INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

Ian C.W. Russell FCSI
President & Chief Executive Officer

February 16, 2011

Mr. Jeremy Rudin
Assistant Deputy Minister
Finance Canada
FSP - Assistant Deputy Minister's Office
140 O'Connor St.
Ottawa, ON K1A 0G5

Dear Mr. Rudin:

Re: Successful Launch Factors for the PRPP – The Investment Dealer Perspective

The Investment Industry Association of Canada (IIAC) agrees that Pooled Registered Pension Plans (PRPPs) can fill an identified gap in retirement savings options by providing small companies and self-employed Canadians with an alternative retirement savings vehicle. PRPPs also offer the potential for economies of scale to lower costs. We would like to offer insights, based on our members' extensive involvement in providing registered products and retirement planning, for consideration by the federal and provincial governments to deliver on the stated goals of the Department of Finance's Framework for PRPPs (the Framework), that is:

- Provide an accessible, straightforward, and administratively low-cost retirement option for employers, the self-employed and employees of companies that do not offer pension plans;
- Enable more Canadians to access the benefits of membership in a large, pooled pension plan;
- Allow for portability of benefits to facilitate easy transfer between plans; and
- Ensure that savings are invested in the best interest of plan members.

The criteria we believe will help maximize the success of the PRPP are as follows:

- Initiation of immediate intensive consultations;
- Eligibility of all regulated financial institutions as PRPP administrators;
- Minimized complexity/risk to maximize economies of scale;
- Early specification of acceptable PRPP parameters;
- Acceptance of a range of product and service options, including low-cost; and
- Implementation time commensurate with the complexity of PRPP requirements.

We hope these critical success factors can form part of our discussions with your department and provincial government staff.

Yours sincerely,

"Ian Russell"

Cc: Leah Anderson, Department of Finance
Tim Cleland, Department of Finance
Lynn Hemmings, Department of Finance
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CRITICAL PRPP SUCCESS FACTORS

The suggested critical success factors below are provided from the perspective of potential administrators, although many would apply, with appropriate changes, to employers that might offer PRPPs.

1. **Initiation of immediate intensive consultations:** While not without challenges, the introduction of tax-free savings accounts (TFSAs) proceeded much more smoothly than that of registered disability savings plans (RDSPs), largely because of early and sustained discussions between different parts of the financial industry, the Canada Revenue Agency (CRA) and Finance that were given a high priority by all parties. PRPP consultations should include, at appropriate points, all governments, employers and financial institutions.

2. **Eligibility of all regulated financial institutions as PRPP administrators:** The IIAC is concerned that footnote 2 on page 2 of the Framework excludes the vast majority of investment dealers in Canada that currently offer registered savings products (registered retirement savings plans (RRSPs), registered retirement income funds (RRIFs), RDSPs and TFSAs through custodial arrangements with a regulated trust company. Registered investment dealers in Canada are effectively regulated and subject to high standards of operation and governance, and they already administer registered retirement savings products for their clients. The IIAC recommends that all Investment Industry Regulatory Organization of Canada (IIROC) registered investment dealers be designated as administrators of PRPPs, along with other regulated financial institutions that are subject to appropriate custodial arrangements with regulated trust companies, as for other registered products, to broaden choice available to Canadian businesses and individuals interested in accessing PRPPs.

3. **Minimize complexity/risk to maximize economies of scale:** Minimizing unnecessary complexity and addressing certain areas of risk will be critical for lowering development, implementation and ongoing administration and delivery expenses to meet the goal of providing a low-cost option for the PRPP.

   - Administrators should be given maximum flexibility to use existing platforms, delivery systems, operational procedures, agreements, standardized industry forms (with minor PRPP-related modifications) and industry-wide infrastructure, e.g., the Canadian Depository for Securities (CDS) Account Transfer Online Notification (ATON) system for transfers.

   - Administrators should be allowed to use technology solutions as much as possible, for example, electronic enrolment, delivery, storage, transfers, reporting, etc. with no

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requirement to provide paper unless the investor has no reasonable access to internet, phone or other delivery technologies.

- There must be one single set of rules for PRPPs to avoid the costs, confusion and delays caused by the current patchwork of provincial and federal pension/retirement-related rules governing transfers, locking/unlocking provisions, and other aspects that increase complexity for no evident investor value. A single set of rules, i.e., federal legislation, will be a more efficient way to quickly and cost-effectively implement PRPPs, by simplifying processes and decreasing the fees a client may have to pay. As a minimum, PRPPs should be able to be transferred to a LIRA or LIF/LRIF/PRIF rather than to a new PRPP-specific type of locked-in account.
- A new point of possible interprovincial difference is whether participation in a retirement plan will be mandatory or voluntary. From an operational and cost-minimization perspective, it would be highly preferable to have a single approach – all mandatory or all voluntary – across the country at the very least for an initial period.[1]
- With price limitations, administrators and employers will want to reduce risk and the risk premium that would otherwise have to be reflected in pricing. One key example pertains to the legal risk that an administrator or employer could be held responsible for providing too few or too many choices, or an inappropriate default option, and formal guidance from governments would be helpful in mitigating this risk. A second risk where clarification is needed pertains to requirements to ensure the sustainability of PRPPs for payout purposes – will this require the additional costs of actuarial valuations and funding concerns? The biggest risk for administrators is that initiating PRPPs entails the usual start-up risk of new products – if an investment dealer provides PRPPs, will employers and individuals participate, and will they keep participating if there is a Canada Pension Plan increase or other major market or policy changes? In order to estimate potential demand for PRPPs, it will be extremely helpful to know if substantive changes to CPP contribution requirements are also planned. It should also be noted that a low-cost/low-service/minimal guidance option arguably leaves the individual with additional risk – see point #5 below.

4. **Early specification of acceptable PRPP parameters:** PRPPs will be most successful if the expectations of the different stakeholders – administrators, employers, investors and government – are managed effectively. In this regard, it will be important to clarify as soon as possible:

    - What is meant by a number of the administrative provisions in the Framework, such as: "hav[ing] personal accounts for record-keeping purposes", "a low-cost option", "a manageable number of other investment options", the meaning of "fiduciary duty" in

[1] Mandatory employer participation in the PRPP will increase the overall number of Canadians saving for retirement and may reduce the complexity of administration, but could also cause significant harm to small businesses. Voluntary employer contributions would decrease this possibility, but would reduce the effectiveness of the program. A more balanced approach may be to require employer participation and contribution once the business has reached a certain size, measured by a revenue threshold, however, this would be a matter to investigate with the business community, and small businesses in particular.

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the PRPP context, "disclosure", "responding to any enquiries from plan members on any element of the plan and their participation therein", etc.

- What the governments' intentions are with respect to a number of matters *not* referenced in the Framework that will have an impact on price, including: differential pricing on "employed" versus "individual" members; enrollment and opt-out requirements; portability; vesting; locking/unlocking provisions; transfers in and out of PRPPs to other registered plans; management of or alternatives for a decumulation phase and implications in terms of cash availability/liquidity requirements; permitted frequency of PRPP changes at the investor's option (transfers, withdrawals, etc.); liquidity requirements to the extent that transfers must be in cash; whether employers will have an option to establish both contributory and non-contributory plans; etc.

5. **Acceptance of a range of product and service options, including low-cost:** One of the goals of the proposed Framework is to expand the range of retirement savings options for Canadians, ensuring the offering of a low-cost option. We believe that low-cost and low-service may not be the appropriate solution for all individuals, which is why we recommend that the government not mandate *only* low-cost alternatives, which would preclude a range of retirement products and services from being offered through PRPPs.

   Sponsors of low-cost defined benefit (DB) and defined contribution (DC) plans, as well as employer-provided group RRSPs and TFSAs, have no or limited "know-your-client" requirements. Similarly, PRPP providers cannot analyze and take into account an investor's overall financial situation and provide the personalized attention that individual clients receive as part of individual RRSPs, TFSAs and non-registered accounts on a low-cost basis. Some investors will seek out low-cost, low-service alternatives, but some investors will want or need a more comprehensive financial review and more customized financial advice, and should be able to access supportive, clearly disclosed, personalized services beyond what is included in a low-cost PRPP option by "adding on" to their services for an additional competitive market cost.

   For those choosing the low-cost option, it will be important that the client understand that there is reduced personalization in the form of standardized packages and defined levels of client service. While the needs for advice can be minimized by developing some neutral offerings (e.g., balanced fund), it should be noted that the largest plan in the country – the Canada Pension Plan (CPP) – has an all-in cost of 110 basis points[2] for investment management and administration even with mandatory contributions providing a regular and certain inflow of cash and without advice, reporting or online service.

6. **Implementation time commensurate with complexity of requirements:** For a new project to be launched successfully, it is important that planning, development, implementation and roll-out can proceed in a structured manner. While the introductions of TFSAs proceeded successfully (although challenges remain), this was in part due to the fact that

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[2] Steering Committee of Provincial/Territorial Ministers on Pension Coverage and Retirement Income Adequacy Options for Increasing Pension Coverage among Private Sector Workers in Canada, January 2010, p. 23, http://www.fin.gov.bc.ca/pension_plan_options_paper.pdf

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existing savings and investment products were permitted investments. Minimizing complexity, as outlined above, will not only reduce costs, but will also reduce the time required to implement the PRPP program, increasing its chances of successfully meeting the government's objectives.

7. **Other supportive changes:** To achieve the goal of increasing the number of individuals covered by retirement savings options and the overall amount of retirement savings, rather than simply encouraging transfers from one retirement savings product to another, and to broaden access to those possibly disadvantaged by some aspect of the current integrated Registered Pension Plan (RPP)/PRPP/RRSP system, we believe that certain amendments should be made to the *Income Tax Act* (Canada) , including:

   - Allowing employers to contribute directly to group RRSPs to eliminate the employer payment of CPP, Employment Insurance (EI) or other payroll taxes on these contributions that are not charged on contributions to DB, DC and RPP plans.
   - Allowing the locking-in of employer contributions to group RRSPs consistent with point #3 above.
   - Allowing the self-employed, whose incomes may vary widely from year to year, to base RRSP contributions on average income with a carry-forward or back into years of leaner earnings and permitting those who lose their jobs to accumulate RPP/PRPP/RRSP room based on an average of preceding working years' contributions.

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