



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

May 9, 2012

Mr. David Bahan
Directeur, Direction des études économiques fiscales et taxe de vente
Ministère des Finances
12, rue Saint-Louis
Québec (Québec)
G1R 5L3

Re: Québec's Proposed Voluntary Retirement Savings Plans

Mr. Bahan,

PIAC has been the national voice for Canadian pension funds since 1977. Senior investment professionals employed by PIAC's member funds are responsible for the oversight and management of over \$1 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.

The Canadian government has recently announced the establishment of Pooled Registered Pension Plans (PRPP). At the same time, provincial governments are preparing the legislative framework underlying this new retirement savings vehicle.

PIAC's focus in assessing the success of new pension developments in Canada includes:

- Expanding coverage
- Harmonization
- Utilizing our investment expertise to advise on investment-related issues
- Inclusion of safe harbours

We congratulate the Québec government in being an early adopter of PRPP's through the creation of the Voluntary Retirement Savings Plan (VRSP). We agree that this vehicle should be a low-cost pooled arrangement that will help expand retirement savings coverage in Québec.

To make this initiative a success, we believe it is important that the legislative framework and governance be as uniform as possible from one province to another. Harmonization will foster greater mobility of the workforce within the country and achieve the main objective of expanding the retirement income coverage of the

Canadian population. We encourage the Québec government to consult with other governments to promote uniformity in all legislative and regulatory aspects of this important new retirement savings vehicle in Canada.

Federal discussions have highlighted the prudent person, principles-based approach in setting the default and the investment options. PIAC encourages the Québec government to take a similar approach. Both PRPP and VRSP contemplate five options. PIAC believes the framework around setting these options needs to be flexible enough to incorporate developments in the industry into the future.

The 'life cycle' funds considered for the default option appear to offer a reasonable investment for most investors. We would seek more clarity on the type of funds the other five should be. In addition, it is not clear whether offering only one fund series might be acceptable. For example a target date with risk overlay series of funds could count as one option and may be suitable for an administrator's offering.

Employers' obligation to offer a VRSP, deduction of payroll taxes and submission of contributions are highlighted but it is unclear on their responsibilities with respect to selection and monitoring of the administrator. Additional clarification is recommended. It is also noted that financial literacy, education and tools should be the responsibility of the administrator. Although it is theoretically interesting to have workers continue to invest in a plan offered by a former employer, this could practically become cumbersome for employers who may end up with contributions to multiple plans.

PIAC further believes the 'low cost' objective will be met more effectively if pension funds, along with other regulated financial institutions, are explicitly eligible to be PRPP administrators. The inclusion of a variety of providers will help create competition and incentives for costs to be low and quality of service to be high. We encourage the Québec government to clarify this in the VRSP legislation and regulations.

The definition of low cost as being comparable to institutional plans of similar size is a reasonable approach supported by PIAC. However, it should be noted that complexity of the fund will factor into the comparisons. For example, a balanced fund of publicly-listed investments in the developed world will be less costly than a fund that includes emerging markets, and private market investments such as real estate, infrastructure, etc. The latter funds may have higher fees but could provide an improved outcome for long term investors. Lastly, full disclosure and transparency of fees for investors is advocated by PIAC.

If you need clarification with regard to these comments, please do not hesitate to contact me.

Best regards,

François Laurin
Member, PIAC Government Relations Committee

cc : Mme Sonia Potvin, Directrice de la direction de l'évaluation de la révision et de la statistique, Régie des rentes du Québec
Mme Julie Cays, Présidente, PIAC