NSGEU

Notes for a Submission

By

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To the
Law Amendments Committee
On
Bill 38 -
Pooled Registered Pension Plans Act

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Introduction

Thank you, Madam Chairperson and members of the Committee for the opportunity to speak to you about Bill 38 – *Pooled Registered Pension Plans Act.* Our President (Joan Jessome) was unable to be here today to speak to this Bill, due to prior commitments for her out of town. My name is Ian Johnson and I am the Servicing Coordinator/Policy Analyst with NSGEU, and with me is Corinne Carey who is the Pensions and Benefits Officer with NSGEU.

The Nova Scotia Government and General Employees Union (NSGEU) is the largest union in the province representing more than 30,000 workers across the public sector in the provincial government, corrections, health care, public schools, community colleges, universities, municipalities, and community organizations.

Participation in retirement savings arrangements is very important to our members. They are covered by almost 20 different pension plans with 93% of members participating in Defined Benefit Pension Plans, 3% participating in Defined Contribution Pension Plans, 3% participating in Group RRSPs and 2% having no workplace pension at all. It is for our members, and also, those thousands of Nova Scotians, without work place pensions that we are speaking for today.

We have been involved for at least 20 years in pressing for improvements to pension policy and legislation in general and to the pension plans of our members in particular. We are involved in joint trusteeship with several public sector pension plans such as the Public Service Superannuation Plan and the Nova Scotia Health Employees Pension Plan. We are also represented on the Nova Scotia Pension Services Corporation Board of Directors. Finally, we offer a number of pre-retirement seminars for our members every year.

Bill 38 – A Flawed Public Policy

This legislation entitled the *Pooled Registered Pension Plans Act* (or PRPP) is being billed by the Minister of Finance and Treasury Board as a pension option that will allow Nova Scotians to retire with security and comfort. She suggests that PRPPs will provide a low-cost, regulated pension option for employers, employees and self-employed persons. The purpose of the Act is apparently to "provide a legal framework for the establishment and administration of a type of pension plan that is accessible to employees and self-employed persons and that pools the funds in members' accounts to achieve lower costs in relation to investment management and plan administration."

We do agree that all Nova Scotians are entitled to retirement security, that only 40 percent of Nova Scotians have a pension, and that less than 20 percent of working Nova Scotians contribute to a Registered Retirement Savings Plan (RRSP). But our agreement ends there. We are strongly opposed to seeing this legislation proceed any further.

If this legislation is passed, PRPPs will be added to the growing list of retirement schemes (defined contribution pension plans, money purchase pension plans, and registered retirement savings plans) with the intent to provide employees with retirement income. **But let us be clear, these retirement schemes are NOT pension plans. They do not provide retirement security. Pooled Registered Pension Plans are just another voluntary savings vehicle**. They may be better than RRSPs in addressing the deficiencies in our pension system, but they are greatly inferior to an expanded Canada Pension Plan (CPP)

The PRPPs are targeted at workers who do not have a registered pension plan. According to the Department of Finance "Nova Scotia PRPP Q and A", the PRPPs may not be advantageous for those employees who earn less than $25,000 per year and who do not believe that their income will increase substantially because those savings would reduce the amount that can be collected from programs like Old Age Security. For us, though, these are the very workers who we think should have adequate retirement savings.

Unlike the CPP where employers pay one-half of the premium cost, PRPPs will not require contributions from employers. Unlike the CPP and defined benefit pension plans, PRPPs will not provide a secure retirement income at a set replacement rate of pre-retirement earnings. Employees will be required to speculate on the financial markets with the hope that on the day they retire they will have enough saved in their account to last them through their retirement years. Unlike the CPP, PRPPs will not offer protection against inflation, and will not necessarily last a lifetime. Conversion of a PRPP to lifetime, indexed annuity at the time of retirement might be possible but at a very high cost.

PRPPs will supposedly achieve a "lower cost" for the Plan participants in the investment and administration of their retirement funds. To do so, banks and insurance companies will be investing workers' money, with the ability to charge somewhat reduced "management fees". However, we are concerned that this will be done with little or no public oversight as to how those monies are managed or where they are invested. If the purpose is to achieve a true "low cost" alternative, the legislation should, at least, set out maximum thresholds for the fees that can be deducted and limits on the amount of money invested in the various investments vehicles.

We are also very concerned that PRPPs will operate completely outside the legislative requirements and protections offered by the provincial *Pension Benefits Act*. Yes, it will operate under the *federal Pooled Registered Pension Plans Act (Canada)*, but that does not provide the same level of oversight and protections as our own PBA. Many of the important details such as fees, contribution rates, and investment options are left to be defined in the regulations without any clarity about how these regulations will be developed.

In fact, we were surprised to see one key part of Bill 38 being the creation of a new Superintendent of Pooled Retirement Pension Plans. The federal PRPP allows for the appointment of a Superintendent under Section 5 of the *Office of the Superintendent of Financial Institutions Act.* OSFI is responsible for the supervision of federally regulated private pension plans. It is unclear why Bill 38 appoints a separate Superintendent to perform the function and duties of the Act. Currently, the provincial Pension Regulation Division under the Minister's Department administers and enforces the *Pension Benefits Act* which applies to most public and private pension plans in the province. It would seem more practical to have plans subject to the *Pension Benefits Act* and a *Pooled Registered Pension Plans Act,* overseen by our own Superintendent of Pensions.

As we have already indicated, the biggest flaw with this Bill is that it is voluntary in nature. Employee participation is voluntary. Employer contributions to an Employee's PRPP are voluntary. We hear that businesses are keen to offer the PRPP, but what is unknown is if they will step up to the plate and contribute towards their employees' future retirement. Without mandatory coverage as has been already shown across the country with voluntary schemes, we do not think that the PRPP will not solve the goals which are being set out for it to achieve.

Alternative Option– Enhance the Canada Pension Plan

Instead of setting up another retirement income vehicle with a number of uncertainties, we call on the McNeil Government and the Committee to support an expansion of the Canada Pension Plan because:

- It provides defined retirement benefits which are Inflation-indexed to CPI as well as survivor, and disability benefits for all workers in all industries across the country, including the self-employed, regardless of the number of employers and number of jobs a worker has over her or his lifetime;

- It is jointly funded by employees and employers (currently 4.95% each – 9.9% combined) on earnings up to annual maximum of $52,500 (in 2014);
- It is actuarially sound for the next 75 years;
- It has administration fees of less than 0.05% of assets which are far lower than the management expense ratios for privately administered assets by Canadian financial institutions.
- It is portable across jobs, employers and jurisdictions.

Conclusion

In conclusion, the NSGEU is strongly against Bill 38. Instead, we would strongly advocate that the government pursue the enhancement of the Canada Pension Plan as a means to ensure Nova Scotians have the ability to save for retirement. We are very disappointed that the government has completely backed away from being a strong advocate of this enhancement which most of other provinces and territories have been supporting several years.

On the topic of pensions, we would like to again urge the government to finalize the regulations and proclaim the new Pension Benefits Act which was passed as Bill 96 in December 2011. To our knowledge, this is the second piece of legislation proposing amendments to an Act which has not yet been proclaimed.

One final point we would like to make again is that the presentations and questions and answers for any given Bill should be posted on the Status of Bills website, as is now done with posting a list of presenters and a copy of any written submissions. There is an invaluable amount of information and perspectives as well as passion being presented to this Committee on a regular basis. All of this input should be publicly available.

Thank you for your time and attention. We welcome any questions or comments from Committee members.