



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

September 26, 2019

The Hon. William Morneau
Minister of Finance
Ottawa, Ontario K1A 0A6

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

Re: Draft Budget Legislation – Variable Payment Life Annuities

The purpose of this letter is to provide comments from the Pension Investment Association of Canada (PIAC) on draft budget legislation with respect to the introduction of Variable Payment Life Annuities (VPLAs) and to reiterate our support for Advanced Life Deferred Annuities (ALDAs).

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.

As you are aware, PIAC strongly supports the introduction of VPLAs and ALDAs into the realm of registered accounts. We believe they have the potential to meaningfully improve the options available for managing longevity risk for Canadians who save for retirement outside of traditional defined benefit plans.

Our main concern from a policy perspective is that the budget legislation appears narrowly drafted to limit VPLA access to a registered pension plan context. PIAC has a broad membership of large and small plans. The in-plan solution will be of potential interest to our members with large DC plans, however, it is unlikely companies sponsoring smaller DC plans will be able to establish and administer an in-plan VPLA, but they may be interested in establishing programs with third party providers who can serve as aggregators of smaller pools. This model is more likely to succeed if there is a

broader scope of permitted aggregation structures beyond the PRPP, which is the only other structure permitted outside of a registered pension plan based on the draft legislation. As we indicated in our letter dated June 3, 2019, the PRPP model has failed to gain meaningful traction in the Canadian market, notwithstanding the potential merits of the model, and is not permitted in all Canadian jurisdictions. As drafted, we believe the legislation will preclude meaningful take-up by companies sponsoring smaller DC plans and make it very difficult for third party providers to design scaleable products for individuals saving through RRSP's. PIAC believes that there is a broader opportunity for VPLAs beyond the larger DC plans and encourage you to revisit your approach to accessibility.

We also have the following technical comments on the draft legislation:

- The VPLA benefit adjustment requirement in subparagraph 8506(1)(e.2)(iii) of the Regulations is silent on the permissibility of differentiated longevity adjustments by age cohort. In PIAC's view, age-based longevity adjustments should be allowed. Where the pool of participants is relatively small, a uniform longevity adjustment would be the only practicable solution. Where the pool of annuitants is large, differentiated adjustments would promote cross-generational fairness, which is a preferred approach in the literature and has been a long-standing practice in France which has perhaps the most historical experience with VPLA-like structures among developed economies.
- In subparagraph 8506(2)(g) of the Regulations, there appears to be ambiguity on the permissibility of providing VPLA benefits by means of a buy-in group annuity purchased from a licensed annuities provider. In PIAC's view, this should be permitted, as a cost-effective solution for smaller registered plans.
- Subparagraph 8506(1)(e.2)(iii) of the Regulations allows annual increases of the VPLA benefits not exceeding 2%. In PIAC's view, this should be adjusted to a higher increment to allow VPLA beneficiaries to prepare for medical costs and the cost of assisted living facilities in the later part of retirement, which have been well documented to increase at rates faster than overall CPI. We propose a 4% increment which would be consistent with the 4% annual increases permitted for money purchase pension plans under subparagraph 8506(1)(a) and for other registered retirement plans (PRPP, RRSP, RRIF).
- In subparagraph 8506(13)(b) of the Regulations, the requirement for a minimum number of members with assets in a VPLA fund creates a possibility for the fund to fall below the required minimum level, such as in a scenario where a fund ceases to grow and gradually winds down. There does not appear to be a mechanism for commutation of VPLA benefits, either by transferring assets back to the members' accounts under the money purchase provision of the same plan (if the registered pension plan continues to exist), or by permitting a purchase of individual life annuity from insurance company or a transfer to an external RRIF arrangement.

PIAC reiterates its strong support for the introduction of VPLAs, alongside the introduction of ALDAs. We look forward to continuing to work constructively with Finance Canada 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