

Retirement Income Improvement Coalition / Coalition pour la bonification des revenus de retraite

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management du Canada

August 10, 2011

The Honourable James M. Flaherty, PC, MP
Minister of Finance
Finance Canada
140 O'Connor Street
Ottawa, Ontario K1A 0G5

Dear Minister:

Re: Finance Canada's Consultations – Tax Rules for Pooled Registered Pension Plans (PRPPs)

The Retirement Income Improvement Coalition (RIIC) is a broad-based coalition of 11 national professional associations representing over 1,000,000 self employed professionals. The RIIC appreciates that federal, provincial and territorial finance ministers are moving ahead with the introduction of Pooled Registered Pension Plans (PRPPs) and is looking forward to working with you in developing new tax rules for PRPPs.

However, in our view, PRPPs represent only one piece of a more comprehensive retirement savings structure and we would recommend that this consultation process be a prelude to a wider and engaged discussion on other savings options for Canadians.

The following represent the RIIC's positions and recommendations to the questions contained in the Department of Finance Consultation Document – *Tax Rules for Pooled Registered Pension Plans (PRPPs)* dated June 15, 2011.

A) Eligibility requirements to be a PRPP administrator

In referring to “administrators”, the Department of Finance notes the distinction between administrators as commonly defined in provincial minimum standards regulations, and administrators as issuers of RRSPs, which are a more restricted group of financial service entities.

For the purpose of this submission, the RIIC refers to “administrators” and “sponsors” as commonly defined in provincial minimum standards regulations.

The Income Tax Act do not include regulating the governance arrangements of retirement savings arrangements. The legislation intended to regulate these governance arrangements is provincial pension (or equivalent) legislation. RIIC does not recommend that the Income Tax Act restrict eligible administrators.

The RIIC believes that well-governed organizations should be able to both “sponsor” (e.g., determine the terms and conditions of a PRPP plan for its members) and administer (negotiate with service providers the day-to-day administrative tasks that will be performed to implement the terms and conditions of the PRPP plan) PRPPs, all subject to provincial minimum standards regulations.

The RIIC believes that administrators of PRPPs should not be limited to financial institutions, but should include well-governed organizations that represent a particular membership. Affiliate groups such as those participating in the RIIC are capable of negotiating appropriate administrative arrangements with their participating membership and on their behalf.

The RIIC submits that affiliate groups have the option of becoming a statutory “administrator” of PRPPs for the purposes of minimum standards regulations, and expects that affiliate groups will seek to delegate the administration of the PRPPs to a financial service entity and/or service provider with sufficient capacity to competently and efficiently administer the PRPPs.

The RIIC submits that a broad array of financial service providers should be eligible administrators of PRPPs, including existing pension plan administrators.

B) Primary purpose requirement / Requirement for employer contribution

The RIIC believes there could be a primary purpose test, depending on what the test is intended to achieve or regulate. If there is a primary purpose test, however, the test should not limit the purpose of PRPPs to employer-employee relationships or to any particular form of benefit structure.

Any primary purpose test should accommodate self-employed individuals and third party payors as contributors to PRPPs, as well as the traditional categories of employees and employers.

Also, any primary purpose test should not preclude target benefit plans. Target benefit plans allow risk to be pooled among the plan members, providing a more secure vehicle than defined contribution plans.

C) Contributions / Limits

Although there are merits to both proposed systems of contributions, on balance, the RIIC supports the existing “dual” contribution reporting and limits system, subject to some important modifications set out in this section and below.

The two main concerns of the RIIC coalition are appropriate payroll tax treatment (available in the Registered Pension Plan (RPP) system, but not the Registered Retirement Savings Plan (RRSP) system) and the flexibility in participant's ability to accumulate retirement savings.

Having the same tax treatment for PRPP and RPP deductions will help narrow the gap in workplace pension coverage by offering a defined contribution PRPP to firms and employees who do not have access to one, without imposing any additional payroll tax burden on them. Employers do understand the need to enhance the retirement savings system in Canada and many want to offer pension benefits to their employees but currently cannot afford to do that. Exempting PRPP deductions from payroll taxes would make participation more affordable and the PRPP framework more attractive to both employers and employees.

These modifications are required in order to permit administrators to track and calculate contributions and issue pension adjustments (PAs) from any source, and, if necessary, to permit past service purchases or portability options to members of PRPPs who seek to transfer to other RPPs.

The RIIC believes that a system of monitoring based on contributions is preferable for its administrative simplicity and lower cost. The RRSP system tracks contributions (from any legal source) and requires contribution statements to be issued to participants. However, to preserve flexibility of design for participants, a system that permits the calculation of PAs is also desirable in order to facilitate transfers and buy-backs under different forms of benefit options.

PRPPs should be governed under the same tax rules as RPPs. Therefore, if an employer chooses to contribute to a PRPP, both employer and employee contributions should be treated in the same manner as contributions to a defined contribution RPP, meaning such contributions would not be subject to payroll tax (CPP and EI deductions).

The percentage and dollar limits on contribution in the Income Tax Act for vehicles such as RPPs and RRSPs are well below limits in both the United States and the United Kingdom. The RICC recommends that those limits be increased. This would have a direct positive effect on savings rates for participants in PRPPs.

In addition, there should be a new set of rules in the event of non-compliance. Over-contribution should not result in de-registration, but a gradual set of penalties that could ultimately result in de-registration, including, for example, removal of tax preferences for amounts over-contributed, or imposition of tax penalties for same.

D) Pensionable service

The RIIC supports the ability of individuals to make past service purchases for years of participation in a PRPP.

The RIIC believes that pensionable service for self-employed individuals should be based on contributions, as described in the previous section. PAs could be issued by the administrators, and would be able to address any oversight considerations. Standard rules for converting contributions to years of service as reported in a PA should be developed where there is no employer-employee relationship.

This could be done on a standardized basis (certain levels of annual contribution are deemed equivalent to certain levels of annual service), or could be done on a case-by-case basis, where importing plans convert account values transferred at contribution rates of the importing plan, which result in a number of years of "service" which are deemed to be service under the PRPP.

E) Leave of absence and periods of reduced pay or disability

The RIIC believes these provisions should be extended to PRPPs to accommodate contributions made on behalf of participants with employment or other arrangements to have contributions made on their behalf.

Under the proposed contribution and monitoring system, an administrator would record contributions and issue PAs as required.

The RIIC also believes that expanding the eligibility criteria for PRPP sponsors and administrators beyond financial institutions to include well-governed organizations that represent a particular membership can be beneficial in mitigating concerns with respect to monitoring the self-employed.

F) Transfers

The RIIC has no comment or position related to this question as it falls primarily under provincial jurisdiction.

G) Qualified / Prohibited investments

The RIIC believes that the current investment regulations applying to RPPs are most appropriate to investments made by PRPP plans and plan types, with modifications that facilitate multi-employer arrangements. These rules govern diversification, self-dealing, lending and borrowing, among other qualitative and quantitative limits.

Our members also believe that expanding the eligibility criteria for PRPP sponsors and administrators beyond financial institutions to include well-governed organizations that represent a particular membership can be beneficial in mitigating concerns with respect to the prohibited investment rules.

H) Minimum employer / Membership requirement

As previously stated, the RIIC believes that expanding the eligibility criteria for PRPP sponsors and administrators beyond financial institutions to include well-governed organizations that represent a particular membership can be beneficial in mitigating concerns with respect to minimum membership requirement.

The Honourable James M. Flaherty, PC, MP
August 10, 2011
Page 5

Therefore, the RIIC recommends that there be no minimum membership requirements in order to maximize participation.

I) Forfeitures / Refunds

The RIIC has no comment or position related to this question as it falls primarily under provincial jurisdiction.

Thank you for offering RIIC the opportunity to provide input and we would be pleased to meet with you should you require us to clarify any of the recommendations.

Yours truly,

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