



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

June 3, 2019

The Hon. William Morneau
Minister of Finance
Ottawa, Ontario K1A 0A6
Delivered Via Email: FIN.Pensions-Pensions.FIN@canada.ca

Dear Minister,

Re: Budget 2019

The purpose of this letter is to provide comments from the Pension Investment Association of Canada (PIAC) on the 2019 Federal Budget.

PIAC has been the national voice for Canadian private and public pension funds since 1977 in matters related to pension 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.

DC Decumulation Enhancements

We would first like to thank you for introducing changes to the *Income Tax Act* which will facilitate the use of Advanced Life Deferred Annuities (ALDAs) and Variable Payment Life Annuities (VPLAs) within registered accounts. We are confident that over time these will represent significant enhancements in the decumulation options for Canadian retirees saving outside of traditional DB plans.

As you consider the detailed drafting of the VPLA provisions, we encourage you to facilitate the broadest possible potential access for Canadian savers. We believe that this means a regime whereby RRSP and RIF savings will have efficient access and whereby a variety of financial service providers can offer VPLA structures. PIAC's view is that large DC plan sponsors will have the scale to integrate VPLA structures into their

registered plan offerings if they so choose, but that smaller employers will likely look to direct their members to third party providers of such products. Under the current budget language, the only alternative to in-plan VPLA available to those smaller employers would be a VPLA offered through a Pooled Registered Pension Plan (PRPP). This may create a significant barrier to accessibility as Canada has not yet seen meaningful traction in the development of the PRPP market. While the PRPP model is relatively new, the introduction of the VPLA may serve as an opportunity for the federal government to revisit the PRPP framework with industry to determine whether there are potential changes that would be encourage broader adoption.

Once the tax changes are in place, we note that the federal government can continue to play a leadership role in this area by encouraging provincial policymakers to advance any required legislative changes to facilitate the introduction of VPLA structures in a provincial pension context.

Enhancing Retirement Security for Canadians

PIAC is likewise supportive of the corporate governance proposals in the budget further to the recent consultations on options for enhancing retirement security.

As stated in our January 11, 2019 letter to you, PIAC believes the promotion of corporate social responsibility principles and practices would benefit Canadian businesses and investors. We note the proposed amendments to the Canadian Business Corporation Act (CBCA) creates a requirement for prescribed corporations to develop and disclose an approach to executive compensation and also provides shareholders with an annual advisory vote with respect to the compensation paid that year, a vote which is often referred to as “Say on Pay”. PIAC has long held the position that Say on Pay is a useful tool for companies and investors to assess shareholders’ acceptance of a corporation’s compensation approach and provides an important mechanism to facilitate dialogue on the topic. Until now, Canada was the only G7 country that did not require companies to put Say on Pay on their AGM ballots. We strongly support this amendment and hope it is the first step toward mandatory Say on Pay for all companies in Canada, not just those incorporated under the CBCA.

With regard to the revisions under “best interests” of a corporation, articulated in section 122(a), we note the government is making explicit mention of various outside stakeholders including shareholders, employees, retirees and pensioners, creditors, consumers, governments, and the environment. PIAC has previously stated it does not believe that acting in the best interests of a corporation precludes directors from considering these stakeholders, therefore, we are pleased to see this clarification.

In terms of the proposed changes to pension legislation, we commend the government for re-introducing changes that would provide a full discharge of pension liabilities on the purchase of annuities by federally-registered plans. We agree with your assessment that this will on balance strengthen the pension system over time. As you consider detailed drafting, we note that PIAC is not in favour of the approach taken by the

Ontario government which mandates retention of entitlement to surplus by annuitized members in the event of a wind-up post annuitization. We attach our letter to the Ontario Minister of Finance which outlines our concerns with this approach.

We are however disappointed there was no follow through in the budget to review DB plan funding rules for federally regulated employers, and in particular on permitting Solvency Reserve Accounts (SRA's) which were mentioned in your discussion paper on retirement security. As mentioned in our January 11, 2019 letter to you, PIAC has advocated in favour of SRA's for many years as a means to overcome the inherent procyclicality of pension funding requirements and to mitigate the asymmetries regarding the potential for trapped surplus in plans. We see no policy downside in terms of benefit security from appropriately structured SRA's and encourage the federal government to follow the lead of British Columbia, Alberta and Quebec in terms of making these an eligible funding mechanism for federal plans. We also note recent CAPSA recommendations on funding of defined benefit plans released in February, 2019 which endorsed the use of SRA's by Canadian policymakers. We reiterate that now is the right time to implement the SRA change as federal plans are generally well funded and the change could bring additional funding into federally-regulated plans ahead of the next turn in the pension funding cycle.

We look forward to seeing the detailed budget implementation language and working further with you on these important initiatives.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'D. Allen', written in a cursive style.

Deanne Allen
Chair