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Ministers agree on PRPPs, CPP expansion on hold

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Finance Minister Jim Flaherty has announced that the provinces and federal government came to an agreement during yesterday's meeting in Kananaskis, Alta., to move ahead with the pooled registered pension plan (PRPP) framework. Expansion of the Canada Pension Plan (CPP) is being moved to the back burner for now.

"I'm particularly pleased to announce that we reached agreement on a framework for the introduction of a new kind of pension plan, called the pooled registered pension plan, or PRPP," said Flaherty. "This new private-sector retirement savings vehicle will improve the range of retirement savings options available to Canadians by providing a low-cost retirement savings opportunity for employees—with or without a participating employer—and the self-employed. PRPPs will be a major breakthrough for the Canadian pension market."

He added, "We also reviewed work done on a range of options for the Canada Pension Plan. We agreed that our officials should continue their work on CPP. We will come back at the June meeting to discuss options and concerns."

The release of the draft framework for PRPPs late last week—an about-face for a government that was strongly leaning toward expanding the CPP—garnered a lot of attention and support from the pension industry.

"The Finance Ministers have hit a bull's eye on behalf of Canadians. For the first time, the majority of Canadians in the private sector who don't have the option of saving for retirement at the workplace will have the opportunity to do so," said Frank Swedlove, president of the Canadian Life and Health Insurance Association.

Keith Ambachtsheer, pension expert, president and founder of KPA advisory services told the CBC he isn't surprised by the decision. "In a sense it was almost a relief that Flaherty put pooled pensions forward and CPP on hold, because now there is the opportunity to figure out how to do it right," he said.

Chris Brown, president of the Association of Canadian Pension Management also said he wasn't surprised by this decision. "The PRPP concept is one that has been under discussion and development by government and industry groups for a considerable period of time, at least in concept," he said. "The idea itself was proposed before and during the provincial pension standards reviews, and more effort has been expended in recent months to flush out the details for a workable framework."

The new framework is expected to give small and medium-sized businesses and self-employed people access to private pension plans. How the final framework for PRPPs will be designed is the next hurdle to overcome.

"Over the coming months, federal-provincial-territorial officials will engage with key stakeholders to ensure the framework for these new plans will meet the needs of employees, employers and those financial institutions that may offer the

arrangements,” Flaherty said.

Brown feels that in order for the new plan to work, there are a few things that need to happen including the following: harmonization of rules in a pan-Canadian regulatory framework to permit them to operate across the country and to reduce administrative complexity; Enabling these plans to grow and achieve economies of scale necessary to produce the best investment returns; A competitive environment to encourage keeping fees charged to members as low as possible; and auto-enrollment with opt-out features, to encourage as many people to participate as possible.

In his CBC interview, Ambachtsheer also said that auto-enrollment options need to be apart of this new framework. The private pension plan model “will not work if it is totally voluntary,” he said, stating that auto-enrollment options should be used as a form of “soft compulsion.”

The ministers also agreed that fostering better financial literacy for Canadians is important, and they expressed their continued commitment to that initiative. “Ministers agreed to review the report of the Task Force on Financial Literacy to be released in the new year, and to work collaboratively to respond to the recommendations,” confirmed Flaherty.