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March 19, 2012

CONSULTATION LETTER ON PRPP

The Honourable Ted Menzies,
Minister of State (Finance)
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Dear Mr. Menzies,

Financial Executives International Canada (FEI Canada) is a professional association of senior financial executives, with 2,000 members in eleven chapters across Canada. Membership is generally restricted to senior financial officers of medium to large corporations, as well as senior financial officers in public sector organizations.

We would like to thank the government for the opportunity to participate in the consultation on Pooled Registered Pension Plans (PRPPs). We support the efforts of the government in taking steps to address pension reform and the retirement funding issues that stem from our country's aging demographics, lack of personal financial retirement planning, and the affordability of funding future generations of retirees.

We submit for your consideration, the following comments that may provide alternative insights to the implementation of effective and efficient solutions to these key issues:

A. Pooled Registered Pension Plan (PRPP)
B. Alternative solution – a suggestion
C. Clarity and direction of pension reform

A. Pooled Registered Pension Plan (PRPP)

We understand the need to provide a means for Canadians who do not otherwise have a group tax deferred vehicle to save for their retirement. However we question whether the PRPP legislation is sufficient or appropriate to accomplish this objective.

The government has done a good job to date by providing a variety of savings vehicles already in place CPP, RRSP and TFSA. The proposed PRPP enabling legislation and subsequent regulations should address a number of major issues which are likely to have unintended consequences that are highlighted when they are compared to current employer sponsored plans.

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A key benefit in the creation of the PRPPs is the assumption that fees paid by a PRPP in the form of investment management fees, record keeping, and financial advice would be significantly lower. We are not sure how this will be accomplished, as it appears that the financial institutions would take on a greater responsibility along with more risk. It appears that the intention is to have financial institutions assume the role of administrator, i.e. the fiduciary responsibilities and risks that were previously assumed by the sponsors. Any increase in responsibility or risk when managing PRPPs will increase costs to plans.

It appears that financial institutions may be required to assume the role of Trustee. If this were the intent it would increase the potential conflict of interest. Some in the pension industry suggest a conflict already exists and is acknowledged with respect to financial institutions acting as record keeper while promoting their own investment products and services. An additional role of Trustee would be an additional conflict. It could effectively undermine a plan member's ability to seek legal redress in the event of a failure of the administrator to properly manage the PRPP.

There may be many institutions vying for PRPP activity but may not have the knowledge or ability to execute the role of administrator. We would like to be assured that all administrators comply with the November 2011 CAPSA Guideline No. 6, "Pension Plan Prudent Investment Practices Guideline" as well as CAPSA's other guideline as appropriate. We recommend the number of financial institutions acting as administrators should be limited and the same in all jurisdictions so economies of scale can be realized in the area of administration. We believe strong regulatory framework be set out to ensure such institutions acting in a PRPP role can be properly monitored and regulated.

We recommend that each PRPP have a clear and responsible default option that is suited for the many potential members who do not or cannot make a choice of investment options. This option should vary with the age group of the member.

The federal PRPP legislation states that the principal purpose of PRPPs is to assist Canadians without pension programs or self- employed to save for retirement. However an unintended effect will be that organizations with existing defined benefit, defined contribution and RRSP programs will probably switch them to the PRPP to off-load the fiduciary responsibilities and financial risk to a third party at no cost to them. In fact they may be remiss in their responsibilities to their owners and shareholders if they did not do so. There is much anecdotal evidence that such a switch will occur. This is a major flaw with the proposed legislation.

Saskatchewan Pension Plan (SPP) Model

If PRPPs are considered a viable option for Canadians, then we suggest that the Government consider reviewing a current PRPP business model that is already operational. The Saskatchewan Pension Plan (SPP) model is designed to provide a way for small to medium-sized businesses to increase their competitive advantage while helping employees plan for the future:

- a business plan model that provides the important benefit of a pension plan for employees;
- currently has 32,000 members, many in Saskatchewan but others from across Canada.
- "We started getting a lot more attention recently when the federal government introduced its pooled registered pension plan (PRPP)," said Katherine Strutt, General Manager of SPP, "but I'm proud to say that we developed and implemented this model 25 years ago.
- when PRPP was announced, Toronto Star called the SPP business plan 'Canada's best kept secret!"

Support for the model is growing, with a recent poll of 800 companies in Canada showing that 71 per cent of those surveyed agreed that employers should offer some form of retirement plan to workers, with PRPPs touted as a low-cost alternative. Employees can contribute themselves through payroll deductions, and employers can match those contributions if they choose.

As the SPP model has been in place for approximately 25 years, it may be of interest to study this model as a pilot for the roll-out of other PRPPs.

B. Alternative solution – a suggestion

Leveraging the reach of the current CPP as an effective approach to assist in providing sufficient retirement income has been touted by many as the best approach for Canadians. This is a complex social issue with nuances beyond the scope of this submission; however, we would like to offer the following general observations for your consideration.

The CPP Program is fully operational and covers the majority of employees across the country. We suggest that an additional Defined Contribution (DC) for members would take advantage of the current CPP infrastructure with the addition of an administrative module for the DC accounts. Suitable restrictions on withdrawals as well as an appropriate age related default option could be included to encourage member capital accumulation and to not unduly restrict investments. The CPP Investment Board is professionally and independently managed, competitive returns at a low cost should be achievable. The remaining element of administrative costs, including record keeping and education would have to be carefully monitored.

This approach, as a component to an overall solution, will help to reduce the possible many additions to the welfare rolls of new retirees without adequate savings for their retirement years.

One concern that could be possible over time is that the CPP Investment Fund becomes so large that it could monopolize the investment environment opportunities in Canada. Creating a much larger CPP could lead to it becoming politicized; such as Fanny Mae and Freddie Mac in the US environment. This risk would need to be carefully managed with the appropriate regulatory oversight.

C. Clarity and direction of pension reform

We would like to provide additional comments regarding the overall direction and objectives of Pension Reform in Canada. Our concern is the general lack of clarity and direction on the objectives of "Pension Reform" communicated on behalf of the Governments.

The recent announcement regarding possible reductions in OAS, while arguing that Canadians need more retirement income, may appear contradictory. We strongly recommend that the Governments solidify the direction and clarify the objectives around Pension Reform. This will enable us, and others, to provide input on efficient and effective solutions.

We understand and agree that Pension Reform in Canada is necessary, and that it can come with some political costs. The long-term effects of decisions made today will be rewarded in the history books of tomorrow. Taking steps to manage costs that may include (i) raising the eligibility age, (ii) changing in social benefits, (iii) incorporating a new means test or (iv) clawing back benefits, may receive negative responses at the polls but are necessary steps for the country. One possible method to manage these types of negative responses is to provide a correlating positive to the taxpayer by opening up discussions on changes to Public Sector Pension Plans; the elephant in the room.

Public Sector Pension Plans were originally designed to attract and retain employees when salaries within the public sector were lower then the private sector. From a total compensation perspective the pension was 'richer' to offset the lower salary. Today government competes for the same resources at the same compensation levels as the private sector and yet the pension benefits remain the same. The benefits from these plans are very rich as compared to private sector plans; some with early eligibility. These plans are expensive to the taxpayer and will become a sore spot for many Canadians, as they have to adjust to tougher measures.

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We submit the comments above for your perusal and consideration as components of a solution under the umbrella of Pension Reform.

Sincerely,

Michael Conway
Chief Executive & National President
Financial Executives International Canada

D. Peter Donovan
Chair, Pension Task Force
Financial Executives International Canada

Financial Executives International Canada (FEI Canada): FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and 2,000 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada's leading and most influential corporations. Further information can be found at www.feicanada.org.

Issues and Policies Advisory Committee (IPAC): The Issues and Policy Advisory Committee was established to develop FEI Canada public positions, provide guidance and expert opinion on emerging issues relevant to FEI Canada members, and act as advisors on issues of current importance to industry groups, government, associations, and other constituents who will benefit from the impartial council of the Committee. The Committee has a broad agenda and has developed a number of Task Forces to address issues of current importance to CFOs across the country. These include issues related to: governance and risk; treasury and capital markets; pensions; taxation; private company issues; and IT.

FEI Canada's Pension Task Force: The PTF of IPAC is composed of FEI Canada members from across Canada, with an expertise in Pension related issues. This committee's mission is to:

- Develop FEI Canada public positions on matters pertaining to pension and other employee benefit issues;
- Provide guidance and expert opinion on emerging issues on pensions and other post-employment benefits relevant to FEI Canada members and;
- Act as advisors on pension and other post-employment issues of current importance to industry groups, government, associations, and other constituents who will benefit from the impartial counsel of the Committee.