

## *Pooled Registered Pension Plans:* **Who Really Benefits?**

**By: Gerry Wahl**

**A**re Pooled Registered Pension Plan really the key to pension reform and will they address the key issues? Stakeholders should be careful what they wish for.

As part of the initiative to look at pension reform and, specifically, harmonization of pension legislation and regulations nationwide, the federal government announced in late 2010 that a new retirement savings vehicle would be implemented to assist the many Canadians without employer sponsored pension programs – the Pooled Registered Pension Plan (PRPP).

### **12-month Deadline**

The federal finance minister acknowledges that the PRPP requires a high level of regulatory harmonization across major jurisdictions. Harmonization, however, has proven to be difficult and achieving the 12-month deadline to put PRPPs in place, as suggested by the minister, appears very optimistic. It is also debatable as to whether Western and Atlantic Canada will accept a program where control and most of the key high paying jobs associated with the PRPP will once again end up in Ontario and Quebec.

While many Canadian workers do not have employer sponsored pensions, they do have access to tax assisted savings programs such as RRSPs, Tax Free Savings Accounts (TFSA), and Deferred Profit Sharing Plans through local financial institutions. Many taxpayers do not take full of advantage of these existing programs. A recent article in the Vancouver Sun stated that there was \$500 billion of unused RRSP contribution room. Therefore, it is debatable if workers would rush into a PRPP.

The main argument for a PRPP is that it will lower fees and this will encourage workers to enroll in this plan. High fees, however, are generally not given as the main reason taxpayers don't make greater use of RRSPs. It's more likely that the average worker simply doesn't have enough spare cash to make pension contributions. It is also questionable whether significantly lower fees will be achievable given the involvement of the financial institution as the administrators.

The tax savings for lower paid workers (in low tax brackets) making PRPP contributions will also be relatively minor. Another relevant issue is how will the federal and provincial government make up the loss of tax revenue resulting from new contributors to the PRPP?

Regulated financial institutions are capable of taking on the fiduciary role of a PRPP, however, the reduction in fees may not be that significant. The risks the financial institutions assume and their administrative responsibilities – investment selection, monitoring investment performance, and communication and education under the CAP Guidelines – are onerous as many sponsors now find. The largest component of the fees paid by Defined Contribution plan members is related to the recordkeeper's administrative cost versus the actual fund manager fees. Keeping in mind that the administrator must always act in the best interests of the PRPP members (versus their own profit or organizational objectives), it may also be difficult to avoid conflicts of interest.

PRPPs must allow members to construct portfolios (balanced funds) consistent with their needs. The diversity of the PRPP membership will require that a large number of investment options be available which will make investment decision-making less straight forward and result in higher administrative costs.

### **Intriguing Question**

Perhaps the more intriguing question will be which funds will be used in the PRPPs? Will financial institutions be allowed to use their own investment fund offerings versus the best performing lowest cost investment options available in an asset class?

The PRPP administrator will also be responsible for communication, education, and providing member with tools to assist in making investment decisions. DC plan sponsors, in the past, have found this to be a difficult,

frustrating, and costly. It is an aspect of administering DC plans with some risk and, undoubtedly, they would be happy to transfer this responsibility to a PRPP.

However, the employers' responsibilities under in the PRPP are similar to a DC plan. The premise is, however, the financial institutions – as administrators – would relieve employers of almost all of their fiduciary responsibilities and risks. From an employer perspective, this is a significant difference and a very compelling reason to add a PRPP or convert an existing DC plan to a PRPP. PRPPs appear to be intended for smaller organizations (employed members) or the self-employed (individual members). However, there are no restrictions in terms of size of the organization, nor does it appear that employers already offering DC plans are precluded from transferring their DC plans to a PRPP. Given fiduciary responsibilities and risk inherent in administering a DC plan, why would sponsors not jump at an opportunity to transfer their DC plans to the PRPP? If fewer employers offered DC plans, this poses a potential loss of revenue and clients to all financial institutions and recordkeeping services.

### **Savings Vehicle**

Many CAP members have indicated what they really want is a savings vehicle which minimizes their involvement in investment decision-making, is not subject to market risk and fluctuations, and results in a guaranteed pension income. Without these features, the average worker will likely continue to avoid another savings program. Sponsors, however, will be grateful for the opportunity to virtually eliminate their fiduciary roles and responsibilities and the associated potential legal and financial risks.

Whether the PRPP mitigates the concern that certain Canadians may not be saving enough for retirement is debatable. Hasty implementation of a complex program of this nature also may end up being costly, ineffective, and benefit the sponsors rather than the intended target Canadian savers. ■

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