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Subject: Modernization of the disbursement rules for locked-in savings in Québec

The consultation document *Modernisation des règles de décaissement de l'épargne immobilisée au Québec* (*Modernization of the disbursement rules for locked-in savings in Québec*) presents three proposals on which Retraite Québec is seeking perspectives.

Our 2018 submission indicated that it is now appropriate to give workers more flexibility on the application of locking-in rules. We repeat here what we communicated in 2018:

> It has been recently noticed that workers are now staying active longer than in past decades, and we anticipate that this trend is likely to continue. However, analysts from Retraite Québec have shown that workers are not delaying receipt of their government pension benefits along with their retirement. This may mean that older workers are using government benefits as income supplements while they are working, particularly to help address financial needs, instead of using their personal savings first and maximizing their retirement income from public plans by deferring the start of payment of those benefits. Public plan annuities represent a significant portion of retirement income, similar to defined benefits (DB), and deferring the start of their payments leads to higher benefits. Public plan annuities often constitute the only source of DB income for many retirees, and are backed by a solid guarantee along with protection against longevity and inflation risks.
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> Prioritizing savings as a source of income between the date of retirement and the date when public plan annuities start has the following advantages for workers:
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> - Reduced exposure to investment and inflation risk;
> - Sound management of the longevity risk;
> - An annual rate of return practically guaranteed of 6 percent; and
> - Simplified disbursement planning by using a specified period (instead of spreading over an unknown horizon).
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> Consequently, we would be in favour of the following measures and principles:
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> - Permission to extend temporary retirement income to age 75;
> - Delayed cut-off age for the start of public plan annuities from age 70 to 75 with actuarial adjustment; and

- Enhanced harmonization of the rules applicable to pension plans across Canada.

Our recommendations apply to defined benefit (DB) and to defined contribution (DC) pension plans. Clarifications are provided as applicable in the event of specific considerations in either case.

In the interest of harmonization, given that it is already permitted in several provinces (as well as under federal plans), the CIA would support a lump sum disbursement rule corresponding to 50 percent of savings. However, such lump sum withdrawals could present challenges to rules on DB plans, namely in regard to investment matching. The CIA suggests that such a measure should not be imposed on DB plans, and to instead let plan sponsors decide whether to offer that option. We also think that DB plans should be required to offer members replacement of part of their life annuity by a temporary pension payable, no longer only until age 65 like now, but rather until age 70 under current rules regarding the delay of the public plans annuities, and age 75 if the government acts on our proposal to modify the Québec Pension Plan (QPP).

We welcome the openness of Retraite Québec in considering, through some of its proposals, a simplification of the current rules and greater flexibility for the disbursement of locked-in savings in Québec.

We believe that the simplification of the rules is essential to promote a better understanding of the public and more judicious use of the applicable rules. The CIA recognizes the value of converting savings into retirement income to promote the deferral of government pensions. In this sense, the flexibility of the applicable rules is encouraged.

The CIA also believes that it is appropriate to encourage the gradual conversion of retirement savings with the objective of providing lifetime income while considering the contribution of the individual's other assets. For this reason, we believe that greater flexibility in the rules to accelerate the unlocking of registered savings would provide more flexibility to the individual for the eventual orderly disbursement of these savings and other assets.

Proposal 1 is similar to the one the CIA recommended in 2018 but without the single 50% lump sum withdrawal rule. This proposal reflects the desired broadening of the parameters of the current rules (temporary income of 50% up to age 70) and favours postponing the start of payment of government pensions. However, it does not simplify the current rules and does not allow the desired flexibility for individuals with large amounts of accumulated savings, flexibility that was achieved with the lump-sum withdrawal rule that we had proposed. We believe it is now appropriate to grant more flexibility than what we recommended in 2018. We were then concerned about the risk that some workers would make the wrong choice and withdraw their pension capital too quickly. We observe:

- A lack of statistics showing that workers withdraw sums accumulated in Registered Retirement Savings Plans that are not subject to locking-in rules too quickly.
- Experience with looser unlocking rules in Saskatchewan does not suggest that workers withdraw their retirement capital too quickly.

- Several stakeholders are now suggesting the option of deferring Old Age Security (OAS) and QPP pensions until age 70.

Proposal 2 greatly simplifies the applicable rules and concretely supports the deferral of government pensions by allowing the disbursement of locked-in savings gradually up to age 70. This proposal also offers greater flexibility for the eventual disbursement of the amounts thus unlocked that will not have been converted into retirement income before age 70. To this end, the CIA recommends the use of these sums in combination with other assets in order to provide sufficient income for the life of the individual.

Proposal 3 is even simpler and more flexible, offering no locking-in from the age of 55. Only one Canadian province, Saskatchewan, has opted for this approach. The CIA is of the opinion that a minimum of supervision is necessary to lead to judicious use of locked-in savings, in particular, a certain spreading out over time to support the deferral of the payment of government pensions.

The CIA, therefore, supports Proposal 2, which responds more to the level of simplicity and flexibility sought. To better meet the future needs of individuals, however, the CIA recommends the following changes to Proposal 2:

- Allow accelerated disbursement up to age 75 instead of age 70 (Phase 1 of retirement would extend from age 54 to 74 instead of age 54 to 69);
- Modify the retirement income formula consistently, i.e., the account balance divided by the difference between age 75 and age (balance / (75 - age)); and
- Change the minimum level of temporary income from 50% to the sum of the maximum OAS and QPP pensions for the year as payable at the last age at which payment of these pensions can begin.

These changes would allow for better spreading over time while maintaining the simplicity and flexibility of the desired rules.

However, we express some concern that some individuals may use the flexibility of the proposed rules without deferring their benefits from public plans and without realizing the potential negative effects. Such a problem could be exacerbated by the changes that we propose. The CIA is in favour of greater flexibility in terms of disbursement, as long as it allows optimal use of participants' savings in concert with the public benefits of the QPP and OAS and consideration of other individual assets. However, it is still possible that some individuals do not make optimal use of the disbursement and still choose to receive public pensions as soon as possible. We, therefore, invite Retraite Québec to reflect on the possibility of setting up communication tools and documents allowing people, in the context of their retirement planning, to better appreciate the effects of temporary income and disbursement options, and thereby foster a better understanding of the issues.

We believe that workers should have more flexibility with locking-in requirements for the following reasons:

a) The definition of retirement is expected to change in the future. Many will continue to hold jobs in different forms into advanced ages.

b) Workers should be able to adjust, to a certain extent, their retirement income according to their preferences and other post-retirement income.

c) The benefits of deferring QPP and OAS benefits have to be recognized.

The CIA appreciates the opportunity to comment on these issues and would be happy to discuss them with you throughout the process.

If you have any questions, please contact Chris Fievoli, CIA Staff Actuary, Communications and Public Affairs, at 613-656-1927 or by email at chris.fievoli@cia-ica.ca.

Sincerely,

[original signature on file]

Jacqueline Friedland, FCIA
President, Canadian Institute of Actuaries

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