

September 8, 2012

Leah Anderson
Director, Financial Sector Division
Department of Finance
140 O'Connor Street
Ottawa, Ontario, K1A 0G5
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Dear Ms. Anderson:

Pooled Registered Pension Plans Regulations

Advocis, The Financial Advisors Association of Canada, welcomes the opportunity to provide its comments on the Government of Canada's proposed Pooled Registered Pension Plans Regulations.

Advocis, The Financial Advisors Association of Canada, is the largest and oldest voluntary professional membership association of financial advisors and planners in Canada. Our members are provincially licensed to sell life and health insurance, mutual funds and other securities, and are primarily owners and operators of their own small businesses who create thousands of jobs across Canada. Advocis members are professional financial advisors who provide comprehensive financial planning and investment advice, retirement and estate planning, risk management, employee benefit plans, disability coverage, long-term care and critical illness insurance to millions of Canadian households and businesses.

Professional financial advisors and planners are critical to the economy, helping consumers make sound financial decisions that ultimately lead to greater financial stability and independence. Advocis works with decision-makers and the public, stressing the value of financial advice and striving for an environment in which all Canadians have access to the advice they need.

General Comments

We commend the federal government for making it a priority to strengthen the retirement income system, and for initiating reforms to improve pension coverage and retirement income adequacy.

Retirement planning is a priority for most Canadians and our 11,000 members work with individuals, families, and businesses to reach their financial goals. Our members provide retirement planning and investment advice to employees with Capital Accumulation Plans (CAP Plans), RRSPs and TFSAs, and establish and administer CAP Plans and DB plans for small and medium sized businesses.

We believe, and have stressed throughout the consultation process on strengthening the retirement income system, that it is essential for Canadians to have access to professional financial advice to help them address the challenge of ensuring that they have adequate savings for retirement.

Licensing

The Pooled Registered Pensions Act (the “Act”) provides that the Superintendent of Financial Institutions may issue a licence to any Canadian corporation that intends to administer a PRPP and meets the conditions prescribed in the proposed Regulations when applying to be an administrator. The proposed Regulations would require the corporation to submit a five-year business plan, demonstrate that it has the financial resources and operational capacity required to administer a PRPP, demonstrate that the officers and directors are of good character, and provide any other information required by the Superintendent of Financial Institutions to assess against the criteria.

We believe the proposed requirements regarding licensing of PRPP administrators are sound.

Permitted Investments

The proposed Regulation would address concentration risk by providing that a maximum of 10 per cent of an individual member’s assets can be invested in any one entity or associated entities.

We are concerned that PRPPs may be inadequately diversified pursuant to the proposed Regulation, absent additional requirements to address the risks of concentration by industry, geographic region and type of security (debt versus equity.) An individual’s PRPP that is subject to the proposed 10% concentration limit might still be 100% concentrated in equity securities in one industry and one geographic region.

We believe that participants in PRPPs could be at risk due to inadequate diversification, given that the scheme of PRPPs under the Pooled Registered Pension Plans Act does not provide participants with any mechanism that offers them personalized advice concerning investment choices. As such, we believe that simple structural mechanisms to discourage excess concentration and to encourage diversification should be provided through the Regulations.

We note that the Regulation would provide that administrators must offer members at least one default investment option, but may offer plan members as many as six investment options (including the default option). It is entirely possible that an individual could be offered a single investment option that does not provide for any diversification with regard to industry, geographic region or type of security, and only provides the diversification afforded by the 10% concentration limit. Even where the administrator offers investment options in addition to the default investment option, there is nothing in the proposed Regulation to help individuals identify and address the risks of excess concentration with regard to industry, geographic region and type of security.

A simple measure that we believe would help to limit the broader concentration risk that we are concerned about, would be to provide in the Regulation that not more than a set percentage – we suggest 80% - of the assets in a plan may be invested in a single industry, region or in either equity or debt securities. The percentage has been chosen arbitrarily; the intent is to require at least some diversification in each category.

Investment choices

We support the proposed provisions regarding investment choices, to require at least one default investment option and as many as six investment options (including the default option) in total.

Permitted inducements

We support the provision that would permit the administrator to offer certain inducements.

However, we believe it is important to ensure that permitted inducements will not promote or result in the displacement of existing defined contribution plans, such as existing group RSPs or defined contribution pension plans, that are available to employees through the employer. Accordingly we suggest that the exceptions in the Regulation to permit administrators to offer certain inducements should not extend to inducements to an employer to move an existing plan to a PRRP.

Low cost

Section 20 of the Regulation sets out limited criteria for determining whether a PRPP is being provided at low cost, stating that the costs are to be at or below the costs for defined contribution plans with 500 or more members.

We presume that the generality of section 20 is meant to allow the industry considerable flexibility in establishing a “low cost” benchmark for PRPPs.

We understand that the costs for defined contribution plans with 500 or more members varies, and that while the costs for some may be close to 1%, some are considerably higher. We presume as well, that the costs of any particular defined contribution plan will usually reflect the characteristics of the plan, and the costs of various inputs. We believe section 20 as proposed will not restrict administrators to a particular “low cost model” and will afford the industry considerable flexibility in designing plans. We may even hope that this approach, by allowing a range of cost levels, will even permit some plans to build in some elements of advice.

Contribution rate of 0%

Section 41 of the Act appears to provide that employees who are enrolled by their employer may opt out of participation in a PRPP, upon receiving notice from their employer that they have been enrolled. The proposed Regulation, on the other hand, only permits an employee to re-set their contribution rate to one per-cent after one year has elapsed, but does not expressly provide a mechanism to permit the employee to terminate their membership in the plan within sixty days after they are enrolled.

If it is the government’s intention to require, through the Regulation, that all participants must remain enrolled for at least one year, that should be made very explicit. Absent any clarification, we trust that the intention is not to require employees to remain enrolled for the first year, but is meant to address the situation of people who want to remain enrolled but wish to opt out from making a regular contribution for a time.

Rights to information

We agree with the intention of the proposed Regulation to adopt disclosure requirements that “would apply industry standards relating to the disclosure of mutual funds and capital accumulation plans, as appropriate.”

We note, however, that the disclosure that PRPP participants will receive from their administrators will be solely informational in nature and will not extend to the provision of advice (unless the administrator chooses to offer a PRPP that makes advice available to participants in some fashion.)

Advocis appreciates this opportunity to provide comments on the Proposed Regulations and would be pleased to address any concerns or answer any questions. Please feel free to contact the undersigned or Ed Skwarek, Vice President, Regulatory and Public Affairs, at 416-342-9837 or eskwarek@advocis.ca.

Sincerely,

A handwritten signature in black ink, appearing to be 'G. Pollock', with a long horizontal flourish extending to the right.

Greg Pollock, M.Ed., LL.M., C.Dir., CFP
President and CEO

A handwritten signature in black ink, appearing to be 'D. Owen', with a long horizontal flourish extending to the right.

Dean Owen, CLU, CH.F.C.
Chair, National Board of Directors