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

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

April 4, 2014

Mr. Ray Gilmour
Deputy Minister
Office of the Deputy Minister
Treasury Board and Finance
5th Floor, Oxbridge Place
9820 – 106 Street
Edmonton, AB T5K 2J6

Dear Mr. Gilmour:

Re: Making Retirement Savings Opportunities Fairer

The Investment Industry Association of Canada (IIAC) is writing to convey our continued support for government efforts to improve the retirement savings of Canadians. We know the Alberta Government's *Pooled Registered Pension Plans Act* has received Royal Assent and agree PRPPs can fill an identified gap in retirement savings options by offering small businesses and self-employed Canadians an alternative retirement savings vehicle that offers the potential for economies of scale and lower costs. To achieve the desirable policy goal of providing fair and efficient retirement savings options for Albertans and other Canadians, the federal and provincial Pooled Registered Pension Plans (PRPPs) should complement defined benefit and defined contribution plans (DBs and DCs), registered retirement savings plans (RRSPs) including Group RRSPs, and tax-free savings accounts (TFSAs). All retirement plans should be as equivalent as possible from the perspective of taxation outcomes. This is not the case.

As it stands, federal and provincial PRPPs, with existing pension plans, do not and will not alone achieve the intended policy goal. In fact, for tax reasons set out in Alberta's Frequently Asked Questions on PRPPs, they create an incentive for Canadian employers to shift from Group RRSPs and employer-supported personal RRSPs to what may be less optimal options that lack the benefits of an advisor. The way to redress this situation is straightforward and affordable.

The IIAC represents 160 regulated investment dealers in Canada that provide comprehensive investment services and advice to Canadians. Our members manage close to a trillion dollars in investments, with almost a third invested in registered retirement plans through millions of accounts across the country. The success of the PRPP or equivalent programs would benefit from leveraging relationships between financial institutions and clients through the investment dealers' distribution network.

However, the Alberta Securities Commission's regulation of this channel *demands* individual suitability reviews based on the "know your client" (KYC) regime and other components of

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advice that cannot easily be part of a PRPP program. The prohibition of fee-inclusive options for retirement investing is unnecessary in light of the comprehensive KYC and suitability regulatory requirements. Moreover, not allowing a disclosed fee-in option runs counter both to the recommendations of the federal government's Task Force on Financial Literacy, which identified the importance of qualified professional advice in helping Canadians to save more and make better financial choices, and to Alberta's stated intention to expand financial literacy.

During consultation with the federal government, the IIAC recommended a flexible PRPP program that could accommodate the profiles and needs of self-employed individuals and small business owners who are the target PRPP market. Unfortunately, the federal PRPP legislation and regulations did not provide this flexibility, and discouraged advice and active investment in PRPP offerings. Furthermore, they failed to allow equal transferability between PRPPs and RRSPs. While this design benefited segments of the financial services industry that, for example, already administer large DB and DC pension plans with less disclosure, we believe that it will not, in the long run, be optimal for the intended target of the PRPP program – individuals and small business owners who would benefit from more than a "one-size fits all" approach to retirement planning.

For this reason, we would like to discuss Alberta's PRPP regulations with your staff and also recommend that Alberta strongly press (and encourage provincial counterparts to urge) the federal government to:

1. **remove Canada Pension Plan (CPP) and Employment Insurance (EI) tax withholding on company and employee contributions to Group RRSPs or employer contributions to individual RRSPs and**
2. **make changes to address the needs of Albertans and other Canadians who lose their jobs or other for reasons cannot access the intended tax benefits of RRSPs.**

1. Removing CPP and EI withholding on company and employee contributions to Group RRSPs and employer contributions directly to a personal RRSP will provide an immediate benefit for both key stakeholder groups: lower- to medium-income people and small businesses wanting to offer their employees retirement benefits that will be able to turn saved taxes to new products and services, new jobs and growth. We estimate the costs to be $50 million before offsets from any additional jobs generated. In the proportionally few cases when people withdraw from RRSPs for purposes other than a home, education, health or other financial hardship reason, they could be required to repay the CPP and EI that they and their employer would otherwise have paid. Given the financial literacy benefits of personalized advice, we also believe that there should be greater transferability from PRPPs to RRSPs.

2. Addressing the particular needs of Albertans and other Canadians who lose their jobs, individuals on maternity or paternity leave, and people with highly variable incomes from

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year to year (for example, freelance, seasonal or contract workers) who are penalized severely under the current RRSP regime is also good public policy.

Using a salaried worker that loses a job as an example, he or she suffers not just an incremental loss of their source of income, but also: (i) lost accumulation of RRSP room, (ii) lost matching from a company retirement plan and (iii) lost inside-RRSP tax-sheltering benefits should he or she need to withdraw from their RRSP for current living or hardship reasons. We recommend correcting for lost RRSP accumulation room because of job loss or income fluctuations by allowing use of an average of preceding working years' income as the basis of RRSP room calculation for at least one or two years that an individual in the work force may not be working. We recommend, in the case of the self-employed, that they be allowed to base annual RRSP contribution room based on a rolling average of income with a carry-forward or back into years of leaner earnings.

We appreciate the opportunity to provide our feedback on the retirement savings challenge and would be pleased to provide further input on this matter.

Yours sincerely,

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