Securing Our Future

Strengthening Retirement Income in Ontario through Pooled Registered Pension Plans

Ontario Ministry of Finance

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Ontario

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Assurer notre avenir : Renforcer le revenu de retraite en Ontario grâce
à des régimes de pension agréés collectifs

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Consulting on a Framework for Pooled Registered Pension Plans in Ontario

Introduction

Studies and analyses from pension experts, academics and research institutes indicate that, while the retirement income system is working reasonably well for today's retirees, future retirees may not be saving sufficiently for retirement.[1] Several trends in recent years have led to future retirement incomes being at risk, including Canada's aging population, increasing life expectancy and declining coverage of traditional workplace pension plans.

The retirement savings challenge is a complex issue, which requires a long-term multi-faceted approach, to ensure that Ontarians save adequately for retirement. The Ontario government will continue to take a leadership role in strengthening the retirement income system and supporting pension innovation as an essential element in any strategy to enhance retirement savings.

In the fall of 2010, the Minister of Finance released a consultation paper, *"Securing Our Retirement Future: Consulting with Ontarians on Canada's Retirement Income System."*[2] The paper presented a comprehensive strategy to enhance retirement incomes in Canada and Ontario, which included the development of new and innovative ways for Ontarians to save for retirement, such as pooled registered pension plans (PRPPs) and target benefit plans.

Following the enactment of the federal *Pooled Registered Pension Plans Act* in December 2012, the 2013 Ontario Budget announced that the government would consult on a framework for PRPPs before introducing legislation.

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[1] Kevin D. Moore, William Robson, and Alexandre Laurin, "Canada's Looming Retirement Challenge: Will Future Retirees Be Able To Maintain Their Living Standards Upon Retirement?," C.D. Howe Institute Commentary, no. 317 (December 2010), http://www.cdhowe.org/pdf/Commentary_317.pdf;
Michael C. Wolfson, "Projecting the Adequacy of Canadians' Retirement Incomes: Current Prospects and Possible Reform Options," Institute for Research on Public Policy, no. 17 (April 2011), http://www.irpp.org/assets/research/faces-of-aging/projecting-the-adequacy-of-canadians-retirement-incomes/IRPP-Study-no17.pdf;
Benjamin Tal and Avery Shenfeld, "Canadians' Retirement Future: Mind the Gap," CIBC World Markets Inc., In Focus, (February 20, 2013), http://research.cibcwm.com/economic_public/download/if_2013-0220.pdf

[2] The consultation paper can be found at: http://www.fin.gov.on.ca/en/consultations/pension/ris.html.

The 2013 Ontario Economic Outlook and Fiscal Review introduced a bold new three-pronged strategy to address the retirement savings challenge. This strategy is a comprehensive, long-term approach that includes a range of tools to assist all Ontarians, including those without workplace pension plans, those with self-directed retirement savings, and those with defined benefit (DB) pension plans. A key element of this strategy is the important role PRPPs would play in providing greater retirement income security for the people of Ontario.

This paper builds on the results of the 2010 consultation process, the 2013 Budget announcement and the 2013 Economic Outlook and Fiscal Review by consulting on a framework for PRPPs in Ontario. The Ministry of Finance is seeking feedback from all interested parties on how a PRPP framework would be best implemented in Ontario.

How to Participate in the Consultation Process

To guide the conversation on Ontario's PRPP policy, this paper provides background information on the federal model and sets out discussion questions on specific parameters of a possible PRPP framework for Ontario. Information received through the consultation process will help inform the development of Ontario's legislative framework for PRPPs.

Feedback on any or all of these questions, as well as comments on the PRPP initiative more generally, can be submitted to pension.feedback@ontario.ca or mailed to:

Framework for Pooled Registered Pension Plans
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Submissions must be received by **January 20, 2014.**

Background

Leading the Way to a Secure Retirement

Long-term savings and investment are critical to ensuring Ontarians prepare financially for their retirement. Many Ontarians today are having difficulty putting aside sufficient savings for retirement and are worried about their future financial security.

As announced in the 2013 Economic Outlook and Fiscal Review, the province has launched a new strategy to enhance retirement income in Ontario.

The government is committed to helping Ontarians save for a strong and secure retirement so they are able to enjoy their retirement years. It will assist working Ontarians in planning for their retirement, whether they rely on retirement income provided through the Canada Pension Plan (CPP), are accumulating retirement savings independently, and/or have access to a workplace pension plan. This commitment will ease the financial pressure on the people of Ontario, their children and their grandchildren.

The CPP forms the foundation of the nation's retirement income system. An enhancement to the CPP is critical to ensuring that Ontarians, particularly middle-income earners, have greater financial security in retirement. The government is leading the way by working to secure an agreement among provinces and the federal government on enhancing the CPP. If an agreement cannot be reached, Ontario will move forward with a "made in Ontario" solution.

The government will also implement innovative retirement savings models such as PRPPs to promote increased retirement savings in the province. Before introducing legislation, the government is releasing this consultation paper on PRPPs in order to ensure that an Ontario PRPP framework provides employees, particularly those working in small and medium-sized businesses, with a simplified, low-cost retirement savings vehicle.

For Ontarians with self-directed retirement savings, such as registered retirement savings plans (RRSPs), Ontario will work to reduce the cost of investing and provide individuals with the help they need to make informed decisions about financial savings. The government will examine recommendations by the Ontario Securities Commission, which is looking at the structure of mutual fund fees, and consider more tailored regulation of financial advisers and planners.

Recognizing recent funding challenges, the government will also help those with DB pension plans by implementing new and revised rules to ensure Ontario’s private-sector DB plans remain financially sound and public-sector DB plans remain affordable and sustainable.

Pooled Registered Pension Plans

PRPPs are a new type of tax-assisted individual retirement savings plan. These plans are intended to make it easier to save for retirement by offering employees and self-employed persons with an additional savings tool that is low cost, professionally managed and portable from one workplace to another.

After two years of federal-provincial-territorial collaboration in the development and design of PRPPs, the federal government implemented PRPPs for sectors under federal jurisdiction, such as employees in the banking, interprovincial transportation and communications sectors. The federal legislation also applies to persons employed in Yukon, the Northwest Territories and Nunavut. Provincial legislation is required to implement PRPPs for all other areas of employment. As a result, PRPPs will not be available to the majority of Canadians until legislation is passed by provinces and the associated regulations to implement a provincial PRPP framework are approved.

To date, Alberta and Saskatchewan have passed legislation establishing PRPP frameworks that largely mirror the federal government’s model. British Columbia introduced legislation that also paralleled the federal model; however, the legislation did not pass before its legislature was dissolved in March 2013. Quebec has introduced legislation to implement its proposed Voluntary Retirement Savings Plan (VRSP) that, while similar to the federal PRPP framework, differs in a few significant areas (see Appendix).

The Federal PRPP Model

The federal *Pooled Registered Pension Plans Act* (PRPP Act) and associated regulations came into force on December 14, 2012. The PRPP Act enables third-party administrators such as banks and insurance companies to offer PRPPs and sets out rules for establishing, administering and governing PRPPs.

Key characteristics of the federal PRPP framework include:

- **Voluntary participation by employers** – Employers would choose whether to offer their employees a PRPP as a retirement savings tool;
- **Automatic enrolment of employees** – Where an employer elects to offer a PRPP, enrolment of employees would be automatic unless an employee chooses to opt out within a 60-day period;
- **Portability between workplaces** – Employees would be able to transfer their PRPP assets to a new workplace PRPP, allowing them to easily consolidate their retirement savings accounts;

- **Set contribution rates** – PRPP members' contribution rates would be determined by the third-party administrator;
- **Voluntary contributions by employers** –The employer would determine whether or not to contribute to their employees' PRPPs;
- **Locked-in contributions** – An individual would not be able to access his or her PRPP retirement savings, subject to certain prescribed exceptions, until the age of 55 (the retirement age under the federal PRPP framework);
- **Low cost** – PRPPs would provide professional investment management at a low cost to plan members by pooling the funds of all individuals' accounts for investment purposes, as well as limiting the investment options provided to plan members; and
- **Easy to offer** – PRPPs would involve fewer administrative responsibilities for employers than a traditional pension plan.

PRPPs Compared to Other Retirement Savings Options

PRPPs are savings plans designed to provide retirement income for individuals who pay into them. Similar to other tax-assisted savings vehicles, such as RRSPs, individuals would not pay income tax on their PRPP contributions (and investment returns) until they withdraw their funds.

PRPPs differ from RRSPs in a number of important respects:

- Individuals' accounts are pooled for investment purposes;
- Contributions are locked in until an individual reaches the retirement age;
- Legislation requires that PRPPs be provided at low cost;
- Administrators are held to a higher legal standard of care; and
- Employers' tax-deductible PRPP contributions are excluded from salaried compensation of employees (similar to registered pension plan contributions) and are not subject to Employment Insurance premiums or CPP contributions, resulting in more favourable tax treatment than RRSPs.

With respect to other registered pension plans, PRPPs are designed in the following ways:

- Similar to a defined contribution (DC) plan, PRPP benefits at retirement are based on accumulated contributions and investment returns. In a DB plan, benefits on retirement are based on a pre-determined formula incorporating average earnings and years of service.

- In a PRPP, an individual member typically bears the investment risk. PRPP administrators may permit members to tailor investment strategies to reflect one's risk tolerance. This is similar to a DC plan, but differs from DB plans, where asset allocation is set by the administrator to meet the long-term liabilities of the plan.

- In a DB plan, "longevity risk" is pooled; the plan bears the risk of the overall longevity of its members. In both a PRPP and a DC plan, individual members have their own accounts and bear the risk of outliving the funds saved and accumulated in the plan.

Key Design Features

Making PRPPs Available

Employers who choose to offer PRPPs to their employees would be responsible for selecting and entering into a contract with a third-party PRPP administrator, such as a bank or insurance company. The administrator would then be responsible for managing PRPP investments and for communicating with plan members on matters relating to their PRPP.

If an employer chooses to offer a PRPP, an employee would be automatically enrolled in it unless the employee chose to opt out. Employee contributions to the PRPP would be made through automatic paycheque deductions; the employer would be required to deduct and remit their employees' contributions to the administrator.

Individuals who do not participate in a workplace PRPP, such as self-employed individuals, would be able to enrol themselves into a PRPP of their choice. In this case, an individual would contact a PRPP administrator to join a plan and would make contributions through an automatic payment plan with their financial institution.

Under the federal framework, unemployed individuals would not be able to join a PRPP.

PRPP Investment Management

Each administrator would be responsible for designing its PRPP(s). A plan administrator could choose to offer one or multiple PRPPs, depending on its marketing strategy and whether it sought to tailor its PRPP for specific employers.

Administrators would have the option of including different investment options to reflect the varying risk preferences of the members. PRPP members would have a maximum of six investment options.

A default option would be applied to members who did not make a choice on an investment option within a specified timeframe. An example of a default option under the federal framework would be a "balanced fund," which is geared toward investors looking for a combination of safety, income and modest capital appreciation.

Regulation of PRPPs

In order to administer a PRPP, a corporation would be first required to obtain a licence to operate as a PRPP administrator from the supervisory authority. To do so, the corporation would need to demonstrate that it has the capacity and resources available to successfully offer PRPPs at a low cost. The licensed administrator would then be required to register its PRPP(s) with the supervisory authority and with the Canada Revenue Agency. In the federal PRPP framework, the supervisory authority is the Superintendent of Financial Institutions.

Further information on the federal PRPP framework can be found at http://www.fin.gc.ca/n11/11-119-eng.asp. Additional information on the content and status of provincial legislation in other provinces can be found in the Appendix.

Discussion Questions [Fillable Form]

Eligibility

1. Under the federal framework, PRPPs would not be available to unemployed individuals.

   Would it be beneficial to broaden eligibility to allow anyone in Ontario with unused RRSP room to participate, regardless of their employment status?

Key Elements of a PRPP

2. Employer Participation

   The federal framework does not require employers to offer a PRPP. Quebec has proposed a different approach in its *Voluntary Retirement Savings Plans Act* — its version of PRPPs — under which employers that employ at least five individuals and do not offer other retirement savings arrangements would be required to offer a PRPP.

   Should Ontario's PRPP framework require employers to participate? If yes, should there be any exceptions?

3. Employee Participation

The federal PRPP framework requires participating employers to automatically enrol their employees into a PRPP, and provides a 60-day period during which employees may opt out. A challenge with this model is that employees may not realize that they need to actively opt out of a PRPP if they decide against joining a plan.

It is important to note that lower-wage workers can usually meet or exceed their pre-retirement earnings through the existing benefits provided by the current CPP, Old Age Security (OAS), the Guaranteed Income Supplement (GIS) and the Guaranteed Annual Income System (GAINS). This suggests that an additional savings tool such as PRPPs may not be necessary for lower-wage workers.

a. Should Ontario's PRPP framework provide for automatic enrolment of employees? Or, should employees instead be required to opt in to a PRPP?
b. If employee enrolment is automatic, should employees have longer than 60 days to opt out?
c. If employer participation is mandatory, should employees also be required to join and remain in the plan?
d. Should lower-wage workers be exempt from either mandatory employee participation or automatic enrolment?

4. Member Termination

Under the federal framework, plan members who enrol individually, such as self-employed individuals, have the option of terminating their membership in their PRPP or transferring to a different PRPP administrator at any time. In contrast, members who are enrolled in a PRPP by their employers are unable to terminate their membership in the PRPP after the 60-day opt-out period unless they leave their job.

a. Should all plan members be allowed to end their membership in a PRPP at any time? If so, should they also be allowed to rejoin at any time?
b. Should all PRPP members be able to transfer their assets to a different administrator if they are dissatisfied with their current administrator?

5. Employee Contribution Rates

   The federal framework provides for plan members' contribution rates to be set by the administrator. It also allows the administrator to increase plan members' contribution rates automatically from time to time. For example, a PRPP administrator could set a contribution rate of three per cent for the first year and increase this rate by half a percentage point each year until the member reaches a maximum rate.

   Quebec has proposed a different approach to contribution rates in its Voluntary Retirement Savings Plan (VRSP) framework. Plan members would be able to determine their own contribution rates.

   a. Which approach to contribution rates would better serve Ontarians? What is the best approach to contribution rates in the event that the PRPP framework required mandatory employee participation?
   b. If Ontario allowed contribution rates to be set by administrators, should administrators also be permitted to increase members' contribution rates automatically from time to time?
   c. If yes, should there be a specified time period during which plan members can opt out of proposed contribution rate increases?

6. Employer Contributions

   Under the federal framework, participating employers are not required to contribute to a PRPP. This is different from the requirement in the CPP legislation or the general requirement in Ontario that employers who choose to offer a registered pension plan must also contribute to the plan.

   a. Should Ontario employers who offer a PRPP be required to contribute to the plan? If yes, should employer contributions still be required if the PRPP framework mandated employer participation?
   b. If a mandatory contribution is desirable, should there be a minimum contribution rate?

7. Low Cost

   The PRPP Act requires administrators to provide PRPPs at a “low cost” to members. The associated regulations state “costs are to be at or below the costs incurred by the members of defined contribution pension plans that provide investment options to groups of 500 or more members” and “costs are to be the same for all members of a PRPP.” This definition is intended to ensure that PRPP members benefit from the group pricing that large DC pension plans are offered.

   a. Is this definition of “low cost” appropriate? Should Ontario develop a different definition of low cost? If yes, what should the definition be and should it include a maximum fee?

   b. How much detail should be required to be disclosed to plan members on costs and fees?

   c. Should Ontario consider other restrictions on certain fees, such as trailer fees?

8. Locking In

The federal framework requires both employer and employee contributions to be "locked in" until the retirement age.

In contrast, Quebec's proposed VRSP framework provides that contributions made by employees or individual members would not be locked in. This means that individuals would be able to withdraw their funds at any time; however, upon withdrawal, they would be required to pay the income tax that was previously deferred (employer contributions would continue to be locked in). For example, an individual may choose to withdraw his or her contributions to a PRPP in order to aid in the purchase of a house. As a result, it is possible that PRPP funds could be used for purposes other than providing an individual with income during retirement.

Allowing greater flexibility in withdrawing funds may benefit certain plan members but could also lead to increased administration fees for all PRPP members.

a. Should Ontario allow plan members to access their PRPP account periodically for pre-retirement spending?
b. Should employer contributions, if any, be required to be locked in?
c. Would a locking-in requirement deter individuals from joining a PRPP?

Disclosure Requirements

9. The federal framework requires that each member receive an annual written statement, in paper or electronic form, from the plan administrator outlining key pieces of information, including:

   - The member's investment option and the degree of associated risk;
   - Contributions made by the member and employer, if any, over the course of the year;
   - Opening balance, the change in the investments' value (net of costs) and the closing balance;
   - The performance history of the member's investment option over an extended period of time compared to a benchmark; and
   - Any costs, fees, levies and other charges, expressed as a percentage or a fixed amount.

   a. What other information about a member's PRPP would be important to include in the annual statement?

   b. Should plan members be provided with more than one written statement annually — for example, quarterly statements?

   c. Should plan members be provided with information about the plan administrator, such as its financial capacity, investment practices and governance structure? Are there other disclosure requirements that would help ensure greater transparency and accountability?

Administration

10. Eligible Administrators

    The federal PRPP Act allows any corporation that is in possession of a valid licence issued by the Superintendent of Financial Institutions to offer PRPPs. Eligibility would be based on an assessment of the prospective administrator's ability to offer PRPPs consistent with a series of principles designed to encourage low costs and ensure that PRPPs are offered by regulated entities with appropriate experience (see licensing, regulation and supervision below).

    PRPP administrators could include financial institutions such as banks, credit unions and insurance companies as well as DB pension plan administrators.

    Should there be restrictions on which types of corporations can be administrators of PRPPs? If so, what kind?

11. Standard of Care

    Similar to Ontario's *Pension Benefits Act* (PBA), the federal PRPP Act requires a PRPP administrator to "exercise the degree of care that a reasonably prudent person would exercise in dealing with the property of another person and the diligence and skill that it possesses, or ought to possess, taking into account the administrator's business."

    PRPPs would likely be offered by institutions where the obligation to maximize profits could potentially conflict with the duty to act in the best interests of PRPP members. For example, institutions may be incented to choose higher fee investments to maximize profits, which may not be in the best interest of plan members with respect to their investment strategy. At the same time, they would be constrained by the legislative requirement that plans be offered at a low cost.

    Are there more specific requirements or limitations required to mitigate against potential conflicts of interest?

Regulation of PRPPs

12. Licensing, Registration and Supervision

    The federal framework requires PRPP administrators to be licensed by the federal Superintendent of Financial Institutions, who is also responsible for overseeing federally regulated registered pension plans. Once issued, a licence would not expire and would not be revocable. Administrators must also register each PRPP they intend to offer with the Superintendent and Canada Revenue Agency before they can market the product.

    In addition, the Superintendent is responsible for the ongoing supervision of PRPPs under federal jurisdiction, such as ensuring that PRPPs are offered at low cost and that plan members are adequately informed. If it is found that an administrator does not fully comply with the PRPP Act and associated regulations, the Superintendent has the authority to issue sanctions against the administrator. This authority includes the ability to revoke the registration of the plan in question (the administrator would, however, remain licensed), and prohibit the administrator from entering into any new contracts with employers or accepting new members.

    In Ontario, pension plans are registered with the Financial Services Commission of Ontario (FSCO) and are regulated by FSCO to ensure compliance with the PBA. As the pensions regulator, FSCO could also be responsible for the regulation of PRPPs in Ontario, including the licensing of administrators, the registration of PRPPs and the ongoing supervision of the regime. As discussed further below, harmonization of the regulation and supervision of PRPP frameworks across the country may be an important consideration.

    a. What conditions should be required to obtain a licence?
    b. Should Ontario PRPP licences have an expiration date? If so, after what period of time should a licence expire?
    c. Should Ontario PRPP licences be revocable? If so, under what conditions should a licence be revoked?
    d. What types of sanctions and enforcement mechanisms would a supervisory authority require to regulate PRPPs effectively in Ontario?
    e. What factors should be considered in determining which authority regulates and licenses PRPPs?

13. Harmonization

The federal framework allows the federal supervisory authority to enter into bilateral and multilateral agreements with the provinces to develop an efficient method of supervising PRPPs across the country, particularly where a PRPP has members in more than one jurisdiction. A coordinated approach to the licensing and supervision of PRPP administrators would result in fewer resources required for both administrators and regulators and would likely help to keep costs low. A coordinated approach to supervision, however, would require generally harmonized PRPP frameworks across the country.

a. How important would it be that Ontario harmonizes with existing PRPP frameworks?

b. Which elements of the PRPP framework would be the most critical for harmonization?

c. Are there any areas where Ontario should deviate from the existing PRPP model regardless of whether it reduces harmonization of PRPP frameworks across the country?

Feedback on any or all of these questions, as well as comments on the PRPP framework more generally, are welcome.

Please provide all comments by January 20, 2014.

Appendix: Status of Provincial Legislation

Four provinces have introduced PRPP legislation:

- Legislation to implement a PRPP framework that mirrors the federal model received Royal Assent in 2013 in both Saskatchewan and Alberta.
- In British Columbia, a bill was introduced earlier in 2013 that would have also implemented a PRPP framework mirroring the federal model. The bill did not pass before its legislature dissolved, which means the government would have to reintroduce the legislation in order for it to be considered.
- Quebec introduced Bill 39, the *Voluntary Retirement Savings Plans Act*, on May 8, 2013 to implement the Voluntary Retirement Savings Plan (VRSP), its version of PRPPs. Quebec's legislation differs from the federal framework in a few significant areas. For example:
    - Employers that employ at least five individuals and do not currently offer other retirement savings arrangements would be required to participate by offering a VRSP to employees;
    - Plan members would determine their own individual contribution rates; and
    - Only contributions made by employers would be locked in; member contributions would not be locked in.