fei
financial executives international
canada

30 April 2010

Mr. Chris Forbes
Federal-Provincial Relations and Social Policy Branch
Department of Finance
L'Esplanade Laurier
15th Floor, East Tower
140 O'Connor Street
Ottawa, Canada K1A 0G5

Email to: ris-consultations-srr@fin.gc.ca.

Dear Mr. Forbes:

We thank Ministers Flaherty and Lebel and Parliamentary Secretary Menzies for giving us this opportunity to participate in their consultations with Canadians on ensuring the ongoing strength of Canada's retirement income system. We applaud them for their proposed public town hall meetings, roundtable discussions and speaking engagements at conferences as well as the request for written submissions in answer to the questions posed in the document Ensuring the Ongoing Strength of Canada's Retirement Income system. The document provides an excellent brief sketch of the field and current concerns about the retirement income system and some solutions under discussion.

Let us situate our organization within that field. Financial Executives International Canada (FEI Canada) is an all-industry professional association of senior financial executives, with eleven chapters across Canada and more than 2000 members. The association's membership consists of senior financial officers of a significant number of Canada's leading corporations, as well as senior financial officers in public sector organizations.

FEI Canada has been commenting on pension matters since the 1970s, at which time it initiated a series of pension plan surveys, the first of their kind in Canada. Since then it has sponsored many pension papers. These include Canada at the pension crossroads (1978) and Business Committee on Pension Policy Papers (1983). Its research institute, the Canadian Financial Executives Research Foundation (CFERF), has not long ago tabulated its Canada-wide pension survey results. We submitted a brief to and appeared before the Ontario Expert Commission on Pensions in October 2007 and have participated in subsequent stakeholder discussions. In early 2009, FEI Canada responded to the government's request for comments on proposed changes to federally regulated plans and participated in Mr. Menzies' consultations on them. We have submitted letters outlining our concerns to all Finance and First Ministers in anticipation of the meeting of First Ministers in December 2009.

It is important to note that our members are employed by corporations many of which have defined benefit (DB) and defined contribution (DC) pension plans and other capital accumulation plans (CAPs) that fall under Pillar 3 of retirement income system described in the document. Its introduction noted accurately "declining private pension plan coverage [has] also raised questions about the future of Canada's retirement income system". FEI Canada advocates that private pension plans are a crucial support of Pillar 3. Such plans should be fostered either in their current form or in some more efficient form to achieve economies of scale both for investment and administration. We urge that extensions to the solvency-funding periods and other funding reliefs currently proposed in various pending legislations federally and in various provinces be implemented without delay. We further recommend that sponsors of DB pension plans be encouraged to maintain their plans by not permitting the proposed prioritization of plan deficits over other creditors on distribution of assets in a bankruptcy. Such priority would have the unintended consequence of reducing the sponsor's credit rating, weakening its competitive position vis-à-vis those without DB plans thereby encouraging such a sponsor to abandon its DB plans.

We answer now the specific questions of the document, repeating questions as a reference.

1. What are the main issues/challenges that Canadians face in saving for retirement?

The greater issues/challenges include the need for:

- Adequate replacement income in retirement,
- Pension component in retirement and portability pre-retirement in an employment world where few spend their entire careers with one plan sponsor,
- Law reform for DB pension plan surplus ownership and legal context of contract versus trust law,
- Regulatory reform for the same DB plans to facilitate continuance with reasonable estimates and funding assumptions,
- Slow implementation of proposed solvency funding periods,
- Risk sharing for pension and other retirement benefits (Who pays?),
- Disparity between public service and private pension plans,
- Savings rates and individual responsibility for retirement income

  and
- Income Tax Act reform to increase limit for annual contribution levels and total tax deferred savings, and to remove the more obvious inequities between DB plans and other CADs. We appreciate the recent change to increase the permitted DB pension plans surplus limit from 10% to 25% before current taxation is imposed.

Until further studies are completed, we believe there is ample opportunity within the existing federal and provincial legislation to improve pension plans and other tax deferred saving vehicles and assist Canadians in saving for retirement.

2. What is the appropriate role of governments in supporting Canadians to achieve adequate retirement income?

On such a complex social question of adequate retirement income, governments should further study the issue of regional income adequacy and disparity. Governments can provide tax and regulatory incentives to encourage Canadians to save for retirement under the current arrangements, i.e. higher tax deferred annual contributions and higher amount of pension amounts payable during retirement from registered DB plans.

Governments should encourage basic financial literacy through early stage education programs on personal finance, including budgeting, saving, and consumer credit.

3. Does the retirement income system currently have the appropriate mix of public and private support?

The private system needs strengthening by

- providing greater tax deferred savings, as noted in question 2.
- removing the current regulatory and legal hurdles of DB plans by implementing the reforms described above
- after appropriate study, implementing a possible further pension plan for all Canadians who are determined to be without an adequate income coverage. This should be done in a manner that would reduce administrative costs and create large professionally managed investment pools.

4. Are changes needed to further strengthen Canada's retirement income system?

The governments should implement changes noted above in the paragraph before question 1. In addition, they should study further the appropriate way to address the plight of those working Canadians without an adequate pension plan. This may very well lead to a Canada-wide plan that takes the form of a defined contribution plan. At this stage, we believe that such a plan should provide investment options of only a few investment styles based on the members' demographics. The government's other study on financial literacy of Canadians gives proof that the current multiple choices available in many CAPs is a disservice to such individual investors. There are also sufficient statistics to indicate that larger professionally managed investment pools provide better returns and lower administrative costs.

5. Should there be more mandatory retirement savings?

fei
financial executives international
canada

We believe that governments should define more clearly what an adequate retirement income is. It should complete the work the Mintz Report indicates needs to be done to understand the issue of under saving. In particular, it would be helpful to clarify what is the potential under saving by those without a registered pension plan.

6. Should individuals be auto-enrolled in any new voluntary savings program?

The employee and self-employed should be auto-enrolled in such a plan. However, they should be allowed to opt out under their own initiative. Further study is required concerning their right to opt back in.

7. Should increased savings, whether mandatory or voluntary, be locked-in for retirement purposes only?

Yes. As is now the case, such savings should only be withdrawn pre-retirement under clearly defined terms, such as use for first-time homebuyers or other long-term economic choices deemed appropriate such as perhaps mortgage reduction or the financing of higher education.

8. Should there be more flexibility and choice with respect to private savings options?

The evolution of the system has discouraged the development of DB plans. Such plans have suffered from the legal and regulatory roadblocks described above and have been restricted by a stagnant maximum tax deferred amount. These DB plans should be made more attractive through increased portability for the individual to reflect the societal shift from single-employer careers to the current trend of workers engaging in shorter periods of employment with multiple organizations. There is also a need for greater ease of transfer of assets into larger investment pools. Such plans may be made hybrids, i.e. DB and DC.

9. How would the approaches described in this paper impact you personally and/or your business?

As our members find themselves and their respective organizations in varying circumstances, the proposal outlined would affect them differently. Those members who manage pension plans and other CAPs for their employers will spend less time managing these issues and therefore will spend more time helping their companies grow for the benefit of the Canadian economy. Any additional plan must avoid placing a de facto heavier tax burden on Canada's business sector, and it must also provide the advantages of professionally managed large investment pools and cost efficient administration. However, the intent of any reform must be clearly spelt out before a detailed answer can be given.

10. How should any changes to the retirement income system be financed?

The participants affected should finance any changes introduced, apart from increased tax deferrals. The targeted groups should be identified before a more specific answer is given.

What should be sought are larger investment pools whose professional management is put out to tender. What should be avoided are costly administrative and recording systems that profit only service providers. Record keeping by individuals should be appropriately minimized and administration be put out to tender to be cost effective.

Better risk management and governance at the plan level combined with better financial education and realistic return expectations at the member level will also lower the cost of and financing of changes to the income retirement system.

FEI Canada again applauds the ministers' efforts to bring some efficiency and focus to improving Canada's income retirement system. We suggest that they complete their studies into the adequacy of the retirement income by region. Although this may be difficult to achieve as 93% of pension plans and 88% of pension assets are under provincial and territorial control, we urge the government to persuade their provincial counterparts to act in a coordinated manner so that all Canadians can save for retirement within a common framework, wherever they reside. We ask all governments to implement pending changes to their pension acts easing solvency funding and to abandon any proposal to place total pension deficiency ahead of other creditors in their bankruptcy

FEI Canada is pleased to have had the opportunity to present these recommendations and looks forward to continuing to work with the government in its goal to ensure the ongoing strength of Canada's retirement income system.

Yours truly,

D Peter Donovan

D. Peter Donovan
Chair, Pensions Task Force
Issues and Policy Advisory Committee
Financial Executives International Canada

fei

financial executives international

canada

William E. Hewitt
Chair, Issues and Policy Advisory Committee
Financial Executives International Canada

Michael Conway
Chief Executive & National President
Financial Executives International Canada