



## CARP on Pension Reform

CARP advocacy at the national level on pension reform has significant provincial implications. We call for a supplementary pension plan and a modest CPP-enhancement which requires provincial support. While Pooled Registered Pension Plans (PRPPs) are a welcome advance on the status quo, we believe that added investor protection is necessary.

More must be done to ensure the needs of Canadians who struggle with saving for retirement will be met. As currently structured, PRPPs share many of the pitfalls associated with RRSPs, giving little reason to believe that they will help Canadians save for retirement more effectively than RRSPs.

- Not universal or mandatory - employees who are auto-enrolled can opt-out after 60 days.
- No guarantee against high costs and fees – the promise of low fees comes only from the potential scale of investment that may be achieved by ‘pooling’. Recent pronouncements suggest that the government will not use the regulatory power of Bill C-25.
- Requires a DC plan - administrators are not permitted to offer a DB plan even if they can and would like to.
- Locked-in, like other DC plans. Thus, if they want a different plan or provide, employees cannot change plans when employed by a single employer.
- Insufficient fiduciary responsibility, which lies with plan administrators, to preclude conflict of interest investments. It also does not adequately prioritize the interests of investors. The potential for auto-enrolment and the pooled nature of investments is an improvement over the status quo. PRPPs, however, are not yet up to the challenge of helping Canadians save adequately for their own retirement.



### CARP's Recommendations

February 28<sup>th</sup>, 2012 - CARP called on Parliament to amend Bill C-25 to ensure that PRPPs be designed to mitigate the inherent risk associated with private sector pension plans. To ensure affordability, benefit adequacy, portability, fiduciary responsibilities, and proper risk management, CARP recommends:

1. Savings adequacy must be an integral goal of PRPPs.
2. PRPPs should be of a sustainable size and offer benefit portability to plan participants, even during sustained employment with a single employer.
3. PRPPs should offer defined benefits, which are superior to defined contribution plans in cost/benefit and resistance to market fluctuation.
4. PRPPs should operate under regulated maximum Management Expense Ratios (MER) and have governance and accountability mechanisms that properly balance the interests of employers, employees, and retirees.
5. PRPPs should be universally available to the employed, self-employed, and even the unemployed, regardless of whether the employer has enrolled in the plan. Similarly, they should be mandatory or based on auto-enrolment, with the possibility for individual opt-outs, contingent upon the inclusion of the above measures.

## Canadians Need Help Saving for Retirement

The core goal of any country's pension system is to provide an adequate system available to the full breadth of the population to prevent poverty in old age. It must be affordable by all participants and robust enough to withstand major shocks, including economic, demographic, and political volatility. Recent events have shown that Canada's retirement system is not meeting this goal in part due to inadequate pension coverage. Ongoing economic problems have focused public attention on the need for Canadians to prepare for their own retirement and there is a growing recognition of the need for a new broadly based retirement savings vehicle. That is where the consensus largely ends.

CARP's longstanding focus, regarding the larger issues of pension plan coverage and savings adequacy has been on the 3.5 million middle income earners working for smaller employers and the 4.9 million earning less than \$30,000 per year.<sup>i</sup> Due to the tendency to be lacking occupational plans and at high risk for retirement income inadequacy, it is primarily for this group of 8.4 million Canadians that advances in pension reform are needed. There are competing visions of what level of coverage is necessary, whether it must be mandatory, who should manage it and whether it can or must adequately address the needs of low and middle income Canadians. CARP has consistently called for a supplementary Universal Pension Plan modeled on the CPP with mandatory enrolment, utilizing the existing payroll deduction mechanism, professional management, a governance role for the members, and a mandate that is focused entirely on optimal performance and independence from government or any single employer. Defined benefits (DB) are also essential to achieving all of these goals.

In June 2010, governments acknowledged that there is a retirement savings gap and that they have a role in facilitating the creation of a supplementary pension savings instrument. At that time, the Finance Ministers also proposed to consider a "modest" enhancement to the CPP, an element that, despite repeated calls for progress, has been absent from apparent consideration. Bill C-25 provides for the creation of PRPPs which were meant to address the needs of the large proportion of Canadians who struggle with saving for retirement. As currently designed, PRPPs fall short of the core goal of providing a universally accessible and affordable retirement savings vehicle that would help provide an adequate retirement income. PRPPs can be made to help Canadians better save for their own retirement, but only if current design problems are corrected before being offered to Canadians.

## The Savings Gap

There is already a significant underuse of private, registered, savings vehicles. Roughly 71% of Canadians are concerned about their RRSP performance, given the volatility of the financial markets and economy.<sup>ii</sup>

Confidence in their ability to save with private, market-based, savings plans is also dropping. Almost 36% of Canadians are not confident in their ability to save for retirement, compared to 18% in 2010. And, 42% are less optimistic about the financial markets this year compared to last year.<sup>iii</sup>

- Canadians now contribute \$34.4 billion to RRSPs, which is only 4.5% of the total room available to eligible tax-filers.<sup>iv</sup>
- Canadians leave \$738.1 billion dollars of RRSP contribution room untouched.<sup>v</sup>
- Since the number of eligible taxpayers has increased, percentage of taxpayers who contributed to RRSPs decreased in 2011 from 2010.<sup>vi</sup>

PRPPs are only a marginal improvement over RRSPs, and Canadians have proven their reluctance to invest through defined contributions (DC) savings vehicles with high fees and costs and little fiduciary oversight. To better help Canadians save for retirement and boost their confidence to do so, the federal government must ensure that PRPPs have legislated protections for investors and are designed to reap the highest savings for all Canadians.

## CARP Members Expect Low Fees, Low Risk, Defined Benefits, and Mandatory Employer Contributions

CARP members do not support PRPPs as currently designed. The overwhelming majority of CARP members insist that PRPPs must feature low fees, as offered by the CPP Investment Board and other large retirement funds that operate at a management expense of less than 0.5%. Private sector savings vehicles, such as RRSPs, exact fees in excess of 2.5%. The resulting difference for investors can be thousands of dollars in reduced retirement savings.

CARP members also expect the government to provide legislated risk controls and protections for investors. Real fiduciary responsibility must be a fundamental aspect of PRPP legislation. Almost two thirds of CARP members do not trust the private sector to deliver safe, low cost, risk-free pension plans to Canadians and one-fifth of members do not trust the private sector “at all”.<sup>vii</sup>

Most CARP members insist that PRPPs should be able to offer defined benefit (DB) options rather than just defined contributions. More than half of CARP members insist that a DB option in PRPPs is “extremely important”.

Among CARP members, matching employer contribution is considered the most alluring feature if a voluntary workplace retirement savings plan existed.<sup>viii</sup> Overall, members prefer the public option and the majority think that an enhanced CPP or another public option has a vital role to play in retirement security, whether along with PRPPs or alone.

## Declining Confidence in Retiring Securely

Many older Canadians preparing for retirement are unsure of their ability to live securely in retirement.<sup>ix</sup>

- 72% of pre-retirees are concerned about “maintaining a reasonable standard of living for the rest of their life.”
- 50% admit to being unprepared for retirement.
- 87% of pre-retirees expect to receive income from government supplements.

Canadians are becoming too familiar with the threat of insecure retirement. Such data suggests that pension reform requires more than minor adjustments. A growing and aging contingent of working Canadians needs proposed pension mechanisms to reflect contemporary challenges. Most importantly, however, 8.4 million Canadians need these instruments to safely and robustly cover existing gaps in savings adequacy.

## Provide Canadians with the Best Means of Saving for Retirement

CARP members welcome any action that improves on the status quo – which has left many of them with financial insecurity as they face retirement – for their children as well as themselves.

This same sentiment was seen with the strong up-take of TFSA. Since its introduction in 2008, approximately 8.2 million TFSA accounts have been opened.<sup>x</sup>

Canadians favour a public option to avoid the high costs and lack of accountability in private offerings and strongly supported CPP enhancements. Since the proposal rules out a public option, and call for a Defined Contribution approach, CARP will be looking for legislated protections to ensure affordability, benefit adequacy, portability, fiduciary responsibilities, and proper risk management to ensure sustainability.

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<sup>i</sup> Ambachtsheer, Keith: The Canada Supplementary Pension Plan (CSPP) Towards an Adequate, Affordable Pension for All Canadians. C. D. Howe Institute May 2008

<sup>ii</sup> BMO Financial Group, archived at <http://newsroom.bmo.com/press-releases/bmo-annual-rrsp-study-majority-of-canadians-plann-tsx-bmo-201112080751376001>

<sup>iii</sup> Ibid.

<sup>iv</sup> Statistics Canada. RRSP Contributions 2011. <http://www.statcan.gc.ca/daily-quotidien/130211/dq130211a-eng.htm>

<sup>v</sup> Ibid.

<sup>vi</sup> Ibid.

<sup>vii</sup> CARP poll Dec. 23-26, 2010 <http://www.carp.ca/2010/12/23/pension-reform-poll-report/>

<sup>viii</sup> CARP poll Oct. 19, 2012. <http://www.carp.ca/2012/10/19/carp-financial-poll-report/>

<sup>ix</sup> Canadian Institute of Actuaries, Retirement Risk: Defining Retirement Horizons.

<sup>x</sup> Department of Finance Canada.

<http://www.fin.gc.ca/n11/11-148-eng.asp>