



Position on the Pooled Registered Pension Plan

Approved by the NLEC Board of Directors

June 23rd, 2011

Overview

The Newfoundland and Labrador Employer's Council (NLEC) welcomes the proposed creation of the Pooled Registered Pension Plan (PRPP). It is the position of the NLEC that by allowing more employers access to retirement savings vehicles the PRPP will benefit the recruitment and retention of employees.

In December 2010, following a meeting of finance ministers in Kananaskis, Alberta, Federal Finance Minister Jim Flaherty announced an agreed "implementation of a framework" to create the PRPP – a private pension plan aimed at small businesses, employees and the self-employed. The goal of the PRPP is to make regulated, affordable, private pension plans available to all Canadian employers.

A Pension System for All Canadian Employers

Canadian employers currently have a number of pension plan structures they can offer their employees. These range from complex and costly Defined Benefit (DB) plans to lower cost Money Purchase or Defined Contribution (DC) plans which, without proper governance, could expose the employer to potential litigation. However, even the most basic format of a Group RRSP require start-up costs and on-going expenses that are too onerous for many small businesses. The problem is that a small employer starting a pension plan with a low monthly contribution and zero accumulated funds will not attract/achieve low administrative or investment charges from financial institutions.

By pooling the funds of thousands of small employers the PRPP offers the desired competitive advantage and all employers will benefit from economies of scale and therefore significantly lower fees (both investment and administrative).

The employer's fiduciary obligations under the PRPP will also be significantly reduced (as responsibility will fall to the financial institutions to perform administrative duties) but the PRPP won't be completely hands free. Employers will need to review their purpose for opting-in, the desired objectives, the contribution level, and the investment options to be made available to employees. Further, although it is yet unclear what will be included under the PRPP regulations, good governance practice would suggest that the employer should regularly review PRPP fund performance to ensure objectives are being met. It is for this reason that, while we support the creation of the PRPP, we do not believe it should be mandatory for all employers (regardless of any ability individual employees may have to opt-out of the plan). Financial circumstances might make it difficult for a particular employee to contribute additional salary towards retirement and similarly, not all employers have the same financial strength to commit additional resources to the set-up of a PRPP. Employers' enthusiasm for the PRPP will be higher if they can choose to opt-in at a time when it would provide a positive impact for their business (financial or otherwise). Increased employer enthusiasm should in turn increase employees' engagement in the PRPP.

One of the other key areas of fiduciary responsibility of employers is the initial, and on-going, education of the plan members (i.e. the employees). Under existing retirement savings vehicles this is the responsibility of the pension plan sponsor (i.e. the employer) although there is often considerable assistance from the financial institution that oversees the plan. We would hope that the PRPP will completely relieve the employer of this responsibility.

We would also expect that as part of the regulatory framework around the PRPP the Government would involve an independent body to ensure that fiduciary responsibilities are being met and the low-cost attractiveness of this form of pension vehicle is maintained. Recent worldwide financial events have shown that continued supervision of financial institutions is paramount. Canada's financial regulatory structure has been applauded in recent years and the PRPP should certainly not be exempt from the same stringent oversight.

Given the reduced fiduciary responsibility and lower expenses the PRPP might also be a viable option for small to mid-sized employers who currently have a DC pension plan or Group RRSP. It is unclear if an opportunity will exist to transfer existing funds into the PRPP but at the very least employers could move to the PRPP for future contributions. While the significant benefit of this move would probably be for employees (due to lower investment fees) an employer may also achieve cost savings due to less administrative duties (not to mention the potential for reduced litigation under a regulated PRPP). The NLEC would hope that the regulatory framework of the PRPP would assist, rather than restrict, employers to make this transition should the employer elect to do so.

The PRPP vs. Increasing the CPP

There has been considerable discussion by all pension stakeholders in recent years with respect to increasing benefits payable under the Canada Pension Plan (CPP). We believe Government has taken the right approach by putting these discussions on hold and introducing the PRPP. The PRPP has two key advantages over a mandatory increase in CPP benefits.

Firstly, the argument has been made that while Canada does not have a “pension crisis” there are a group of employees (typically those making one to two times the Yearly Maximum Pensionable Earnings and have no employer-sponsored pension plan) who are expected to have insufficient funds to continue their current standard of living into retirement. Rather than mandating higher CPP benefits for all Canadians we believe that the introduction of the PRPP provides this group with a lower cost pension vehicle. It is now up to the portion of the workforce who are in need to avail of the benefit being offered.

Secondly, unlike a mandatory increase in CPP premiums, which would put additional strain on the economy by reducing employment opportunities (due to increased costs of employment) and decreasing employee spending power, the PRPP provides flexibility for employers and employees to contribute additional monies towards retirement when it is advantageous to their particular situation.

Conclusion

The PRPP has been heralded by some as an “historic milestone” on the Canadian pension landscape. While we certainly support its creation as a low-cost pension option for small businesses we hope that the PRPP continues to evolve and that its impact will be monitored to ensure that it is meeting the needs of the employers and employees for whom it was created.