PMAC
PORTFOLIO MANAGEMENT ASSOCIATION OF CANADA
Advancing Standards™

September 10, 2015

Catherine Adam
Federal-Provincial Relations and Social Policy Branch
Department of Finance
15th Floor
90 Elgin St
Ottawa, Canada K1A 0G5
cpp-consultations-rpc@fin.gc.ca

Dear Ms. Adam:

Re: Consultations on a Voluntary Supplement to the Canada Pension Plan (CPP)

The Portfolio Management Association of Canada ("PMAC"), through its Industry, Regulation & Tax Committee, is pleased to have the opportunity to participate in the consultation process regarding the Government's review of options for a voluntary supplement to the Canada Pension Plan (CPP) (the "Consultation") which was announced on May 25, 2015 by the Minister of Finance.

PMAC commends the Federal government for making Canadian's retirement savings a top priority but we believe a voluntary CPP contribution program is neither necessary nor desirable. Set out below are five specific recommendations for your consideration which we believe will ultimately achieve the same policy objectives and goals.

As background, PMAC represents investment management firms registered to do business in Canada as portfolio managers. PMAC members manage investment portfolios for private individuals, foundations, universities and pension plans. PMAC was established in 1952 and currently represents over 200 investment management firms that manage total assets in excess of $1.4 trillion. Our mission is to advocate the highest standards of unbiased portfolio management in the interest of the investors served by Members. For more information about PMAC and our mandate, please visit our website at www.portfoliomanagement.org.

General Comments

The Federal Government has made many strides in recent years to address retirement savings in Canada; the development of the Pooled Registered Pension Plan (PRPP), the Target Benefit Plan Framework (TBP), the creation of the Tax Free Savings Account (TFSAs), to name a few. We have supported the creation of these programs and continue to support proposals that are aimed at strengthening our retirement income system and providing savings options to Canadians. However, as we have stated in previous pension consultations both provincially and federally, we believe in the importance of balancing government responsibility for retirement savings with individual responsibility.

The Consultation Paper states that the Government of Canada is committed to exploring ways to give Canadians more choice in how they save for their retirement. We believe that Canadians already have a variety of choices and options to save for retirement. There are a multitude of other savings options besides pension plans available to investors. In addition to the $1.6 trillion in pension assets in Canada, and the non-registered savings of Canadians, the RRSP/RRIF/TFSA pool of assets now exceeds $1.4 trillion. These registered plans are growing at a rate of almost $70 billion a year on new contributions alone.[1] Furthermore, the unused room for RRSP now looks to be over $900 billion and many policy objectives could be achieved if the government could incentivize Canadians to utilize this unused asset.[2]

A recent report by McKinsey & Company, finds that four out of five Canadians are financially on track for a fine retirement. The report considered a combination of government programs like the Canada Pension Plan and Old Age Security, company pension plans, personal retirement savings like RRSPs, and the value of other assets.[3] These findings suggest that policy makers should aim for targeted reforms rather than creating retirement programs that are either unnecessary or come with negative unintended consequences.[4] A voluntary CPP program will not only be costly to set up and administer but will be complex to design and likely be underutilized. We recommend the Government focus its efforts on promoting the various current pension and retirement savings options available to Canadians instead of moving forward with a voluntary CPP program.

KEY RECOMMENDATIONS

1. **Focus on Other Already Available Pension & Retirement Savings Options**
2. **Employer Education on Current Pension & Retirement Savings Options**
3. **Provide Tax Incentives to Encourage Saving and so Employers Increase Their Benefit Levels (Retirement Programs)**
4. **Streamline the Savings Process - Intergovernmental Coordination**
5. **Focus on Financial Literacy and Targeted Education Programs**

Focus on Other Already Available Pension & Retirement Savings Options

We believe bolstering the retirement savings options available in the Government's third pillar including PRPPs and TBPs coupled with more employers matching and greater employee awareness of existing savings options is a preferred solution to creating a voluntary CPP program. PRPPs, for example, provide the opportunity to participate in a simple and straightforward pension plan. PMAC has been an active supporter of the development of the PRPP Federal framework and believe it is a better retirement savings vehicle vs. comprehensive or overhaul changes to CPP. We believe that PRPPs provide more flexibility and choice for Canadians and their employers in how they save for retirement and leverage off the existing infrastructure around the administration of similar plans.

Similarly, PMAC is supportive of the Federal TBP Framework and believe the TBP Framework provides a workable alternative to current plan options (defined benefit and defined contribution plans) and provides a more long term sustainable option for retirement savings. The flexibility and hybrid nature of the TBP Framework may prove attractive to employers who are moving away from the costs and risks of DB plans. The balanced responsibility of risk between employers and employees is an attractive model as the TBP's shared risk model provides a workable solution to the issues and costs associated with both DC and DB plans.

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[1] See http://www5.statcan.gc.ca/cansim/pick-choisir?lang=eng&id=01110039&p2=33 (for RRSPs) and http://open.canada.ca/data/en/dataset/10531a5e-b500-4842-a1b0-305802a1da28 (for TFSAs).
[2] http://www5.statcan.gc.ca/cansim/pick-choisir?lang=eng&id=01110040&p2=33
[3] See McKinsey & Company Report titled "Building on Canada's Strong Retirement Readiness" dated February 2015.
[4] See Globe and Mail article by Janet McFarland, "Majority of Canadians saving enough for retirement, survey says" dated February 10, 2015.

Employer Education on Current Pension & Retirement Savings Options

We believe there continues to be a need for educational information on employer options for retirement savings to help employers evaluate the multitude of retirement savings program options available (i.e. PRPP, RPP, group RRSP, corporate contribution to employee RRSP of choice, etc.). We also believe that more awareness needs to be generated among Canadians about saving for retirement and the array of options currently available and also offered by employers. There must be more work done on retirement saving education and awareness to ensure that all of the available retirement savings options currently available are understood and utilized. Adding another retirement savings options like a voluntary CPP supplement would, in our view, add to rather than reduce confusion.

Provide Tax Incentives to Encourage Saving and so Employers Increase Their Benefit Levels (Retirement Programs)

There has been extensive support and a variety of initiatives by various levels of government to support increased financial literacy. We believe the government should stress the importance of objective, independent and tailored financial planning and retirement portfolio management tailored to individuals based on their own circumstances, particularly as financial decisions have become more complex and the choice of available financial products and services has grown dramatically. We recommend the government consider offering incentives to Canadians to obtain professional investment advisory services in order to be fully informed of savings options to meet short term and long term (i.e. retirement savings) goals. Similarly, we suggest the government consider how offering tax incentives to employers may increase their benefit levels and plan offerings. Tax credits for small employers to start or increase retirement plans should also be actively explored. Finally, a onetime increase to the RRSP contribution limit might spark a boost in retirement savings and should also be considered. The near doubling of annual contribution limits for the tax-free savings account has prompted a rethink of how Canadians should invest for their retirement.[5]

Streamline the Savings Process - Intergovernmental Coordination

We believe better coordination between the various levels of government could improve the savings programs and pension plan options available to Canadians and increase the effectiveness of some of these options. Provincial jurisdictional differences impede on the efficiency and coordination of pension regulation in Canada. We note that the federal government is reviewing the retirement income system while, several provinces are considering or have embarked on significant pension reform. For example, we acknowledge the Federal government's lack of support for the Ontario Registered Pension Plan and agree that this is not the right direction for Ontario. Enhanced cooperation and dialogue on retirement savings policy development would benefit all Canadians.

Focus on Financial Literacy and Targeted Education Programs

Financial literacy is a critical life skill for all Canadians, as acknowledged in a report by The National Strategy for Financial Literacy released in October 2014, "*Phase 1: Strengthening Seniors' Financial Literacy"* .[6] The Report indicates that achieving significant progress in enhancing all Canadians' financial literacy will require collaborative action over several years. The Report also queries: how can Canadians be encouraged to take charge of their financial

[5] See Globe and Mail article by Clare O'Hara titled "Increase to TFSA limit has some rethinking RRSPs, retirement savings" dated Wednesday, Apr. 22, 2015.

[6] See: http://www.fcac-acfc.gc.ca/Eng/about/news/Pages/News-nouvelles.aspx?itemid=279

future? To achieve this goal, we agree that the strategy should focus on helping Canadians develop a greater interest in and an understanding of long-term saving, so that more people make saving for their senior years a priority.

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PMAC supports strategies to enhance current retirement savings options and encourage adequate retirement savings. To this end, we would be pleased to discuss the recommendations above in more detail. If you have any questions regarding this submission, please do not hesitate to contact Katie Walmsley (kwalmsley@portfoliomanagement.org) at (416) 504-7018.

Yours truly;

PORTFOLIO MANAGEMENT ASSOCIATION OF CANADA

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