PMAC
PORTFOLIO MANAGEMENT ASSOCIATION OF CANADA
Advancing Standards™

February 10, 2016

**The Honourable William Francis Morneau**
Minister of Finance
Department of Finance Canada

EMAIL: fin.2016pbc-cpb2016.fin@canada.ca

**Re: 2016 Federal Pre-Budget Consultations**

The Portfolio Management Association of Canada ("PMAC") is pleased to submit comments on recommended priorities for the **2016 Federal Budget**.

As background, PMAC was established in 1952 and currently represents over 220 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.

PMAC's Members invest the assets of individual Canadians who are saving for retirement and the assets of both traditional defined benefit pension plans and defined contribution pension plans. Many of Canada's largest pension plans, including CPPIB, and small employer pension plans hire our Members to manage all or portions of their investment portfolios. In addition, individual Canadians who seek professional management of their savings, become clients of our Members who set up custom portfolios for individuals based on their retirement goals, risk profile and financial objectives. Our Members are from across Canada and manage retirement savings for Canadians in every province and territory.

We express our support for all of the themes identified for the 2016 Federal pre-budget consultations. In addition, we encourage the Federal government to continue its important work and progress on the Cooperative Capital Markets Regulator. The focus of our recommendations will be on improving Canada's retirement savings and taxation regimes. Each of these is addressed in more detail below.

**Support of Public & Private Retirement Savings Options For Canadians & Taxation Fairness**

We applaud the government for tabling public pension plan reform at the meeting of territorial, provincial and federal finance ministers last December. We encourage the discussions to continue at the June and December meetings with the objective of providing clarity on the issue of CPP reform and balancing any policy decisions with the realities of the current economic climate. PMAC supports retirement savings and pension reform solutions that are national in application, targeted in scope and are aimed at strengthening our retirement income system, particularly, where there are gaps that need to be addressed.

As we have stated in previous pension consultations both provincially and federally, we believe in the importance of balancing individual responsibility for retirement savings with government responsibility and our recommendations in this letter will focus on changes within the Federal jurisdiction that would help all Canadians whether they are contributing to public plans, private pension plans and/or personal or group RRSPs.

**Tax and Pension Reform Recommendations**

1. Treat CPP contributions as tax deductions versus tax credits;
2. Increase RRSP contribution limits by 20%;
3. Work collaboratively with the Province of Ontario to delay the implementation of the Ontario Retirement Pension Plan ("ORPP") until Federal/Provincial discussions are concluded on potential CPP reform;
4. Provide tax incentives for participation in the Pooled Registered Pension Plan ("PRPP");
5. Provide Tax Incentives to Encourage Saving and so Employers Increase Their Benefit Levels (Retirement Programs); and
6. Eliminate GST/HST on the fees for managing retirement savings and pensions.

**Other Recommendations**

1. Continued Progress on the Cooperative Capital Markets Regulator

## Taxation Fairness and Pension Reform

### *1. Tax Treatment of CPP Contributions*

Given the Federal and provincial collaboration required to make specific changes to CPP, we urge the government to consider changes to CPP taxation which is within its Federal jurisdiction, namely considering reverting to treating CPP contributions as deductions for personal income tax purposes versus tax credits. This would align the treatment of contributions with RRSPs and pension plans and would result in increased income which could be allocated to retirement savings or provide economic stimulus through consumer spending. We believe this small change would both increase the fairness of the tax treatment of different types of retirement savings and would result in an overall increase in retirement savings.

### *2. Increase RRSP Contribution Limits by 20%*

With the continued low interest rate economic environment coupled with persistent volatile market conditions, the fact is that every dollar a Canadian sets aside for retirement savings has a lower expected rate of return than it did in the prior year. Therefore, more savings is required today to generate the same desired amount of retirement savings. An increase in the RRSP contribution limit would allow Canadians the opportunity to set aside the savings needed to generate adequate income in their retirement years. We recommend the Federal government increase the current contribution limit from $24,930 to $30,000 (20%) thereby allowing Canadians the opportunity to set aside more savings towards their retirement and earn sufficient returns.

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### *3. Federal/Ontario Discussion to Delay ORPP Until CPP Reform Discussions Concluded*

We strongly urge the Federal Government to work collaboratively with Ontario and encourage the delay of implementation of the Ontario Retirement Pension Plan ("ORPP") for at least one year. This will allow all Federal, provincial and territorial jurisdictions the needed time to properly consider and evaluate the pros and cons of CPP reform and the corresponding implications for all Canadians.

PMAC does not support the ORPP as we believe a more targeted retirement savings solution is appropriate to address the current savings gaps. The ORPP does not adequately address retirement savings in Ontario and more specifically, it undermines a broader and more appropriate, targeted national approach to pension reform and retirement savings for all Canadians. PMAC would support minor enhancements to the CPP and we applaud the Minister's pledge to continue consultations with the provinces on possible enhancements to the existing CPP/QPP system over the coming year.

One of our main concerns with the ORPP is the potential negative consequences the ORPP has for Canadians in other provinces and the integration challenges this plan would create provincially and with existing Defined Contribution (DC) and Defined Benefit (DB) Plans. In addition, if Ontario moves forward with ORPP implementation in 2017, we believe it is highly unlikely the Ontario government will support nor see the need to discuss any enhancements to CPP. With a January 1, 2017 implementation date for large Ontario employers, this does not allow the Federal government and provinces sufficient time to properly evaluate the options and implications for changes to CPP. With the 2/3 provincial support requirement for changes to CPP, it is therefore unlikely discussions on CPP reform will progress in any way without Ontario actively participating. Ontario moving forward with ORPP implementation prior to the Federal, provincial and territorial finance ministers having the opportunity to fully evaluate reform to CPP is simply unfair to all Canadians and will have a tremendous impact on the outcome of pension reform discussions.

### 4. *Tax Incentives to Spur Participation in the PRPP*

PMAC supports multiple retirement savings options for Canadian investors. We have been a long time supporter of the PRPP. In our view, PRPPs would be sufficient to fill the gap for Canadians that are not in an employer sponsored retirement savings or pension program and are a low cost, viable pension reform solution. To improve participation in the absence of mandated obligations, we offer below a number of recommendations as potential tax incentives to spur employers to offer a PRPP:

- Introduce a temporary employer retirement savings tax credit to ensure that the roll out of such a measure would not create an unfair advantage over those employers who were previously offering RPP's, this incentive should be offered to all participating employees in an RPP;
- A transitional exemption for the first contributions into a PRPP to be included in calculating the RRSP limits; and
- Introduce an Employer/Employee Retirement Savings Grant – Similar to the RESP structure, provide a supplemental matching annual grant invested in the retirement savings vehicle.

We note that the above suggested tax incentives would cost less to administer than the cost to set up the ORPP program. We also note that employers are overwhelmingly in favour of PRPPs. We believe PRPPs will help address a gap in private savings and leave more money in the pockets of Canadians.

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

We recommend the Federal 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.

6. ***Taxation on Investment Management Services***

GST / HST is a consumption tax and should be applied at the time of consumption not savings. In our view, building retirement savings is the direct opposite of consumption and, accordingly, we fundamentally disagree with the idea that Canadians should pay a tax on services designed to help them build retirement savings and be taxed again at the time of consumption. The fact is that today, every HST dollar paid on investment management services could be an extra dollar in a pension plan or RRSP. We recommend that the Federal Government agree with the provincial governments to adopt the policy positions taken elsewhere in the world and exempt consumption taxes on investment management services generally (i.e. on savings ) or in the alternative, to work with the provincial governments to remove or mitigate the additional and uneven provincial portion of HST immediately. This exemption could be applied general to investment management fees or more narrowly to fees on pension plans and registered retirement savings.

**Other Recommendations**

1. ***Continued Progress on the Cooperative Capital Markets Regulator***

PMAC commends the Federal government and its provincial partners on its progress and commitment towards creating the Cooperative Capital Markets Regulator (CCMR).
We believe the creation of a CCMR is a major improvement to the securities regulatory regime in Canada and addresses both the interests of Canada's investors and capital market participants. The CCMR is a major boost for investor protection and economic efficiency that benefits all Canadians. PMAC has long advocated for a single common regulator and have consistently stated that the existing fragmented system is out of step with global standards and does not serve Canadian investors well. We urge the Federal government to continue working with the other provinces that are not yet participating to recognize it is in the best of all Canadians that they join as well.

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We would be please to answer any questions in connection with this submission and would be happy to present our submission to the House of Commons Standing Committee on Finance.

Sincerely,

Katie Walmsley
President, PMAC