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Financial Planning Standards Council

Pooled Retirement Pension Plan (PRPP) Submission

February 2012

Introduction

Financial Planning Standards Council (FPSC®) is pleased to provide comments on the government's proposed Pooled Retirement Pension Plan (PRPP) legislation. We hope our comments will be useful to ensure that PRPPs can become an effective tool to strengthen the Canadian retirement income system.

Founded in 1995, FPSC is a not-for-profit national organization dedicated to seeing Canadians improve their lives by engaging in financial planning. We do this through certifying financial planners, developing and enforcing professional standards and raising the awareness of the importance of financial planning. Currently there are over 17,500 CERTIFIED FINANCIAL PLANNER® / CFP professionals in Canada who work with over three million Canadians to help them achieve their financial goals, including planning for their retirement.

As part of our research for our comments, we asked the CFP professional community for their thoughts on the proposed legislation. We received over 450 comments and submissions from across Canada. Although some of the views expressed by CFP professionals have been incorporated, the submission ultimately reflects the views of FPSC and not necessarily the views of the CFP professional community.

FPSC is encouraged by the government's intent to improve the retirement security of Canadians. We believe PRPPs could provide an opportunity for small- and medium-sized businesses to offer pension programs to their employees where the costs of establishing and administering a group Registered Retirement Savings Plan (RRSP) account may have previously been cost-prohibitive. However, we are concerned that, in its current format, the PRPP will not prove to be a significantly more effective way to aid individual Canadians in saving or planning for their retirement than existing retirement and savings vehicles.

Unless Canadians change their behaviour, and realize the benefits of starting to plan early for their retirement, new tax-advantaged government plans alone will not help Canadians' retirement security. To address this, we recommend that the government:

- 1) Address the financial behavioural challenges associated with retirement income savings plans, recognizing that the promise of lower costs will not be enough to establish higher participation rates in voluntary savings vehicles. To avoid underutilization, employees should be automatically enrolled in employer-sponsored PRPPs; opting out should be discouraged. Incentives for employers to match employee contributions should be encouraged.
- 2) Financial advice should be available to employees participating in a PRPP and mandatory for employers and plan administrators to offer. This would ensure high participation rates in the proposed program helping many Canadians achieve their retirement security.

Behavioural Challenges Are Not Being Addressed

In his November 17 announcement, The Honourable Ted Menzies, Minister of State (Finance), stated that, “just over 60 per cent of Canadians do not have a workplace pension plan.”¹ It is the hope that PRPPs will provide the opportunity for employers to offer a low-cost program that will encourage their employees to save and plan for their own retirement. While PRPPs may increase the availability of employer-sponsored pension programs, it will do little to encourage employees to participate in the program.

Unrelated to costs and fees, behavioural issues pose the greater obstacle for individuals to participate in voluntary savings programs. For the PRPP to be an effective tool, Canadians’ attitudes and behaviours related to saving and planning need to be addressed in the proposed legislation.

It is important to note that under the proposed legislation, PRPPs would be voluntary for businesses to offer; employees retain the option to opt-in or out of the program. Employers are also under no obligation to top up employee contributions and there are no incentives that would encourage them to do so.

The wealth of evidence and research into human behaviour² suggests that the voluntary nature of PRPPs will not create the desired effect of having more Canadians become financially prepared for their retirement. Research done by Richard Morrison and Robert Oxoby prepared for the Task Force on Financial Literacy illustrated that people have a built-in bias against savings since individuals weigh current losses more heavily than future consumption losses.³ Canadians are more likely to spend rather than save.

FPSC believes that yet another savings vehicle is not the answer. Statistics show that amongst existing savings vehicles (such as RRSPs and Tax-Free Savings Accounts), the current participation rates are alarmingly low. Since being introduced in 2009, approximately 6.7 million Canadians have opened a TFSA account⁴ but for many it still remains a mystery. A 2011 ING Direct survey found that 64 per cent of Canadians still don’t know what a TFSA is, have only have a vague sense of it, or don’t comprehend it at all.^{5,6}

In many respects, the proposed PRPPs mirror group RRSP accounts that are currently offered by some employers. In a typical year, only a quarter⁷ of Canadians put anything into their RRSPs, with the median value for workers 55 and over at just above \$60,000.⁸

1 <http://www.fin.gc.ca/n11/11-119-eng.asp>

2 This perhaps may be best demonstrated in two recent bestselling books *Nudge: Improving Decisions about Health, Wealth, and Happiness* by Richard Thaler and Cass Sunstein and *Thinking, Fast and Slow* by Nobel prize-winner Daniel Kahneman have written in detail about the inherent difficulties humans have in making rational decisions and the need to offer incentives to influence positive behaviour.

3 Morrison, William and Robert Oxoby. *Economic Research Using Laboratory Experiments to Investigate Behavioral Aspects of Savings Decisions* 2010 p 13

4 <http://www.theglobeandmail.com/globe-investor/personal-finance/rrsp/dont-overlook-tfsas-as-a-retirement-planning-option/article2324107/>

5 *Globe and Mail* article “Three years later, people still don’t understand TFSAs”, Dawn Walton, Jan. 16, 2012

6 An online poll done by Leger Marketing for BMO Financial Group in the fall of 2011 also found the 40 per cent of Canadians do not know the difference between a TFSA and an RRSP

7 <http://www5.statcan.gc.ca/cansim/a26?lang=eng&retrLang=eng&id=1110039&tabMode=dataTable&srchLan=-1&p1=-1&p2=9>

8 <http://www.cbc.ca/news/business/story/2011/11/17/f-prpp-details.html>

Under the proposed legislation, we see no greater incentive for employees to participate in a work-sponsored PRPP as opposed to already available group-RRSP or self-directed RRSPs.

Recommendation– Opt-Out, Not Opt-In

Behavioural issues still remain a significant challenge in improving Canadians' participation in retirement planning. The proposed legislation need to address these behavioural challenges associated with retirement savings plans, recognizing that the promise of lower costs will not be enough to establish higher participation rates in voluntary savings vehicles. To avoid underutilization, employees should be automatically enrolled in employer-sponsored PRPPs; opting out should be discouraged. Incentives for employers to match employee contributions should be encouraged.

Financial Advice is Needed

The final report from the Federal Task Force on Financial Literacy highlighted that many Canadians lack the basic financial capacity to fully understand all of their investment choices, and are often overwhelmed to the point where they do not know where to start. Clearly, Canadians need professional financial advice. Yet, the proposed PRPP legislation makes no mention of financial advice.

Providing PRPP participants with competent, ethical and quality financial advice (especially during the set-up and opt-out periods of the plan) would give Canadians access to the knowledge and expertise they need to take control of their finances.

Studies have shown that Canadians are much better off when they have access to financial advice, and especially when they have a financial plan. In 2009, FPSC commissioned an independent, five-year longitudinal study on the impact that financial planning has on the financial and emotional well-being of Canadians (the *Value of Financial Planning* study, or *Value* study). The *Value* study has consistently shown that people with a financial plan feel more in control of their finances (85 per cent); have peace of mind (64 per cent); and are less likely to feel they barely get by every month (28 per cent).⁹ The ability to budget, plan, and feel confident in their finances has a direct impact on their retirement security.

Further, Canadians who have a financial plan are more likely to participate in savings vehicles. Those who have a financial plan have on average have 4.3 investment sources to rely upon during retirement, compared to 2.4 for those without a plan; 79 per cent have a registered savings vehicle, compared to 46 per cent of non-planners; 36 per cent have a TFSA, compared to 19 per cent of non-planners; and those with a plan are more than twice as likely to hold mutual funds, stocks, investment funds or income trusts compared to non-planners.

Ensuring that employees have access to qualified financial planners such as CFP professionals are a key component to the success of the proposed legislation. Financial advisors are the link between educating Canadians, effecting good behaviours and crafting appropriate strategies to help Canadians achieve their personal and financial goals.

⁹ 2011 FPSC's *Value of Financial Planning* Study pp 29-31

Recommendation – Include Professional Advice

Require professional financial advice as part of the requirement for implementing a PRPP, especially during the automatic opt-in/out periods. Access to quality financial planning advice will help guide employees to make positive decisions in planning for their retirement, with the help of a professional who possesses the expertise and knowledge to do so.

Conclusion


We welcome the government's intentions of improving the retirement security of Canadians. However, we are sceptical that the intended effect of this legislation will be fully realized by a majority of Canadians.

In our opinion, the legislation should include incentives for employees to participate in employer-sponsored PRPPs, and incentives for employers to encourage participation in programs, ideally through matching or top-up contributions. The program should also include an automatic enrolment for all new employees – that is, an opt-out rather than an opt-in program.

Many Canadians lack the capacity or skills to properly plan for their retirement and far too many individuals actually undermine their own retirement security. To increase participation rates in PRPPs, the legislation should mandate that employees receive access to professional financial advice to help them create and stick to a financial plan.

The proposed legislation may provide an opportunity for many Canadians to invest in a large scale plan for their retirement, but the success of the legislation will ultimately hinge on whether Canadians begin to actively plan for their retirement, and if they embrace PRPPs to help them.

For these reasons, we strongly urge the government to consider our comments and recommendations on this proposal.

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