creates for plan members, it also adds unneeded cost to the administration of the plan. Those cost are ultimately borne by the plan members negatively impacting their financial outcome in retirement.

Get it Right From the Start

With the advent of new decumulation products such as VPLA and ALDA, legislators and regulators nationwide have the opportunity to introduce changes to the legislation in a manner that is consistent across the country. This will ensure all Canadian CAP members can benefit from these product innovations equitably and for those CAP members who accumulated retirement assets in multiple jurisdictions during their working years, it will mean a significant reduction in complexity.

For industry stakeholders who do not regularly work across jurisdictional boundaries, it may be difficult to appreciate the level of complexity created by non-harmonized legislation and rules for plan sponsors and administrators, and, perhaps more importantly, for plan members. As new decumulation products, services, guidelines and best practices are developed, it is important to use the opportunity to improve harmonization so that all Canadians can benefit from these innovations equally.

ACPM Recommendation: At retirement, CAP members should be allowed to choose a "jurisdiction of final destination" for their retirement assets so that they have one set of legislative/regulatory rules to understand to manage the transition of their retirement assets to retirement income. This would provide the ability for all Canadian retirees with CAP assets to be treated equitably, facilitate the simple consolidation of their retirement assets for ease of planning and ongoing management, and reduce the administrative burden on record keepers leading to cost efficiencies which ultimately benefit the individual member. This change would create a *de facto* harmonized environment in retirement as members would choose the single jurisdictional rules that would apply to their assets.

Advantage: PRPP

The federal PRPP regime came into force in December 2012. While there was much fanfare prior to the introduction of PRPPs, they have not proven to be a popular option for plan sponsors and have been criticized as costly, ineffective and administratively burdensome by some industry practitioners and service providers. ***It is our view that the product concept is sound; it is its execution that has proven problematic.***

The Federal PRPP Act and Regulation contain significant responsibilities for an employer[38]. Our understanding is that the PRPP Act and Regulations could be amended to move the employer functions to the PRPP administrator, thereby allowing participation by members without any employer involvement. This would be an important step in widening the access of PRPPs as employers have not shown an interest in joining a PRPP. This would also allow every Canadian the opportunity to participate in a pension plan, regardless of whether their employer sponsors one. More importantly, it could provide a cost-effective bundler of all deferred tax savings from participation in prior employer-sponsored programs as well as personal savings.

[38] For example, in the Act sections 18,19,27-34,39-42,57,60 and 75 and in the Regulations section 22, 25, 28, 31 and 32.

We would note that several provinces have entered into an agreement with the federal government intended to streamline the regulation and supervision of PRPPs across Canada called the *Multilateral Agreement Respecting Pooled Registered Pension Plans and Voluntary Retirement Saving Plans* (PRPP MLA). Under the PRPP MLA, federally registered PRPPs that include members from provinces party to the PRPP MLA are subject to provisions of federal PRPP legislation for most aspects of their operation and to the provincial PRPP legislation for certain matters related specifically to provinces.[39]

Amendments to PRPP legislation to increase the number of Canadians who can use this vehicle would be helpful to improve the decumulation options available to Canadians. Removing the requirement to have an employer participate would be an important amendment to the PRPP legislation.

There is also some uncertainty in the PRPP legislation about whether it can be used only in the decumulation phase. This should be clearly permitted. It should not be necessary to accumulate in a PRPP in order to be able to decumulate in a PRPP, including through a VPLA or VB retirement income options. The PRPP amendments should also address this issue by allowing PRPP providers to offer decumulation-only products in addition to accumulation PRPPs (which may or may not include a VPLA option).

A number of regulatory compliance requirements for PRPPs contribute to additional administrative burden and associated costs. Reducing unnecessary administrative requirements, while still ensuring the PRPPs are prudently administered will benefit both providers and the participants, who ultimately bear the administrative costs.

ACPM Recommendation: Legislative changes need to be made to PRPP legislation to eliminate the requirement for employer participation, allow for the possibility of decumulation-only PRPPs, and reduce the administrative burden and associated costs. This will allow all Canadians who have earned employment income to: a) participate in a pension plan, b) to aggregate their deferred-tax retirement savings (DC, RRSP, RRIF, LIF, DPSP, etc.), and c) have access to coherent and well-managed retirement income options.

SECTION 7 NEXT STEPS

It is time to seize the opportunity we have before us to significantly improve decumulation products and the related regulatory / legislative environment in Canada. Significant progress has been (and is being) made, such as the changes to the ITA to accommodate VPLAs and ALDAs, but there remains much more work to do.

ACPM articulates the following calls to action that we believe are imperative if Canadian CAP participants are to achieve adequate and sustainable retirement incomes through the availability of appropriate decumulation products and services:

[39] While the MLA is a step forward with respect to harmonizing PRPP legislation, it does not eliminate the need to adhere to both Federal and provincial PRPP legislations (https://www.osfi-bsif.gc.ca/Eng/pp-rr/ppa-rra/prpp-rpac/Pages/marprpp2017.aspx).

1. **Create a Dashboard Providing Clear and Complete Picture of All Individual Retirement Income Sources**.
   Canadians approaching and in retirement need a comprehensive tool that presents their sources of retirement income simply and understandably. Understanding potential retirement income requires estimating the income stream(s) that could be generated from accumulated assets in their various capital accumulation (such as DC pension plans, registered retirement savings plans (RRSPs), Deferred Profit Sharing Plans (DPSPs), Pooled Retirement Pension Plans (PRPPs) and Tax Free Savings Accounts (TFSAs)) and combining these with projected retirement income from workplace DB pension plans and government programs. This is a very challenging exercise for most people. Canadians are currently not able to see all their available sources of retirement income and the estimated aggregate income from all those sources - government benefits, employment-based pensions and retirement income and individual savings. An enabling tool is a critical element of improving Canadians' retirement income. Australia, Belgium, Denmark, Israel, The Netherlands, and Sweden already have functioning retirement dashboards to consolidate and track retirement accounts and benefits of their citizens. ACPM recommends that a Canadian retirement dashboard be created utilizing individual retirement information available through the Federal government and the Canada Revenue Agency (CRA).

2. **Provide Regulatory Guidance on Computer-Based Retirement Income Modeling Tools for CAP Members.**
   While the retirement industry provides modelling tools that provide good decision support for CAP members during the enrolment and accumulation phase, there is a growing need for the development of robust modelling tools to support and guide decision making for CAP members who are exiting their CAP (or starting retirement income from within their plan) and throughout the retirement income phase. It is not a trivial exercise to plan and design retirement income that successfully combines periodic, predictable lifetime income needs with less predictable lifestyle spending needs and wants. CAP members and retirees need guidance to structure their government and workplace pensions, and other retirement savings and assets to effectively solve their personal retirement income puzzle. Post-retirement computer-based financial planning modelling tools help to put these pieces together to understand and evaluate alternative options and strategies to achieve the desired decumulation income stream. ACPM recommends that Canada's pension regulators provide industry guidance that directs CAP sponsors and providers to make available to their members modelling tools with certain best practice attributes (as set out later in this paper) to assist them with managing CAP decumulation. Such tools should also allow for CAP members to develop retirement income investment plans with investment strategies for each portion of the member's stream of income and their risk tolerance, as well as the contingency strategies that can be put in place to mitigate stress scenarios.

3. **Provide Canadians Access to Unbiased Advice**.
   People who work with advisors tend to manage their wealth more effectively than those who do not. Canadians need access to qualified, objective advice with transparent fee disclosure. ACPM recommends that all jurisdictions in Canada implement legislation that defines regulated areas of practice and titles for professionals working in retirement and financial planning; not unlike legislation that exists for legal, accounting and other professionals. Transparency on compensation should also exist.

4. **Make Legislative Changes to Simplify the Decumulation Phase and Enable Effective Decumulation Solutions.**
   Legislative changes are needed to facilitate and simplify decumulation of CAP assets. Due to increased labour mobility in Canada, CAP members are increasingly accumulating retirement assets and pensions in multiple Canadian pension jurisdictions. The complexity of the different pension regulations applicable to these CAP assets are impeding CAP sponsors and their providers from offering effective decumulation solutions to CAP members and retirees. In this regard, ACPM makes the following recommendations to pension policymakers for changes to Canadian pension and tax legislation:

   - Permit DC pension plan retirees to elect a common set of pension standards rules to apply to all their DC pension plan account assets, such as the province of residence at retirement (a "jurisdiction of final destination"), or the federal (*Pension Benefits Standards Act, 1985*) rules;

   - Permit unlocking (where unlocking provisions exist) of Variable Benefit Payments (VB);

   - Where applicable pension standards legislation does not allow a one-time 50% unlocking of DC pension plan accounts, permit a withdrawal of an annual "bridge income amount" equal to the annual maximum Canada/Quebec Pension Plan (CPP / QPP) plus Old Age Security (OAS) benefit each year until age 70; and

   - Permit pension income splitting on retirement income received prior to age 65 from DC pension plan Variable Benefits Payments, all DC annuity payments, VPLA, RRIF income and LIFs (i.e., funds that originated from an RPP).

5. **Provide Regulatory Guidance on Duties Relating To Offering Decumulation Options.**
   As the competitive landscape for decumulation features begins to evolve and these are embraced by more and more plan sponsors as being in the best interests of their CAP plan members, CAP plan sponsors and administrators are looking for more guidance on how to govern them and manage their applicable obligations. ACPM recommends that industry decumulation regulatory guidelines be developed to clarify how CAP plan sponsors and administrators can manage duties associated with offering group decumulation options (e.g., VB, Group LIF/RRIF, VPLA).

6. **Resuscitate the PRPP as an Effective Decumulation Vehicle.**
   While PRPPs have not proven to be a popular option for plan sponsors sine they were introduced in 2012 and have been criticized as costly, ineffective and administratively burdensome by some industry practitioners and service provider, it is ACPM's view that the product concept as a pooling vehicle is sound. ACPM recommends legislative changes to be made to PRPP legislation to eliminate the requirement for employer participation, allow for the possibility of decumulation-only PRPPs, and reduce the administrative burden and costs associated with PRPPs.

   These changes will allow all Canadians who have earned employment income to: i) participate in a pension plan, ii) to aggregate their deferred-tax retirement savings (DC, RRSP, RRIF, LIF, DPSP, etc.), and iii) have access to coherent and well-managed retirement income options.

In ACPM's view, the focus for policymakers should be on providing CAP members and all Canadians with easy access to PRPPs or similar vehicles to collate retirement savings and the purchasing of VB and VPLA products.

Creating current and future generations of financially secure and independent retirees is an important Canadian policy objective. Retirees who are confident in their financial security will spend more benefitting the whole economy and financially secure retirees will reduce the strain on public benefits including OAS, GIS, and other allowances. We believe the fulfillment of the calls to action presented above will significantly assist in achieving that objective. ACPM is looking forward to working with all interested stakeholders to advance the recommendations described within this paper to continue to build and improve the Canadian retirement income system.

ACPM would like to acknowledge the Decumulation 2.0 subcommittee who dedicated themselves to the completion of this important paper.

Decumulation 2.0 Committee
Chair, Martin McInnis, *CSS Pension Plan*
Todd Saulnier, *Mercer*
Susan Nickerson, *Torys LLP*
Kathy Bush, *Blakes LLP*
Roz Gilbert, *Aon*
Marianne Assaf, *Normandin Beaudry*
Michelle Loder, *Morneau Shepell*
James Ralko, *Eckler*
Vincent Houle, *Linea Solutions*
John Hallett (dec.), *Sun Life*

APPENDIX A – SUMMARY FEATURES OF VPLA AND ALDA

Key features of the Variable Payment Life Annuity (VPLA):

- VPLAs can only be acquired with CAP assets accumulated in a registered pension plan (RPP) or a Pooled Retirement Pension Plans (PRPP), and not with accumulated RRSP, RRIF or other CAP assets;
- VPLAs can only be paid from a VPLA fund so CAP members must transfer assets in from their CAP accounts;
- Benefits are increased or decreased to the extent the rate of return on the fund and/or the mortality experience of members and beneficiaries differs from the actuarial assumptions;
- Indexing provisions can be CPI-linked (linked to the consumer price index) or a specified rate, with some parameters; and
- VPLA wind up provisions are yet to be articulated.

Pension standards legislation in each jurisdiction will need to be amended to accommodate VPLAs. CAPSA has set up a working group with Canadian pension regulators regarding the development of the proposed VPLA legislation that will be required.

Summary of features of the Advanced Lifetime Deferred Annuity (ALDA) include:

- ALDAs will permit retirement income payments to begin after age 71 up to 85 years of age, and will be a qualifying annuity purchase under a CAP;
- Unlike VPLAs, ALDAs will be available under a wide range of registered plans, such as RRSPs and RRIFs;
- CAP members will be subject to a lifetime limit of 25% of the value of all the property held in the CAP at the end of the previous year and any amounts from the CAP used to purchase ALDAs in previous years; and,
- The lifetime dollar limit of an ALDA from all CAPs held by the individual will be $150,000 indexed to inflation after 2020.

Regulatory / Legislative Considerations – VPLAs
VPLA Legislation Requirements

The Variable Payment Life Annuity (VPLA) is a new feature permitted under the Income Tax Act but is not a new concept.

The ITA historically allowed registered plans to pay annuities (without differentiating between level and variable annuities) but this was no longer permitted after March 1988. Plans already providing such annuities were allowed to continue, notably the UBC Faculty Pension Plan.

Looking back even further, Group Annuity products were the primary means of funding pension plans in the early days. These pension products were provided via life insurance companies and, like a VPLA, many had a feature called Experience Rating credits, which provided periodic bump ups in the benefit. The Experience Rating credits were based on the difference between mortality assumptions and actual mortality experience. It also considered reserve releases, which were based on the difference between actual investment gains over assumed returns.

We believe that any minimum standards legislative requirements should not be unnecessarily onerous. VPLAs will permit pension payments to increase or decrease based on the underlying experience of the members in the particular VPLA pool. This is similar to the risk pooling in Defined Benefit plans, but under the VPLA, it would be applicable only to individuals who are in receipt of pension payments and there would be no impact on active plan members.

Plans offering a legacy VPLA benefit could be exempt from new minimum standards legislation and related regulatory reporting. Rather, these plans would follow their existing processes and we believe this only affects three plans nationally.

Additional Information and Details on ACPM Recommendations:

Federal Perspective

- Add the ability to offer VPLAs to members of all employer-sponsored retirement savings programs, i.e. Group RRSPs, DPSPs, Group TFSAs etc.
- Offer this program on a Collective Basis (i.e. a plan that covers multiple employers/plan sponsors and their members), to avoid restricting the availability to only large DC pension plan sponsors.
- Allow VPLA programs to not adjust pension payments every year for the initial three-year period to allow for growth of member population to scale and allow them to maintain a reserve (TBD for maximum amount/percentage) to avoid decreases in the pension amounts in pay in the initial years after launch. We would propose plans must adjust pensions within 3 years of launch and then annually thereafter.

Modified Cash Refund

One change we would recommend to the Income Tax Act and its Regulations is to amend the current maximum guarantee for a pension. Clause 8503(2)(c)(i)(B) permits a 15-year guarantee when retirement benefits, permissible under paragraph 8503(2)(d). We would like this provision to include an additional maximum of a return of the remaining single premium or member's account balance, sometimes referred to a modified cash refund, for pensions purchased directly from a DC pension plan or under the new VPLA. Specifically, allow a member to purchase an annuity with a modified cash refund as a death benefit option like the death benefit you can purchase with an annuity from an RRSP or LIRA contact.

This will eliminate financial planners and insurance brokers from transferring funds from the DC pension plan to a LIRA and then subsequently purchasing the modified cash refund annuity. It would provide the ability for retired members to income split the annuity purchased from a DC pension plan prior to age 65 since an annuity purchased with an account from a LIRA prior to age 65 would not qualify until age 65.

It has become more prevalent over the past years with lower bond rates since the amount of pension purchased with an annuity with a guaranteed 15-year death benefit from a DC pension plan does not provide for a minimum payment of their total DC account balance. This further deters members from even looking at the annuity option at retirement.

This change would hopefully promote DC members to look at the possibility of using all or a portion of their DC account balance to purchase secured annuity either directly with a life insurance company or under the new VLPA/ALDA (note this issue may not be as prevalent with VLPAs since the interest rates used to purchase these annuities might be higher than the insurance market).

Provincial and OSFI level

- Keep the regulations surrounding these programs at a minimum, and focus them on governance and member disclosure.

- The regulations should be structured in such a way they can accommodate an individual who wishes to use a Variable Benefit, or similar product and a VPLA – keep disclosure in one document.

- If a Plan Sponsor wishes to sponsor their own VPLA or make a Collective Arrangement available as an alternative, they must stipulate this is an option available to plan members within their Plan Document.

- Any VPLA a plan member is considering must provide specific details on the provisions, including, but not limited to:

    - Eligibility Requirements (minimum age should equal earliest retirement date within the Plan they are retiring from);
    - Spouse's Rights;
    - Standard Spousal Waiver form, in the event someone takes an annuity with survivor benefits lower than the legislative requirement – ideally, this could be combined with the same form required for a VB or like-minded product;
    - Annuity Interest Rate Assumptions;
    - Annuity Options Available (J&S, Life with Guarantee periods, etc).
    - Frequency of review for adjustments to pension amounts
    - Investment Fund(s) used to support this plan
    - The minimum account balance needed to be transferred to the VPLA option.
    - Ability to have monies subject to and not subject to locking in requirements

    - Once selection of a VPLA amount is made it is final (although some providers may wish to provide a grace period).
    - Frequency of pension payments
    - Means of pension payments (electronic would be the preference)
    - Payments cannot be stopped or added to, additional funds transferred in would be treated as new monies;
    - Death benefit would be based on the option selected by the Plan Member at retirement.
    - Provisions on marriage breakdown……
    - Fees, and conditions on the changes in those fees

- For annual disclosure to the Plan Member this should be quite simple and needs to show the following information:

    - DCPP or PRPP name and registration number or Collective Plan name and registration number;
    - Plan Member Name;
    - Plan Member Date of Birth;
    - Statement Period;
    - Current Pension Amount;
    - Calculation of the change
    - Recalculated Pension Amount and effective date of new amount;
    - Spouse or beneficiary, if no spouse, or spouse waived their rights; and
    - Date of next review

APPENDIX B – COMPLEXITIES CREATED THROUGH LACK OF HARMONIZATION

This appendix provides further details on current regulatory, legislative, and administrative complexities summarized in the paper.

Eligibility
An individual who is no longer working for their employer on a full-time basis should be able to commence retirement income under their workplace Capital Accumulation Plan, provided they have met the minimum age requirement to "retire" under their plan. This would facilitate the ability to ease into retirement, while still actively working in some capacity.
If a spouse of a deceased CAP member is receiving a death benefit under the plan, that individual should be able to elect to roll that money into a retirement income product

Spousal Consideration
If a plan member elects to utilize some form of drawdown product (other than a life annuity), the spouse must waive their right to a survivor pension upon the member's death. This should be the standard and only form required at retirement, regardless of jurisdiction. The spouse would be deemed to be the beneficiary of the remaining proceeds, unless they sign a waiver at retirement waiving their rights to continue the plan, in which case the plan member may designate other individuals as the beneficiary of their account. Both items, if applicable, should take place at retirement and once set should not be changed.

Not Locked-In Funds
Since many plan members wish to consolidate their retirement assets at retirement, and receive payments from one source, a plan member should be able to do this and still have the ability to have those funds not subject to pension legislation (i.e., RRSP assets, DPSP assets, voluntary contributions within a RPP). A plan member should not need to utilize several different products to enjoy their retirement, simply due to different legislative requirements.
Phased Retirement
As indicated in the section on Eligibility, a plan member should be able to phase into retirement while still continuing to work in a reduced capacity. This allows them to reduce their working hours, try out the concept of retirement and determine when they will retire completely. If they participate in a workplace plan that requires them to contribute on their "pensionable earnings" these amounts must be kept in a separate account from their assets where they are drawing retirement income. There may be circumstances where a plan member may not need to draw on their accumulated retirement savings even under a reduced work schedule and can continue to have these assets grow and further secure their future retirement.
Rehire Provisions
Unfortunately, sometimes individuals have their retirement date decided for them due to circumstances beyond their control. During the COVID-19 pandemic, this occurred where individuals saw their place of business close or the elimination of their job. These individuals may have started to draw retirement income to meet their income needs but are still hopeful of returning to the workforce. In these circumstances, individuals who return to work should be able to stop their retirement income payments and recommence contributing to their retirement nest egg.

Transfers in and Out
Each plan should be able to develop their own rules to permit transfers in and out of their decumulation products. This should permit the plan member the maximum flexibility to find the solution that works best for them

As previously stated, quite often plan members wish to consolidate their assets at retirement by moving other registered assets into their decumulation product. This would include RPP, RRSP, DPSP, RRIF, LIF, PRRIF, PRPP, VB, LIRA etc.

The same would hold true for Transfers Out, with the exception that monies subject to locking in requirements must continue to be subject to locking in rules, i.e., RPP assets cannot be transferred to a non locked-in RRSP.

Unlocking
Many provinces permit plan members to unlock all or a portion of their locked-in retirement savings, but no common standard exists.

We propose that all decumulation solutions permit an amount up to 50% can be unlocked and that those monies can remain in the plan but are now in the not locked-in bucket. This provides the maximum flexibility to the plan member, who may have specific needs in retirement that current maximum amounts do not permit. This is consistent with ACPM's previous position on Locking-In of RPPs, as published on June 27, 2018.

In addition, we propose that plan members be allowed to select this unlocking on a one-time basis, which could occur at retirement from their employment or when they set up their decumulation option. This would simplify the administration process.

Payments from VB
The minimum (LIF/RRIF) payment amounts as set by the Income Tax Act should be continued, but when we come to the maximums these should be harmonized across all jurisdictions, just like the minimum amounts.

We would propose the maximum amount be determined as the greater of:

- the return on the assets in the prior year, or
- a calculated amount based on the account value divided by the CANSIM Series V-122487 rate as published in November of the prior year.

An alternative to this would be to permit the use of final destination rules to determine the maximums payable under the plan.

Death Benefits
In the event of the death of member, the death benefit would be equal to the remaining account balance. If the spouse is the beneficiary, they can select any of the following options:

- Continue the plan under their name
- Transfer to another Registered Vehicle, splitting the account between Locked-In and Not Locked-In
- Cash and pay the appropriate withholding tax

If the beneficiary is not the spouse, the only option available to the beneficiary should be to receive a cash payment and pay the appropriate withholding tax.

Upon the death of a member, a statement is issued to the spouse/beneficiary, outlining the options available to them. The statement at a minimum includes the following:

- DCPP Name and registration number
- Plan Member Name
- Plan Member Date of Birth
- Plan Member Date of Death
- Statement Period – January 1st to statement period
- Spouse or beneficiary, if no spouse, or spouse waived their rights
- Account Transactions (should be split between Locked-In and Not Locked-In accounts)
  - Balance at Beginning of Year
  - Transfers into plan during year
  - Payments to plan member during year
  - Transfers out of plan during year
  - Investment Earnings during year
  - Fees charged by type
  - Closing Balance at End of year
- Options available to the spouse/beneficiary
- Timelines for completing the information and informing the administrator.

Payment Frequency or Amount Changes

The payment frequency should not be restricted and plan members should be permitted to set their own payment frequency, subject to the Plan Rules, but must be at least annually. The default option should be set to monthly.

The plan member must have the option to change their frequency or amount periodically, with restrictions so that they do not change these items with a frequency that becomes costly (as defined by the plan). In all cases, the minimums and maximums are applicable.

For variable benefits, the individual should not have to change their payment annually. In the absence of an annual election, the scheduled amount (exclude lump sum payments) from the prior year would continue to be paid, subject to any legislated changes in the minimum and/or maximum limits.

Actions by Members

The Annual Statement that each plan member must receive should include information showing the amount to be paid during the year and frequency, together with any minimum or maximum amount that may be payable.

This will ensure that the plan member is aware of the total amount that they are scheduled to receive, and the maximum amount that they can receive. If the calculation of the amount is based on the spouse's date of birth, this should also be indicated on the statement.

The member must designate the investment of the funds, plus from which funds the payments are made (can be multiple funds with stated allocation between each).

Annual Statement
The standard requirements for a statement would include the following:

- DCPP Name and registration number
- Plan Member Name
- Plan Member Date of Birth
- Statement Period – should be on a calendar basis
- Entry Date into plan
- Spouse or beneficiary, if no spouse, or spouse waived their rights
- Account Transactions (should be split between Locked-In and Not Locked-In accounts)
    - Balance at Beginning of Year
    - Transfers into plan during year
    - Payments to plan member during year
    - Transfers out of plan during year
    - Investment Earnings during year
    - Fees charged by type
    - Closing Balance at End of year

In addition to this statement, the plan member should also receive the statement outlined in Actions by Member, which should include:

- Payments scheduled in Prior Year
- Frequency of Payments
- Minimum Payment for current year
- Maximum Payment for current year
- Date of Birth used for calculating the payment amounts

In addition, the administrator must be able to produce a statement showing the plan member the length of time their money will last based on their current withdrawal pattern, assuming the plan member's current investment instructions as well.

Ontario Initial Statement
We do not believe this statement is required, as it should be incorporated as part of both of the following items:

1. Retirement Option Letter provided by the plan, showing the details of any decumulation options that the plan has and the details associated with each; or

2. A Welcome Package that the plan member receives to determine if they wish to join the specified decumulation option.

These packages should include, at a minimum, the following details:

- Name of Plan/Product
- Spouse's Rights
    - Ability to maintain plan upon death of member;
    - Waiver to move into decumulation plan;
    - Waiver to waive spousal rights to a beneficiary designated by the plan member.
- Investment Options Available
- Fees associated with plan, including Investment Options
- Dates and Method of Payments
- Plan Member's Responsibilities
    - Setting/Changing Payment Frequency
    - Setting/Changing Payment Amounts
    - Setting Age to be used for payments (spouse or their own)
    - Ability to unlock up to 50% of amount (and any deadline associated with this)
- Upon set up confirm the following:
    - Amounts transferred – split by locked-in and not locked-in
    - Desired payment amount in first year
    - Confirm Spouse/Beneficiary designation
    - Confirm Age used for calculating payments.
    - Confirm amount to be unlocked, if any.