



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

August 16, 2018

Department of Finance Canada
90 Elgin Street
Ottawa, Ontario K1A 0G5

Via Email: FIN.Pensions-Pensions.FIN@canada.ca

Re: Proposals for an Unclaimed Pension Balances Framework

The purpose of this letter is to provide comments from the Pension Investment Association of Canada (PIAC) on the recently released Proposals for an Unclaimed Pension Balances Framework.

PIAC has been the national voice for Canadian private and public pension funds since 1977 in matters related to investment and governance. Senior investment professionals employed by PIAC's member funds are responsible for the oversight and management of over \$2 trillion in assets on behalf of millions of Canadians. PIAC's mission is to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries. PIAC's positions on public policy reflect the fiduciary framework in which member funds operate and its commitment to work in the best interests of plan members.

PIAC appreciates the opportunity to comment on the position paper regarding the modernization of the unclaimed balances regime and the proposals for unclaimed pension balances to be brought into this regime. Our comments will be limited to the pension balance proposals.

We would first commend the federal government for moving ahead to establish an unclaimed balances regime for federally-regulated pension plans. PIAC believes unclaimed pension benefits represent a significant and growing administrative and fiduciary challenge for pension plans across the country. While a number of provinces, and more recently CAPSA, have set out guidelines to help pension plan administrators and beneficiaries identify outstanding claims and bring resolution to these payments, the only real long-term solution is the establishment of public sector agencies with the

mandate to receive unclaimed balances. PIAC believes the Bank of Canada is a logical choice for federally-regulated plans given its expertise in the management of unclaimed bank balances and the opportunity to scale resources across a larger asset base.

While we strongly support this initiative, we believe the government should not limit participation to terminated plans but should begin with a broader program including ongoing plans. As your paper notes, plan sponsors incur increased administrative costs keeping track of unclaimed small balances and are unable to comply with their obligations under the Income Tax Act to commence pension payments at age 71 for unlocatable members. We encourage you to review whether sufficient scale can be created right away to manage ongoing plans given the Bank of Canada also manages unclaimed deposits at banks and federally-regulated trust companies which touch far more Canadians by number. The provinces of Quebec and Alberta are likely able to provide guidance as to the relative operational mix in practice between ongoing and terminated plans.

Finally, PIAC believes the federal regime for unclaimed balances should not only be extended to federally-regulated pension plans, but also to provincially-regulated plans.

Responses to Specific Questions in the Consultation:

2.2. Application to Terminated versus Ongoing Plans

- Do unclaimed pension balances and/or unlocatable beneficiaries pose other issues for terminated and ongoing plans than those identified above?

Answer: We believe you have identified the key concerns and reiterate our recommendation to include ongoing plans in your regime.

- Can any plan sponsors or administrators of ongoing plans provide an estimate of the number of unclaimed pension balances and unlocatable beneficiaries in their plan?

PIAC will follow-up with Finance officials to discuss whether we can facilitate the collection of such information from some of our member plans. We also note the experiences of those provinces with unclaimed pension balance regimes may provide a sense of the proportion of balances by number which typically become unlocatable over time.

2.3. Transfers to the Designated Entity

- What are examples of effective search methods/techniques? What seems like a reasonable minimum time period to make appropriate efforts to search for a plan beneficiary? Should there be a minimum time period before eligible unclaimed pension balances may be transferred to the designated entity? What necessary criteria, if any, should be required to obtain OSFI's authorization?

PIAC supports your proposal to not take a prescriptive approach to defining acceptable search methods. As OSFI will approve the transfers to the Bank of Canada, we expect

plan sponsors will learn to work within the guidance and practices that evolve out of this process. We believe two years is a reasonable amount of time for plan sponsors to attempt to locate a member and transfer the balance.

2.4. Information Provision

- What are your views on plan administrators having to provide the proposed information to the designated entity, and having the proposed information posted publicly? Do plan administrators have access to all the proposed information to provide to the designated entity?

We do not see a problem with the proposed information requirements and believe plan sponsors should normally have all of the proposed information.

2.5. Claiming Funds from the Designated Entity

- Are there others who should be eligible to claim funds from the designated entity? What are your views on the proposed prescription periods, including views on what would be an appropriate prescription period and threshold for small balances, and the appropriateness of full alignment with the framework for unclaimed bank balances?

Only plan beneficiaries or designated survivors, or their authorized representative or estates, should be eligible to claim funds from the Bank of Canada. We agree that harmonization with the unclaimed deposit balance regime is logical for prescription periods and thresholds. PIAC is also supportive of legislation introducing a de minimus amount for which pensions can simply be “written off” by the plan administrator. This approach could be similar to the small benefit cash out rules that exist in various provincial pension benefits acts where the pension and commuted values are tested against a percentage of the Years’ Maximum Pensionable Earnings. Of course, the thresholds for writing off entitlements would be much smaller than those that exist for small benefit cash outs.

2.6. Interest and Fees

- Are there other reasons to support crediting a reasonable rate of interest on amounts claimed from the designated entity, or charging a cost-recovery administration fee?

We believe your paper identifies the relevant points. We support the recommendation that no costs be charged or interest credited to an unclaimed balance, although we recommend the federal government harmonize the approach taken with the bank balance regime as it is not clear why there would be different approaches.

2.7. Tax Obligations

- Do you agree that remitting a pre-paid tax is a simple, efficient and practical approach to the taxation of unclaimed pension benefits? Do you agree that the pension plan administrator is in the best position to report, withhold and remit the pre-paid tax to the CRA? What would be an appropriate rate of tax to apply on payments of unclaimed pension balances to a designated entity? Should the account held by the designated entity (net of the taxes paid) be an unregistered account?

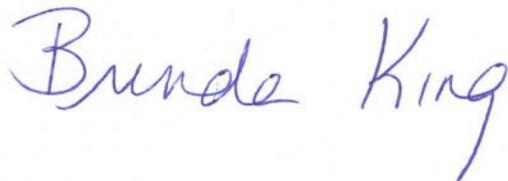
We agree with the proposals regarding taxation and remittance; including that unclaimed balances be considered an unregistered account given tax will have been paid.

We also agree that the question of the appropriate withholding rate requires careful consideration, as the conversion of a large balance to a non-registered format can be a material tax event for an individual. There may be merits to a threshold based system where withholdings are at the lowest combined federal and provincial rate for balances below a certain size and increase as the balance exceeds certain thresholds. A higher rate of withholding might also be appropriate where a plan transfers a SERP or DC notional account balance.

We suggest the regime require plan sponsors to provide the gross amount of the unclaimed balance to the Bank of Canada as part of the transfer information such that the withheld amount will be available to individuals claiming the balance. This allows individuals to calculate and potentially reclaim any excess withholding.

PIAC would be pleased to expand on any of our responses at your convenience and will follow up with your officials regarding the possibility of obtaining data on unclaimed balances from some of our members.

Yours sincerely,



Brenda King
Chair