Making Pooled Registered Pension Plans Work for Ontarians: CARP Submission to the Strategic Pension Reform Secretariat, Ontario Ministry of Finance

In June 2010, finance ministers finally acknowledged that Canadians were not saving enough for their own retirement and that governments had a role to play. The federal government introduced Pooled Registered Pension Plans (PRPPs) as a solution to the savings gap and finance ministers committed to considering a "modest" Canada Pension Plan (CPP) enhancement.

Since then, federal PRPP enabling legislation has been enacted and provincial legislation has been tabled and is in various stages of approval. In December 2013, however, the federal government refused to act on modest CPP enhancement, leaving most Canadians with few safe, robust ways to save for their own retirement.

In the absence of comprehensive national pension reform and a modest CPP enhancement, Ontario has committed to a Supplementary Provincial Pension Plan in addition to moving ahead with provincial PRPP legislation. PRPPs are an improvement on the status quo, but as designed currently PRPPs may not go far enough toward helping Canadians prepare and save for their own retirement.

The potential business for the private sector administrators of the new PRPPs is enormous while individual savers will continue to bear much of the risks associated with private savings vehicles. PRPPs could be a major wind fall for the banks and insurance firms. The 'regulated financial institutions' will get monopoly access to a major source of new business, but Ontarians may not get the safe, robust savings plan needed to secure retirement income. The Ontario government has an opportunity now to structure PRPPs to work in the interest of Ontarians saving for their own retirement.

Making Pooled Registered Pension Plans Work for Ontarians

The core goal of any pension system is to provide an adequate savings system available to the full breadth of the population that is sufficient to prevent poverty in old age. It must be affordable by the employers and employees and other participants and robust enough to withstand major shocks, including economic, demographic, and political volatility.

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, 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.

While PRPPs represent a step in the right direction, and a potential improvement on the status quo, they will have to be designed and administered at the provincial level to meet the needs of Ontarians who currently do not benefit from occupational or supplemental pension plans.

CARP is calling on the Ontario government to ensure that PRPPs be designed to mitigate against the inherent risk associated with private sector pension plans by establishing accountability and governance mechanisms that promote and protect the interests of investors. This can be accomplished by legislated protections that ensure affordability, benefit adequacy, portability, fiduciary responsibilities, and proper risk management to ensure sustainability. Ontario enabling legislation for PRPPs should adhere to the following principles to ensure that PRPPs work for Ontarians:

CARP Recommendations

1. **Universal access and portability:** It should be available to all working Canadians, with full portability across jobs and provinces;
2. **Mandatory enrolment [with opt out] to achieve critical mass:** Research shows that more than 85% stay enrolled despite opt out;
3. **Mandatory minimum employer contributions to leverage participation:** CARP polling shows that employer contributions are a major factor in employee participation;
4. **Affordability through economies of scale and regulation**: Measures to ensure that funds achieve a critical mass to allow economies of scale; professional management together with a regulated cap on management and administration fees;
5. **Predictable benefits:** Require investment and risk management tools to provide target benefits to help people prepare and plan for retirement;
6. **Independence and accountability**: PRPPs should be independent of government or single employers and should provide a governance role and accountability to plan members;
7. **Large, pooled funds:** PRPPs should be large enough in size to increase investment returns and ensure greater fund stability.

Ontarians Need Help Saving for Retirement

Canadians are not saving enough for their own retirement. If nothing is done to provide Canadians with robust and safe ways to plan and save for retirement, many Canadians will be financially unprepared and may experience significant drops in standard of living in retirement:[i]

- Two-thirds of the workforce – 12 million working Canadians – do not have workplace pension plans.[ii]
- Private savings options, such as Registered Retirement Savings Plans (RRSPs) have not been the answer to retirement security.
- In 2011, Canadians contributed $34.4 billion to RRSPs, which was only 4.5% of the total room available to eligible tax-filers. In effect, Canadians have left $738 billion of RRSP contribution room untouched.[iii]

The 2008 recession took a heavy toll on retirement savings, but even before the recession, Canadians were underprepared for retirement and in real risk of outliving their savings. At the time of retirement, a typical Canadian family will require roughly $500,000 to $1,000,000 to retire securely, depending on pre-retirement income, retirement needs, and age of retirement.[iv]

After decades of improvement, the percentage of seniors living near or in poverty in Canada rose by 25% from 2007 to 2008.[v] A new report from the OECD shows that from 1997 to 2010, old age poverty rate in Canada increased by 2 percentage points, from 5.2% to 7.2%. Percentages, however, rarely capture the human cost of poverty. In that period, an additional 100,000 seniors entered poverty. There are currently an estimated 360,000 Canadian seniors in poverty based on this report.[vi]

The Canadian median RRSP value in 2005 was only $30,000, far short of even the lower range of expected savings' needs.[vii] Many Canadians will not have saved sufficiently for retirement and there is little reason to believe that another private savings option will address the savings gap unless it prioritizes retirement income security.

Correcting the Course on PRPPs

As structured currently, PRPPs share many of the pitfalls associated with RRSPs and there is little reason to believe that PRPPs will help Canadians save for retirement more effectively than RRSPs.

- **They are not universal or mandatory** – employers can decide whether to auto-enroll employees. Employees who are auto-enrolled can opt-out after 60 days.
- **There is 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'.
- **It strictly requires a defined contribution (DC) plan**; administrators are not permitted to offer a DB plan even if they can and would like to.
- **A PRPP would be locked-in, like other DC plans** – making it impossible for employees to change plans, should they want a different plan or provider, during employment with a single employer.
- **The fiduciary responsibility, which lies with plan administrators**, is not sufficient to preclude conflict of interest investments nor does it adequately prioritize the interests of investors.

Canadians have proven their reluctance to invest through private retail, DC savings vehicles with high fees and costs and little fiduciary oversight. To better help Ontarians save for retirement and boost their confidence to do so, the Ontario government must ensure that PRPPs have legislated protections for investors and are designed to reap the highest savings for all Canadians.

Australia's Failed Experiment

Australia provides a useful precaution in proceeding with PRPPs as currently structured. Australia's pension system, the cornerstone of which is their Superannuation Fund, relies largely on private, defined contribution schemes that resemble PRPPs in many regards.

As with PRPPs, the Australian Superannuation system is based on the assumption that market competition delivers better results and economic efficiency. Mandatory contributions through private banks and administrators have resulted in a substantial growth of contributions, but net returns have been low.[viii]

Australia's superannuation funds were among the hardest hit in the OECD during the first wave of global recession, with real losses of 26.7% in 2008.[ix] Despite the presumed role of competition, Australia's mandatory, DC, employment based pension system has performed poorly. Expert accounts show that the system continues to be restrained by high fees and costs and market competition has added undue complexity to investor choice without producing real returns.

Australia has the fourth highest old-age poverty rate in the OECD countries and more than double the OECD average.[x] Private, DC plans, have not been the answer in Australia and they are unlikely to be the answer in Canada. Caution should be exercised before following on the path of countries that have not fared well with private sector experiments.

CARP Members Expect Low Fees, Low Risk, and Defined Benefits, Employer Contributions[xi]

CARP members do not support PRPPs as currently designed. The overwhelming majority insists that PRPPs must feature low fees, as offered by the CPP Investment Board and other large retirement funds. The CPP and most large not-for-profit pension funds operate at a management expense of approximately 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”. 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.

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”. Employer contributions are also important. One in five CARP members report that they would not participate in PRPPs unless employer contributions are mandated.

CARP members polled want governments to structure PRPPs with regulated fees, employer contributions and a guaranteed payout.

Provide Ontarians with the Best Means of Saving for Retirement

CARP members welcome any action that improves the status quo – which has left many of them with financial insecurity as they face retirement – for their children as well as themselves. The refusal of the federal government to consent to provincial calls for modest CPP enhancement means that provincial enabling legislation for PRPPs must be made to help Ontarians save safely and robustly for their own retirement.

CARP members have always favoured a public option to avoid the high costs and lack of accountability in private offerings and strongly support CPP enhancements. CARP will be looking for legislated protections to ensure affordability, benefit adequacy, portability, fiduciary responsibilities, employer contributions, and proper risk management to ensure sustainability.

References

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[v] Campaign 2000, 2010 Report Card on Child and Family Poverty in Canada: 1989 – 2010, 2010.

[vi] OECD, Pensions at Glance, Canada 2013: http://www.oecd.org/canada/OECD-PensionsAtAGlance-2013-Highlights-Canada.pdf

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