



Pooled Registered Retirement Pension Plans

**FAS Annual Conference
June 9 - 12, 2011**



Introduction

Background	2
Framework	5
Quebec	16
Response & Consultation with Stakeholders	18
Issues	21
How to make PRPPs Work	33

Background



Background

- Concerns with respect to retirement adequacy of Canadians
 - 2008 financial crisis
 - Declining enrolment in private sector pension plans, particularly defined benefit pension plans
 - Demographic trends
- Creation of Working Group on Retirement Income Adequacy
 - Mintz Report, December 19, 2009
 - While overall the Canadian retirement system is performing well, concerns that middle-income earners may not be saving enough
- Policy choices
 - Expansion of CPP v. private sector alternatives
 - Private sector option pursued
 - Concerns about raising CPP contributions rates
 - Concerns about securing provincial support to amend CPP

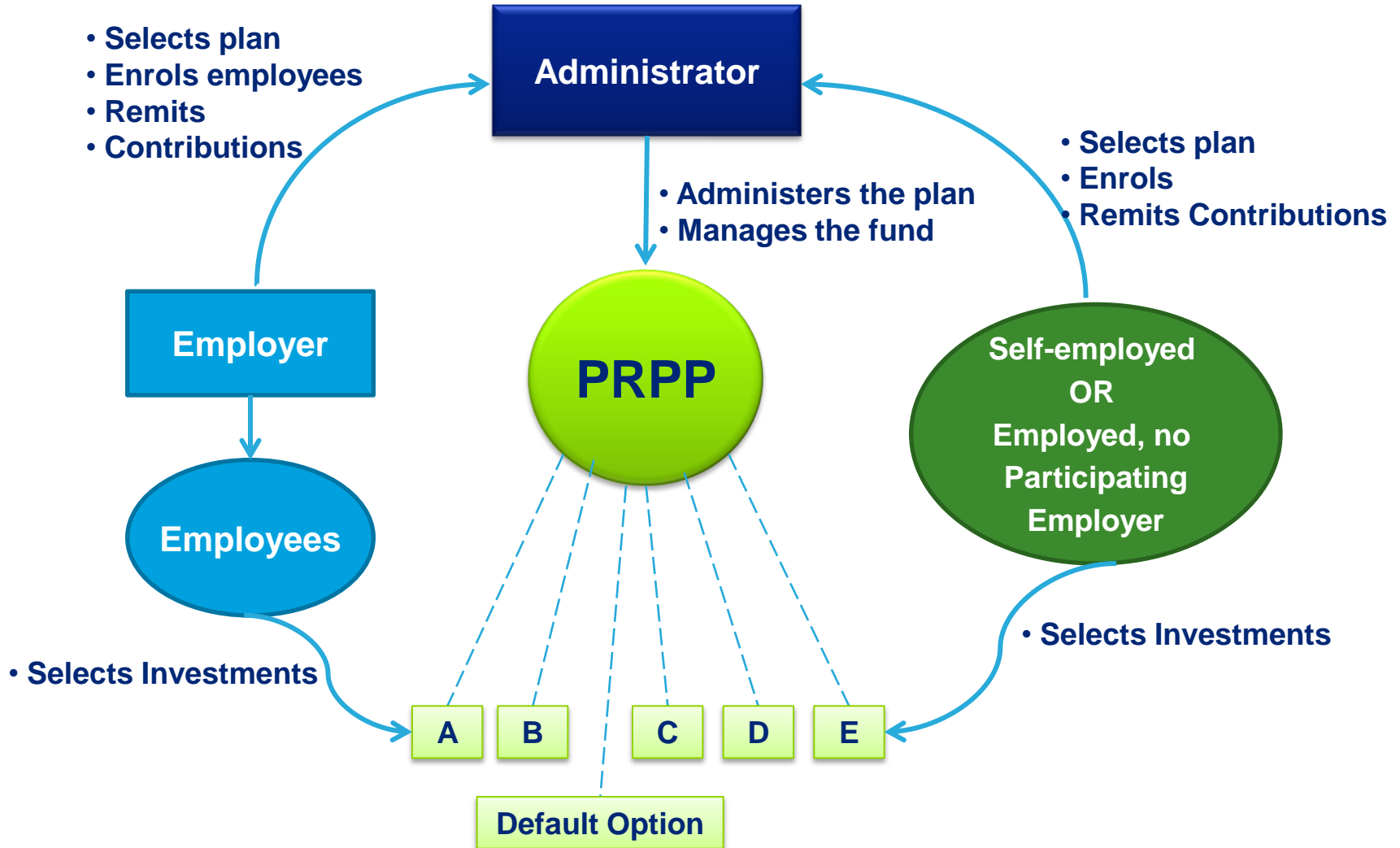
Pooled Registered Pension Plans (“PRPPs”)

- Announced at the Provincial and Territorial Finance Ministers Meeting, December 20, 2010
- Key principles
 - Accessible, administratively simple low cost alternative
 - Achieve economies of scale through large pooled defined contribution pension funds
 - Transfer most employer responsibilities to third party administrators
- Target Groups
 - Individuals who do not participate in a pension plan
 - Self-employed
 - Small and medium sized businesses who do not offer pension plans

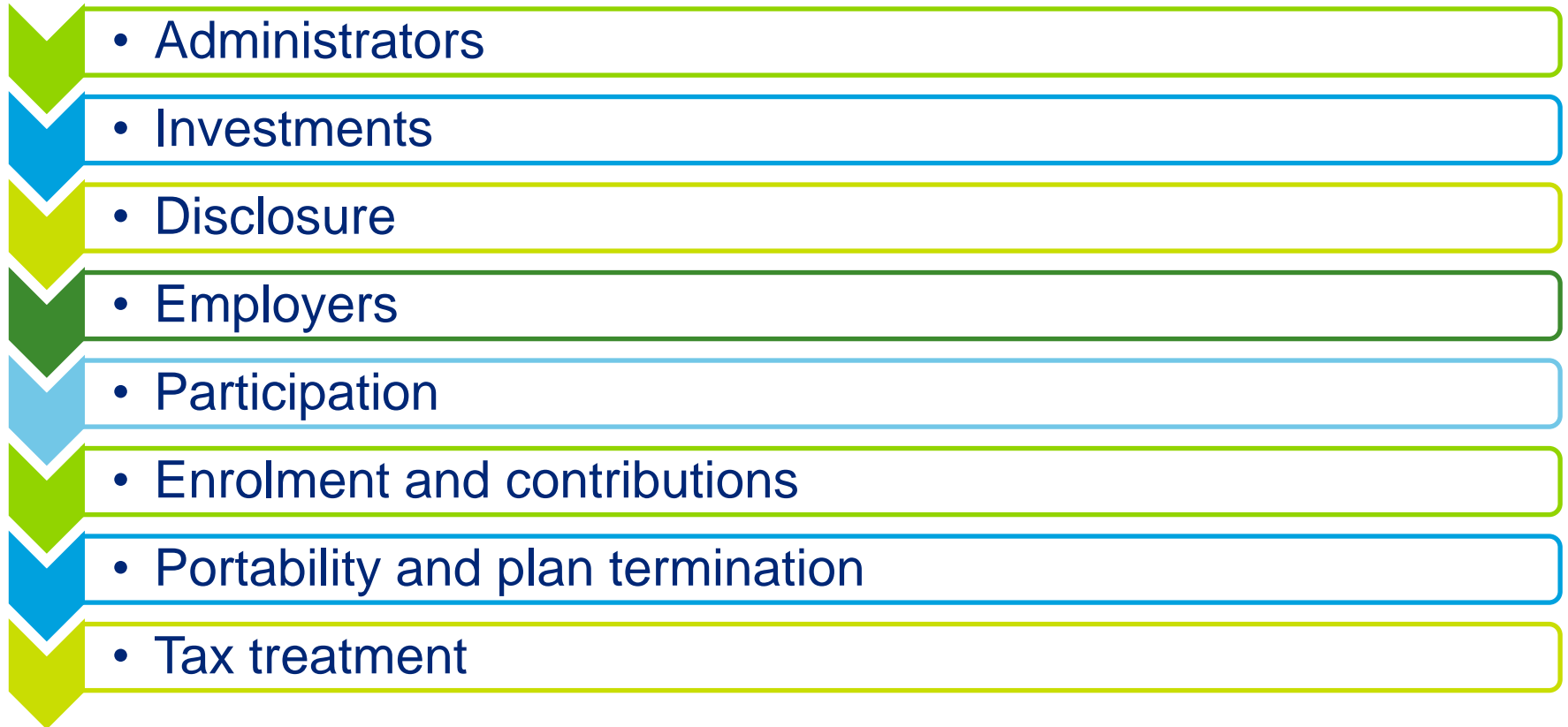
PRPPs Framework



PRPP Framework



PRPP Framework

- 
- Administrators
 - Investments
 - Disclosure
 - Employers
 - Participation
 - Enrolment and contributions
 - Portability and plan termination
 - Tax treatment

Administrators

- Responsible for management of the fund and day-to-day administration
- Can offer different plans to different types of members
- Fiduciary duty to plan members
- Regulated financial institutions that are capable of taking on a fiduciary role will be eligible Administrators
 - Trust, insurance companies and other financial institutions with a trust subsidiary

Investments

- “Administrators will be responsible for evaluating and offering investment funds that permit a reasonable and prudent person to create an appropriate portfolio in respect of his or her own investment objectives and risk preferences including a low cost option”
 - Must offer a suitable low-cost default option
 - Must offer a manageable number of other investment options
 - Members will select an investment mix consistent with their retirement savings objectives
 - Administrators are to provide members with educational tools and other resources to permit the member to make an informed choice
 - Assets will be commingled for investment purposes, but members will have personal accounts for record keeping purposes

Disclosure

- Plain language disclosure of plan provisions and investment performance is considered critical
- Administrators are responsible for providing certain information to members on regular, periodic basis, including
 - Annual statement
 - Investment performance and relative risks
 - All costs and fees
 - Contributions, broken down between employer/employee where applicable
 - Notice of any amendments to the plan
 - An illustration of the level of retirement income that could be generated through the purchase of an annuity by the member's assets
 - Informing terminating employees of their portability options

Employers

- Participation not mandatory
 - Each jurisdiction to determine whether it wants to make participation mandatory
- While intention is to shift compliance burden to the Administrator, an employer will still have certain responsibilities
 - Selecting a plan and enrolling employees, may involve moving from one plan to another from time to time
 - Advising employees of any move to a new plan
 - Determining level of employee contributions and any employer contributions
 - Collecting and remitting contributions
 - Informing the Administrator of new members and termination of employment
 - Employers who contribute will also have certain administrative responsibilities in relation to compliance with tax/pension rules

Participation

- Two classes of plan members
 - “Employed Members”
(members whose employers offer a PRPP)
 - “Individual Members”
(self-employed and members whose employers do not offer a PRPP)
- Certain regulatory and administrative differences
 - Employed Members participation will be similar to current defined contribution pension plans
 - Individual Members will be responsible for tasks otherwise falling on the employer (e.g. enrolling, selecting contribution rates and remitting contributions)
- Employed Members can be enrolled at any time
 - Can elect to opt out
- Investments will be common across all members

Enrolment and Contributions

- Employer contributions not mandatory
- Employers who offer a PRPP can select a default employee contribution rate
 - Ability to increase the default contribution rate from time to time, potentially subject to the employee's ability to opt out
- Employed Members will make contributions by payroll deductions
- Individual Members will also have the option of making lump sum contributions
- Contributions will be locked-in, following existing rules for pension plan contributions
 - Intended to ensure funds are available on retirement
 - Different from RRSPs where the funds are not locked-in but there is a financial disincentive to withdrawing funds early
- Jurisdictions may allow unlocking of employee contributions in certain circumstances
 - e.g. financial hardship; small amounts

Portability and Plan Termination

- **Employed Members**
 - Portability rights similar to currently offered under registered pension plans
- **Individual Members**
 - Will have fewer restrictions
 - Can move to another plan or retirement savings vehicle subject to a minimum investment period stipulated by the Administrator
- **Employers**
 - Can cease offering a plan at any time
 - If a new PRPP is chosen, will have the right to transfer employees' accounts to the new PRPP and employees will have to enroll in the new plan

Tax Treatment

- Will depend upon whether or not an employer participates
- PRPPs where the employer and employees contribute will be generally subject to the existing rules for defined contribution pension plans
 - Contributions will be subject to existing tax limits applicable to defined contribution pension plans
 - Contributions will result in a pension adjustment (“PA”)
- Self-employed and employees without a participating employer will contribute on the basis of their available RRSP limit
- Certain amendments will be made to accommodate PRPPs

Quebec



Quebec

- Quebec 2011 Provincial Budget announced the Voluntary Retirement Savings Plan (“VRSP”)
 - Proposals very similar to the Federal PRPP
 - One difference is that Quebec proposals seem to suggest that employers will have to offer VRSP to their employees, if they meet certain criteria (to be determined)
 - Employers will not be required to contribute though
 - Consultations being held on the VRSP proposal

Response & consultation with stakeholders



Response & Consultation with Stakeholders

- Favourable response from the financial services industry
- Labour groups have been opposed
- Employers favour the reduced administrative burden
- Stakeholders asked to provide comments to specific questions with respect to the design and regulation of PRPPs
 - Broad range of groups have provided feedback

Response & Consultation with Stakeholders



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retr



THE CANADIAN
BAR ASSOCIATION

L'ASSOCIATION DU
BARREAU CANADIEN



ACPM/ACARR

THE CANADIAN CHAMBER OF COMMERCE
LA CHAMBRE DE COMMERCE DU CANADA



UNITED STEELWORKERS
USW
MÉTALLOS



INVESTMENT INDUSTRY ASSOCIATION OF CANADA

ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES



PORTFOLIO MANAGEMENT
ASSOCIATION OF CANADA

Advancing Standards™

Advocis®
The Financial Advisors Association of Canada

Issues



Issues



- Who can be the Administrator?



- Employer role



- Fiduciary duties



- Regulatory oversight



- Investment choices



- “Low cost”



- Disclosure

Who can be the Administrator?

- Framework proposes only “regulated financial institutions”
 - Banks, trust companies, insurance companies
- Other organizations seeking to be eligible Administrators
 - Pension funds (OMERS)
 - Registered Investment Dealers
- Implications
 - Costs
 - Product/service offerings
 - Competition
- How to differentiate?

Employer Role

- Employer sponsors the plan
 - Other sponsors? e.g. professional associations
- Mandatory participation
 - Unlikely
 - Framework leaves it to each jurisdiction, increases complexity
- Selection of the PRPP
 - Key decision
 - What criteria should be used?
 - Is there an obligation to periodically review the performance of the Administrator?
- Employer participation and employer contributions are critical
 - To grow participation rates and assets
 - Need to educate small and medium businesses

Fiduciary Duties

- Framework contemplates shifting fiduciary duties of the plan sponsor to the Administrator
 - Under pension legislation, normally the employer, as plan sponsor, is the fiduciary
 - A fiduciary must act in the best interests of the members
 - Subject to a high standard of care
- Concerns about potential conflict of interests
 - e.g. if the Administrator's compensation is affected by choice of investments
- What standard of care should the Administrator be subject to?
 - Need to balance fiduciary concerns with low cost objective
 - Responsibilities of the Administrator need to be clearly defined

Fiduciary Duties

- Not clear what the governance model will be for PRPPs
- Governance model is critical
 - Need to balance competing interests of members, employers and administrators
 - Ultimately good governance will lead to better plans and better performance

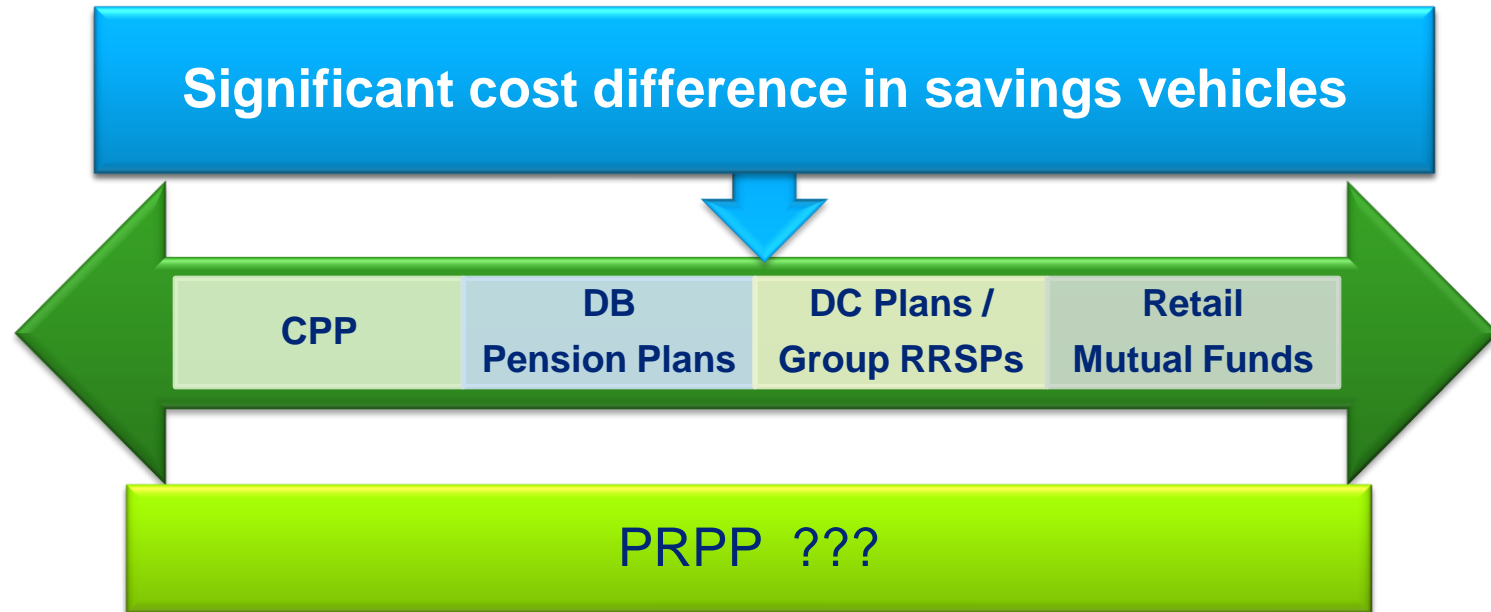
Regulatory Oversight

- Not clear who will regulate PRPPs
 - Are PRPPs to be regulated like pension plans or RRSPs?
- If PRPPs are to be regulated like pension plans,
 - Will existing pension regulators take on this responsibility?
 - Harmonization of pension rules critical
- Create a new regulator?
 - Supervisor or independent board of trustees

Investment Choices

- Framework contemplates that the Administrator will select the investment options available under the Plan
 - How many?
 - Should there be a minimum/maximum?
 - What kind of funds?
 - Alternative investment classes?
 - Number of funds and product offerings will impact cost
- Default investment option
 - What should the default investment option look like? e.g. a life-cycle fund?
 - Should the default investment option be prescribed?
 - Critical design component
- Is there a need for a safe-harbour rule?
- What level of advice should be offered?
 - “Know your client” rule

What does “low cost” mean?



What does “low cost” mean?

- Should costs be capped?
- Benchmarking system?
- Differential pricing
 - Employed v. self-employed members?
 - Small v. medium business?
- Important to employers (plan sponsors) and members
- What is commercially achievable?

What does “low cost” mean?

- Disclosure critical to compare and understand costs
- Suggestions that CAP Guidelines be adopted
 - All costs paid directly or indirectly by members should be disclosed
 - Any costs that must be paid when investments are bought or sold
 - Costs associated with accessing or using any investment information, decision making tools, or investment advice provided
 - Investment fund management fees
 - Investment fund operating expenses
 - Record keeping fees
 - Any costs for transferring among investment options (including penalties book and market value adjustments, tax consequences)
 - Account fees
 - Fees for services provided by service providers

What does “low cost” mean?

Low Cost vs. Good Value

Question is not what is “Low Cost” but what is “cost effective”

What value do
members and employers
receive?

How to make PRPPs Work



How to make PRPPs Work

- **Simplicity**
 - Plan design and administration (e.g. speciman plans, use existing delivery platforms)
 - Harmonization of pension rules
- **Auto-pilot for members**
 - Auto-enrolment
 - Automatic increases in contributions (e.g. certain milestones)
 - Default investment option
- **Employers need to participate**
 - Allow professional associations to be plan sponsors
- **Expand eligible Administrators**
 - Subject to same standard

How to make PRPPs Work

- Governance model
 - Balance interests of members, employers (plans sponsors) and Administrators
 - Clear rules setting out responsibility of Administrators and plans sponsors
 - Safe-harbour rule
- Transparency
- Education
 - Employers
 - Members
 - Products
- Champion

Deloitte.