



SIO Policy Alert

A periodic bulletin on public policy issues affecting the socially responsible investment industry in Canada

February 1, 2012

The Federal Pooled Registered Pension Plan (PRPP) Framework

On November 17, 2011, the Government of Canada introduced legislation in Parliament (Bill C-25) to implement the federal portion of the Pooled Registered Pension Plan (PRPP) framework.

The PRPP retirement savings scheme is similar to a Registered Retirement Savings Plan (RRSP) or a registered defined contribution pension plan (DC Plan) and its stated purpose is to increase pension coverage among the 60 per cent of Canadian employees and self-employed individuals who do not participate in an employer-registered pension plan.

The government is promoting PRPPs as the most "accessible, straightforward and administratively low-cost retirement option". While many questions remain unanswered, as each province must pass its own legislation to offer PRPPs, key features of the plan include:

- Allowing individuals who currently may not participate in a pension plan, such as the self-employed and employees of companies that do not offer a pension plan, to make use of this new type of pension plan;
- Enabling more people to benefit from the lower investment management costs that result from membership in a large, pooled pension plan;
- Allowing for accumulated PRPP savings to move with PRPP members from job to job; and,
- Ensuring that funds are invested in the best interest of plan members.¹

Administration of PRPPs

This Act applies to employees of an employer that participates in a PRPP within the legislative authority of the federal government, including interprovincial transportation, banking and telecommunication and is intended to serve as a template for provincial legislation that will apply to all other employers.

Eligible administrators include corporations that can assume a fiduciary duty, such as regulated financial institutions. PRPPs will be administered by third-party administrators that will take on most of the responsibilities that employers bear in existing pension plans. Administrators will generally be responsible for performing the management and operational functions of a PRPP, such as receiving contributions from members and employers and investing the assets of the plan.

As it is written, the Act requires the administrator to offer the PRPP at a "low cost" to plan members. Administrators may offer a variety of investment options to plan members, enabling members to choose the option that is most appropriate for their particular investment needs and objectives. If investment options are provided, they must represent varying degrees of risk and expected return that would allow a reasonable and prudent person to create a portfolio of investments that is appropriate for retirement savings.

The Act stipulates that each administrator will offer a default investment option that is appropriate for large pools of contributors who are potentially diverse in their risk profile.

¹ Department of Finance Canada. http://www.fin.gc.ca/n11/data/11-119_3-eng.asp

Employer participation in a PRPP is voluntary. Employers who choose to participate in a PRPP will be responsible for selecting a particular plan for their employees and enrolling their employees in the plan. Employees will be automatically enrolled in the plan chosen by a participating employer, but will have the option to opt out of the PRPP within 60 days.

Following on unanimous agreement among provinces, territories and the federal government to move forward with the framework for PRPPs, in December of last year, the Government released for consultation a package of draft legislative proposals for changes to the *Income Tax Act* and the *Income Tax Regulations* to accommodate PRPPs. The Ministry of Finance is accepting comments on the draft legislation until February 14, 2012.

Implications for the SRI Industry

Given that employer and employee participation in PRPPs is not mandated by the existing Federal legislation, and the uncertainty surrounding provincial implementation, it remains to be seen just how dramatically Bill C-25 will change the Canadian investment landscape. However, there is a clear opportunity for financial institutions, investment managers and managers of socially responsible investment funds to benefit from these new pools of investment money. As well, advisors should become aware of the options for providing PRPPs to employer groups.

It is noteworthy that a recent poll by Leger Marketing found that 66 per cent of managers at small and medium sized firms not already offering a pension plan support mandatory employer pensions of some kind. Two thirds believe their employees will be interested in joining a PRPP.²

Position of the SIO

The SIO is advocating for legislation and guidance that will require default investment fund options to be guided by responsible investing policies that give consideration to environmental, social and governance (ESG) risks and opportunities that affect long-term value. These policies should also seek to ensure that investments are made in alignment with the broadly shared values of Canadians and consistent with fundamental ethical norms.

² Canadian Life and Health Insurance Association. <http://www.newswire.ca/en/story/906509/pooled-registered-pension-plans-receive-majority-support-in-poll-of-small-and-medium-business-employers>