

April 28, 2010

Mr. Chris Forbes
Federal-Provincial Relations and Social Policy Branch
Department of Finance
L'Esplanade Laurier
15th Floor, East Tower
140 O'Connor Street
Ottawa, Canada K1A 0G5

Re: Consultations on Ensuring the Ongoing Strength of Canada's Retirement Income System

Dear Mr. Forbes:

The Canadian Chamber of Commerce is pleased to have the opportunity to contribute to your department's consultations regarding the measures required to ensure Canadians have sufficient income for their retirement. This issue matters to all Canadians and their employers.

The Canadian Chamber of Commerce is Canada's most representative business association. With our network of more than 340 local chambers of commerce and boards of trade, as well as our corporate members, we speak for approximately 175,000 businesses of all sizes in every region of Canada.

At the outset, we wish to make clear our view that Canada's current retirement savings system is sound. According to the October 2009 Melbourne Mercer Global Pension Index¹, Canada's retirement savings system, "has a sound structure with many good features but has some areas for improvement." Our position is that legislators and policy makers need to focus on improvements in the gap areas rather than fundamental changes.

Given the breadth of our membership, each topic included in your consultations interests our members. Our submission will address workplace retirement savings and the concept of creditor protection for pension plans because these are issues of the highest priority to many of our members.

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http://www.mercer.com/attachment.dyn?idContent=1359625&filePath=/attachments/English/melbourne_mercer_global_pension_index.pdf

Workplace retirement savings

Up to 50 percent of private sector employees have no workplace retirement savings plan. It is no surprise, then, that much of the current discussion on the issue of retirement savings has focused on ensuring that private sector employees have more access to employer-sponsored savings plans.

Canadian businesses need the flexibility to choose retirement savings solutions that fit their businesses' sizes and resources. At the same time, Canadians' retirement savings and income needs vary significantly. We recommend the federal, provincial and territorial governments consider a balanced, competitive approach to retirement savings that includes more private sector options for businesses and employees.

Most small and medium-sized businesses have limited, or no, resources to support offering retirement savings plans. These employers find pension rules administratively difficult and costly and, when they do decide to offer a plan, look to group RRSPs which are more flexible and easier to administer. This means that policy and regulatory changes should focus on improving Defined Contribution (DC) pension plans and group RRSPs to make them less costly and easier for small and medium-sized businesses to offer. Recommended changes include:

1. Revising federal and provincial DC pension regulations making them simpler and allowing for multi-employer pension plans, and
2. Amending the *Income Tax Act* to give Group RRSPs more pension-like qualities. Using the RRSP framework, the federal government could quickly, effectively and economically improve existing plans and encourage businesses that do not offer plans to do so.

Proposed changes to the *Income Tax Act* include:

1. Allowing multi-employer plans within a Group RRSP framework: This would reduce administrative and compliance costs and provide economies of scale.
2. Locking-in employer contributions: Current Group RRSPs do not legislatively restrict access to retirement savings. The ability of workers to access funds for non-retirement savings purposes, especially employer contributions, makes Group RRSPs unattractive to many employers. It also makes employers hesitant to match employee contributions.
3. Limiting portability: While they continue to be employed by the sponsoring employer, employees should not be permitted to transfer

their assets out of the plan. When employees switch employers or retire, they should have the option to transfer their Group RRSP to one offered by their new employer, a DC pension or another locked-in savings plan.

4. Applying pension-like tax treatment to contributions and payouts: Unlike employer contributions to a pension plan, employer payments to a Group RRSP attract EI and CPP. Employer contributions to a Group RRSP should not attract either of these payroll taxes. Payouts from a pension can be split between spouses at age 55. Income received from an RRSP can only be split at age 65. Employees retiring early and taking payments from an RRSP should be permitted to split income between spouses in a similar manner to pension income.

Once an employee has access to an employer-sponsored retirement program there are regulatory and legislative measures that could enhance participation and savings rates including:

1. Automatic enrolment of employees with the ability to opt out. Employers should be allowed to re-enroll employees at set intervals, capturing employees whose personal circumstances have changed and no longer wish or need to opt-out, and
2. Allowing for auto-escalation of employee contributions, that is increasing contributions when there is a pay raise or promotion.

We believe these improvements would make the framework for employer-sponsored retirement savings plans stronger and give businesses the flexibility and tools they need to help their employees save for retirement.

What is needed is for all levels of government to work together, and with private sector providers, to make it happen. Doing so has the potential to benefit the millions of Canadians who have either no, or insufficient, retirement savings.

Creditor protection for pension plans

In its 2010 Speech from the Throne, the government announced its intention to “explore ways to better protect workers when their employers go bankrupt.” The government has not yet specified what it is considering in this regard, but some parties have suggested granting preferred creditor status to pension plans by means of changes to the *Bankruptcy and Insolvency Act* and other legislation. There are Private Members’ Bills in the House of Commons and the Senate proposing such legislative measures.

The policy intent of such initiatives is understood but the unintended, and adverse, consequences for employers, plan sponsors and many Canadians would be significant.

Granting creditor protection to pension plans would negatively affect employers' current credit arrangements and compromise their long-term financial health by making capital more expensive. For weaker companies, it could make capital extremely difficult to obtain at all tipping them over the edge into bankruptcy. This would not be in the best interests of pensioners and other plan beneficiaries. The best protection for a pension plan's security is the financial health of its sponsor.

Companies need investment to be competitive and survive. Investors will put their money into operations they expect are going to pay them a return. If investors believe they will have to stand in line behind pensioners if there is a bankruptcy, they will add a premium to the cost of their capital to compensate for the additional risk.

Canada's businesses are just starting to emerge from the recession. This is not the time to impose additional financial obligations on them and increase the cost of capital, particularly when they also face the prospect of several years of higher Employment Insurance (EI) premiums. The result could be a slower economic recovery and return to pre-recession employment levels. The outcome will be acceleration of the private sector's shift away from Defined Benefit (DB) pension plans.

There is a growing public policy debate surrounding the chasm between DB pension plans and retirement savings options such as Defined Contribution (DC) pension plans and registered retirement savings plans (RRSPs). Granting creditor protection to Canadians covered by DB plans could serve as a lightning rod for this debate by:

1. Further contributing to the imbalance between Canadians with DB plans and those with other retirement savings programs, and
2. Eroding the savings of Canadians participating in DC pension plans and RRSPs. Many DC plans and RRSPs include mutual funds with corporate bonds issued by companies sponsoring DB plans. The value of these bonds could be diminished by laying more financial liability onto the corporations in which they are held.

If the government wishes to protect workers with DB pensions should their employers go bankrupt, members of the Canadian Chamber of Commerce suggest other approaches be considered, including the Quebec model of permitting the third-party administration of stranded pensions.

The Canadian Chamber of Commerce appreciates the opportunity to contribute to this consultation. We look forward to its outcome as the issues affect all Canadians and many of their employers.

Sincerely,

A handwritten signature in black ink that reads "Shirley-Ann George". The signature is written in a cursive style with a large initial 'S'.

Shirley-Ann George
Senior Vice-President, Policy