Seeing Beyond Risk Canadian Institute of Actuaries Institut canadien des actuaires Voir au-delà du risque

Submission by the Canadian Institute of Actuaries to the House of Commons Standing Committee on Finance

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INTRODUCTION

The Canadian Institute of Actuaries (CIA) is pleased to provide input to the 2014 pre-Budget consultations being undertaken by the House of Commons Standing Committee on Finance.

Our pre-Budget advice addresses the theme "Increasing the competitiveness of Canadian businesses through research, development, innovation and commercialization" through harmonization of pension legislation.

EXECUTIVE SUMMARY

Canada's actuaries are encouraging the continuation of efforts to harmonize pension legislation across Canada. Pensions are regulated provincially and federally. Canadian pension laws and regulations are not harmonized from province to province nor between the federal government and the provinces. This adds unnecessary complexity to pension plans covering employees in more than one jurisdiction, which translates into higher costs and reduced competitiveness in the global marketplace.

As private sector workplace pension plans are negatively impacted by the harmonization issue, there is a concern that over the next 20 years, as provincial pension plans are created, the same lack of harmonization will cause even more inefficiencies and reduced competitiveness for Canadians and Canada. Challenges will include administration costs, portability issues, and confusion for the public if we have a patchwork of retirement plans (the Canada Pension Plan (CPP), Old Age Security, Guaranteed Income Supplement, registered retirement savings plans (RRSPs), life income funds, locked-in retirement accounts, private pension plans, pooled retirement pension plans (PRPPs), and provincial plans) that must operate within a workplace environment that will surely demand greater job mobility.

In the public interest, the CIA recommends that Finance Canada continue its efforts to promote the retirement income security of Canadians and to work closely with its provincial counterparts and the Canadian Association of Pension Supervisory Authorities (CAPSA) to develop any changes to pension legislation.

BACKGROUND

Most provinces have pension legislation and federally "included" employees are governed by the federal Pension Benefits Standards Act. There is also the CPP (a federal program), the Québec Pension Plan, and the Saskatchewan Pension Plan (provincial solutions). The Achilles heel of the structure that exists today is the inability of the separate regulatory jurisdictions and their political masters to form or enact a single co-ordinated strategy or solution for the entire country. Looking across the vast Canadian landscape, we now have a myriad of jurisdiction-specific plan types and funding models, each well-intentioned approach developed to address a specific need at the expense of national harmonization.

The lack of harmonization has burdened national and multi-jurisdictional plans with higher costs for operations, administration, compliance, professional services, and communication. To date, despite these higher costs, national and multi-jurisdictional plans have generally persevered and maintained their original geographic coverages.

While the legislations across the country are fairly similar, there are differences, and having to comply with many different legislations applicable to a single pension plan imposes financial and administrative burdens on the plan sponsors, often with little or no benefit to the employees. As one simple example, the definition of *spouse* varies from jurisdiction to jurisdiction. Thus, an employer with employees across the country will have to devote several pages to cover these definitions in all relevant documents (plan text, employee summary descriptions (unless they provide province specific materials, which also adds cost), and annual member statements). More importantly, applying the definition of *spouse* for benefit payments and the annual member statements poses considerable administrative burdens and has resulted in expensive litigation in some cases (Carrigan being the most recent example). Some employers have solved the problem by eliminating their pension plan and replacing it with a group RRSP or no plan at all.

In its April 2014 consultation paper Pension Innovation for Canadians: The Target Benefit Plan, Finance Canada said:

> Promoting the retirement income security of Canadians is an important goal of the Government of Canada. Canada has a sound retirement income system that is internationally recognized for its adequacy, affordability and sustainability. Private employment-related registered pension plans form an essential component of that system.

However, the lack of harmonization has the opposite effect. The number of Canadians covered by pension plans is falling, and studies have shown that significant numbers of working Canadians who are not in a pension plan are not setting aside enough funds to provide for their retirement. A Statistics Canada publication, Pension Plans in Canada, as of January 1, 2007, reported, “In 2006, 38.1% of paid workers had a registered pension plan (RPP), down marginally from 38.5% in 2005.” This ratio stood at 45% in 1991. So, the percentage of workers with a workplace pension plan is falling, and has been for many years. Even worse, the RPP coverage rate in the private sector has fallen from 35.4% in 1977 to 26.8% in 2003. By contrast, in 2003, over 86% of public sector workers were covered by an RPP.[1] If this trend continues, the only slice of the Canadian population with a defined benefit pension plan will be government employees and politicians.

The country’s ailing retirement savings system and the lack of a coordinated retirement income strategy should concern every Canadian. A 2007 study from the CIA and the University of Waterloo’s department of statistics and actuarial science[2] found that two-thirds of Canadian households expecting to retire in 2030 are not saving at levels required to meet necessary living expenses. Half of this group has no retirement savings at all.

Harmonization is important not just for existing pension legislation but also for changes or new programs that are in process. These include PRPPs, target benefit plans, and potential improvements being advocated to the CPP (or alternative arrangements such as the Ontario

[1] *Canada’s Retirement Income Programs*, Statistics Canada, 2006.
[2] *Planning for Retirement: Are Canadians Saving Enough?* Canadian Institute of Actuaries, June 2007.

Retirement Pension Plan). All the provinces and the federal jurisdiction are at various stages of developing legislation or regulations to address various ideas. Although it has been discussed for many decades, the time for harmonization is now.

Finance Canada is in the process of reviewing submissions on its consultation paper Pension Innovation for Canadians: The Target Benefit Plan. Submissions were to be made by June 23. The CIA was pleased to have the opportunity to make a submission and contribute to this valuable discussion.

Alberta and British Columbia are exemplars of extensive collaboration and they have done an excellent job of harmonizing their legislation in the most recent changes to their Acts. They decided at the outset of the recent changes to their pension legislation that they would harmonize their Acts and they worked in lockstep every step of the way to ensure they would be harmonized. They, too, are in the process of developing regulations for target benefit plans.

The CIA recommends that Finance Canada continue its efforts to promote the retirement income security of Canadians and to work closely with its provincial counterparts and CAPSA to develop any changes to pension legislation and encourage others to follow the model example set by Alberta and British Columbia—a clear demonstration that it can be done if there is a willingness to collaborate.

ABOUT THE CANADIAN INSTITUTE OF ACTUARIES

The CIA is the national organization of the actuarial profession. It establishes the Rules of Professional Conduct and monitoring and discipline processes for qualified actuaries, all of whom must adhere to the profession's Standards of Practice. Under its Guiding Principle 1, the CIA holds the duty of the profession to the public above the needs of the profession and its members. The CIA also assists the Actuarial Standards Board in developing standards of practice applicable to actuaries working in Canada.

Actuaries employ their specialized knowledge of the mathematics of finance, statistics, and risk theory on problems faced by pension plans, government regulators, insurance companies (both life and property/casualty), social programs, and individuals.