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November 21, 2007

Mr. Harry W. Arthurs
Expert Commission on Pensions
P.O. Box 102
777 Bay Street
Toronto, Ontario
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Dear Mr. Arthurs,

Re: Reviewing Ontario's Pension System

Introduction

Thank you for the opportunity to provide input with respect to the Expert Commission on Pensions' review of the Ontario pension system.

Advocis (the Financial Advisors Association of Canada) is Canada's oldest and largest voluntary professional membership association of financial advisors. We represent life and health insurance licensees, and mutual fund and securities registrants across the country. Advocis members pride themselves on the service and advice delivered to individuals and the business community, particularly small- and medium-size companies.

As an association of financial advisors, we applaud the Ontario government's decision to review the pension system in Ontario, and we are very interested in contributing to the valuable work that the Commission is undertaking to identify and comment on the pension system issues in the province.

Advocis' Practitioners Provide a Unique Perspective on Pension Issues

Advocis, through its thousands of members, is well positioned to provide a unique perspective and a meaningful contribution to the pension system review. We share the common objective of helping to ensure that the pension system in Canada, both provincially and federally, remains viable and sustainable. We add one further objective; that is to encourage and maintain higher levels of plan sponsorship.

Advocis serves small and medium-sized business owners and operators through the provision of professional financial advice and insurance and financial services products.

Retirement planning has become a priority to millions of Canadians. We work with individuals, families and businesses in achieving their financial objectives.

As an association of financial advisor *practitioners*, our members not only provide retirement planning and investment advice to employees with pension plans, but many of our members also establish and administer pension plans for their own businesses and those of their clients. Consequently, our comments, concerns and recommendations with respect to the pension system reflect a balanced perspective, one that takes into consideration the views of both pension plan recipients and pension plan sponsors.

In fact, in response to the growing concern among Canadian workers and employers with respect to the retirement system, Advocis recently established the Pension Task Force whose mandate is to provide public policy advice to interested stakeholders, in particular governments and pension regulators. More specifically, the Task Force wants to promote a healthier pension system in Canada and develop solutions to help ensure that pension plans remain sustainable from both an employer and consumer perspective, including encouraging higher levels of plan sponsorship.

Broadening the Scope of the Commission's Review

While we recognize that the Ontario government has established the Commission's mandate to focus primarily on important issues concerning defined registered pension plans, we believe that the findings and recommendations arising from much of the Commission's research would be more comprehensive and meaningful from a public policy perspective if the Commission's mandate was broadened to include a total review of the pension landscape in Ontario.

More specifically, we respectfully believe that the authority granted to the Expert Commission under its existing guiding principles permits an expansion of its scope to include defined contribution plans of all types including DC registered pension plans, deferred profit sharing plans (DPSPs) and group RRSPs. We support the Commission in its requirement to consider *the role of pension plans in supporting a competitive economy, the need to safeguard the security of pension benefits, and the need to balance the rights and obligations of employers, plan members, and pensioners.*

Moreover, we believe that Canada's pension system could be made healthier if legislators/regulators provided incentives to employers to sponsor defined benefit and contribution plans, or group registered retirement savings plan (RRSP). Employer participation in pension plans and the retirement planning process is essential, and its benefits cannot be overstated. For example, consider the following wealth creation benefits of employer participation:

- The after-tax consequences of any employer contribution-matching are very significant, particularly once tax deductions are factored into the pension-benefit calculation.
- The discipline of payroll deduction.

- Employer participation, when combined with Capital Accumulation Plan (CAP) compliant products, enhances participation and encourages the creation of retirement wealth.

Regulatory Incentives Required to Help Ensure a Healthy Pension System

Advocis believes that Ontarians would benefit from a pension review that includes a review of defined contribution plans. In our view, registered DC plans are beyond the reach of many small employers. We believe that regulatory incentives to sponsors of DC plans would help promote participation and ensure an equitable and sustainable private-pension system in Canada. Ultimately, under the “right” regulatory environment, we believe Canadians can enjoy a healthy pension system that provides a high level of benefits to consumers at a reasonable cost to employers.

Consumer Issues of Fairness and Inclusion

We believe that increasing participation in pension plans should be a key priority for governments and pension regulators reviewing the pension system. While it would be ideal for all Canadian employees to have access to some form of a pension, the reality is that pensions depend on employer participation to work.

Advocis strongly supports consumer protection and wants to ensure that all Canadians have safe and adequate retirement savings that they have worked for, contributed to, and deserve. Our mantra really is to “participate early, invest prudently, and stay invested over the longer term”. We believe in portability and support the “spirit” of the CAP guidelines.

We believe that all Canadians should be entitled to enjoy a pension system that provides similar opportunities to save and invest, so that not just those who are fortunate to have defined benefits plans are adequately prepared for retirement.

Based on our preliminary research, it is evident that there is a two-tier pension system in Ontario that favours those with defined benefits plans, particularly in the public sector, compared to those who contribute to typical DC plans or who do not have access to an occupational pension plan. We believe that this discrepancy should be reviewed and addressed to ensure fairness.

Business Issues of Economic Viability and Sustainability

From an economic perspective, we believe that governments and pension regulators should aim to develop a pension environment that provides incentives to employers to sponsor DC plans for their employees, and relief from the onerous financial burden associated with contributing to these plans. In addition, the employer needs to be respected and protected. Employers provide RPPs voluntarily and deserve regulatory simplicity (at both the federal and provincial levels of government) and the ability to

structure the plan to ensure that they receive value for their contribution to their employees' future financial welfare.

Defined contribution plans are becoming increasingly popular as many employers concerned about the ongoing pension obligations to their employees are taking steps to mitigate their risks and reduce their costs. While some employers are reducing their benefit programs, and/or altering their investment policies, many private-sector DB plans are undergoing plan re-designs and converting to DC plans. As noted in the Commission's February 2007 *Discussion Paper for Interested Ontarians* "...the balance between defined contribution and defined benefit plans has shifted somewhat in the direction of the former".

While we note the risks, complexities, and challenges generally associated with DB plans that the Commission has been assigned to review, we believe it would be useful and appropriate for the Commission to also recognize the benefits and appeal of DC plans in today's workforce, not only in Canada, but in the US and UK. Moreover, we believe that Canadian governments and pension regulators should be encouraged to help facilitate the development of DC plans by providing a regulatory environment that would be conducive to such plans. Advocis would be very interested in assisting the Commission in this regard.

As noted in the Commission's *Discussion Paper*:

"... the potential volatility of costs under defined benefit plans presents risks for sponsoring employers that are often perceived to be greater than those associated with defined contribution plans; their administration is more complex; and they are subject to closer oversight. Conversely, the contributions made by employers to defined contribution plans may be lower than those to defined benefit plans, depending on financial market conditions and on the rate of contributions. All of these considerations might conceivably motivate Ontario employers to shift from defined benefit to defined contribution plans, following apparent trends in this direction in the United Kingdom and the United States."

Conclusion

Advocis is very interested in contributing to the Commission's review of the pension system in Ontario, and believes that we are well positioned as an organization of financial advisor *practitioners* to provide a balanced perspective on the issues.

From our perspective, the Commission's findings and recommendations would be more comprehensive and meaningful if it were to broaden the scope of its review to include defined contribution plans, not just defined benefit plans.

In our view, under the "right" regulatory environment, we believe Canadians can enjoy a healthy pension system that provides a high level of benefits to consumers at a reasonable cost to employers.

We would be pleased to provide the Commission with more specific recommendations on the pension system in Ontario, in particular identifying possible incentives to encourage businesses to sponsor pension plans and consumers to save for their retirement.

We look forward to hearing from you to discuss how we can effectively contribute to the Commission's work on this important matter. Please contact David Whyte, Associate Director of Regulatory Affairs, Advocis, at (416) 342-9837 or dwhyte@Advocis.ca.

Yours truly,



Steve Howard, CA
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