PMAC
PORTFOLIO MANAGEMENT ASSOCIATION OF CANADA
Advancing Standards™

November 23, 2015

The Honourable William Francis Morneau
Minister of Finance
Department of Finance Canada
House of Commons
Parliament Buildings
90 Elgin Street
Ottawa, Ontario
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Dear Minister Morneau:

Re: Canadian Retirement Savings and Pension Reform

On behalf of the Members of the Portfolio Management Association of Canada ("PMAC"), we are writing to formally introduce ourselves and to provide input into the Government's consideration of retirement savings reforms and options. This is an exciting time for the Federal government and an important opportunity to take a leadership role in addressing targeted pension reform in ensuring that all Canadian's are saving adequately for the retirement phase. Set out below are specific recommendations for your consideration which we believe will ultimately best address the current retirement savings concerns.

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.

KEY RECOMMENDATIONS

1. **Canada Needs Targeted Pension & Retirement Savings Reforms**
2. **Promote Other Already Available 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**

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.

We believe that Canadians currently have a variety of ways in which they can save and prepare for retirement. These include multiple savings vehicles as well as government sponsored options.[1] We also observe that Canadian pension assets continue growing year over year.[2] PMAC does not believe that all Canadians are facing a potential under savings retirement crisis.[3] For these reasons, PMAC recommends that the government aim for targeted reforms rather than creating new or altering or overhauling existing retirement programs, such as the Canada Pension Plan (CPP). Targeted reforms should aim to address the needs of those Canadians who are at most risk of under saving while not compelling those already adequately saving for retirement. We believe that targeted reforms should focus on the third tier of the Canadian three-tier pension system: workplace registered pension plans. In our view, 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. pooled registered pension plans, registered pension plans, group registered retirement savings plan, corporate contribution to employee RRSP of choice, etc.) so as to ensure that employers can offer employees adequate opportunities to prepare for retirement.

A more detailed discussion of our recommendations is included below.

1. Canada Needs Targeted Pension & Retirements Savings Reforms

As stated above, PMAC does not believe that all Canadians are facing a potential under savings retirement crisis. We do believe, however, that certain Canadians are at more risk than others of not adequately saving and planning for retirement. This is as a result of a variety of reasons that must be considered and studied further in order to understand where the reforms are necessary and most needed. PMAC agrees with the notion that the existing foundation of government sponsored pension plans, our tax system and the current variety of savings options including non-traditional retirement vehicles has created a resourceful retirement savings environment for most Canadians.[4] The government needs to examine the actual vs. the perceived retirement savings concerns. In order to address and target the under saving concerns, the government needs to understand for instance, what are the savings options currently available that mitigate low workplace pension plan coverage? Are these options being adequately promoted and accessed? If not, what can be done to create incentives for broader take up of these savings options?

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[1] The Canadian three-tier pension system consists of the Old Age Security (OAS), the Canada and Quebec pension plans (CPP/QPP) and workplace registered pension plans (RPPs).
[2] At the end of June 30, 2015, Canadian pension assets for the Top 40 Money Managers totaled $751,281.6 million, compared with $696,490 million the year prior representing an increase of 7.9%. Twenty-eight of the Top 40 Money Managers reported an increase in pension assets. Source: Firms participating in the Canadian Institutional Investment Network Spring 2015 Top 40 Money Managers Survey.
[3] 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. See McKinsey & Company Report titled "Building on Canada's Strong Retirement Readiness" dated February 2015.February 10, 2015.
[4] See "The Real Retirement – Why you Could be Better off than you Think, and How to Make that Happen", by Fred Vettese and Bill Morneau.

The government ought to examine key sectors of the population who are at more risk of lower retirement savings and offer targeted retirement savings reforms to assist these individuals with long term savings and planning. Pension reforms that force middle to higher income earners to participate in mandatory pension plans are not necessary (such as the Ontario Retirement Pension Plan (ORPP)). There are various cited studies to support the view that most Canadians have adequate savings and assets in place for the retirement phase.[5] These Canadians don't need more government intervention. For this reason, we oppose the Ontario government's plan to proceed with the ORPP. The ORPP would destabilize existing successful programs, force over-saving on many Ontarians and those already on track for retirement, and undermine the PRPP before it has even been implemented, to the detriment of small business and the self-employed. The ORPP also diminishes the concept of personal responsibility towards retirement. Targeted reforms should instead focus on Canadians that are most at risk of under saving: low income families, single seniors, vulnerable resource works, new immigrants, etc. Targeted reforms could include minor tweaks to the CPP to ensure higher risk Canadians have adequate coverage but these discussions need to take place sooner rather than later so that an Ontario-only ORPP solution isn't rolled out prematurely and hastily.

2. Promote Other Already Available Pension & Retirement Savings Options

There are a multitude of other savings options in addition to traditional pension plans that are available to Canadians. Besides the $1.6 trillion in pension assets in Canada, 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.[6] 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.[7]

We also believe that the PRPP and TBP are viable and workable pension solutions that should be promoted to Canadians more proactively and broadly. For example, we believe that PRPPs would be sufficient to fill the gap for Canadians that are not in an employer sponsored retirement savings or pension program. PRPPs 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.

In the Quebec PRPP model, called the Voluntary Retirement Savings Plan (VRSP), employers must offer a VRSP to their employees but can choose whether to contribute to their employees' VRSPs. This model is a new kind of deferred income plan designed to provide retirement income for employees and self-employed individuals who do not have access to a workplace pension. Once enrolled, employees may "opt out" of the plan by giving their employer a notice to that effect within 60 days. Not opting out will mean the start of payroll deductions. Employees are to determine their own contribution rates to a VRSP, as well as their investment options. Employees who do not establish a contribution rate within the first 60 days of being enrolled in the plan will be subject to an initial default rate of 2% (which is set to increase over time). The plan member may discontinue contributions to the plan at any time or, under certain conditions, set his or her rate of contribution at 0%. Much like RRSP contributions, employee contributions to a VRSP are deductible from income before income tax is withheld.

[5] See Benefits Canada article titled "Most Canadians prepared for retirement" dated February 10, 2015 at: http://www.benefitscanada.com/news/most-canadians-ready-for-retirement-62491. See also See Globe and Mail article by Janet McFarland, "Majority of Canadians saving enough for retirement, survey says" dated February 10, 2015.
[6] 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).
[7] http://www5.statcan.gc.ca/cansim/pick-choisir?lang=eng&id=01110040&p2=33

Similarly, VRSP contributions are subject to the same annual cap as RRSPs, which is the lesser of 18% of earned annual income (or, for example, $24,270 for 2014). Employee contributions are not locked-in (withdrawals are subject to provincial and federal tax) while employer contributions are locked-in. The Quebec model ensure employers make the VRSP available to employees, directly addressing the concerns that many Canadians are not covered under a workplace pension plan.

PMAC believes that the PRPP model is a welcome initiative that is a targeted way to address workers that are not currently saving enough for retirement. We recommend the Federal government work with the provincial and territorial governments to continue to focus on and move forward quickly with PRPPs, which are low cost and administratively-simple pension plans that will help employers, their employees and the self-employed to save more for retirement.

Similarly, PMAC is supportive of the Federal TBP Framework and believes the TBP provides a workable alternative to current plan options (defined benefit and defined contribution plans); it provides a more long term sustainable option for retirement savings. The flexibility and hybrid nature of the TBP 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.

Both PRPPs and the TBP offer savings options to all Canadians and would increase workplace plan coverage in Ontario. We recommend the Government focus its efforts on promoting the various current pension and retirement savings options available to Canadians.

3. **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 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. 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. 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.

4. **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. Enhanced cooperation and dialogue on retirement savings policy development would benefit all Canadians.

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PMAC supports strategies to promote current retirement savings options and encourage adequate retirement savings. We recommend that the government aim for targeted reforms rather than creating new or altering or overhauling the CPP. Targeted reforms would address the needs of those Canadians who are at most risk of under saving while not forcing those already adequately saving for retirement to save more.

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;

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