



An Introduction to Social Programs and Private Pension Plans

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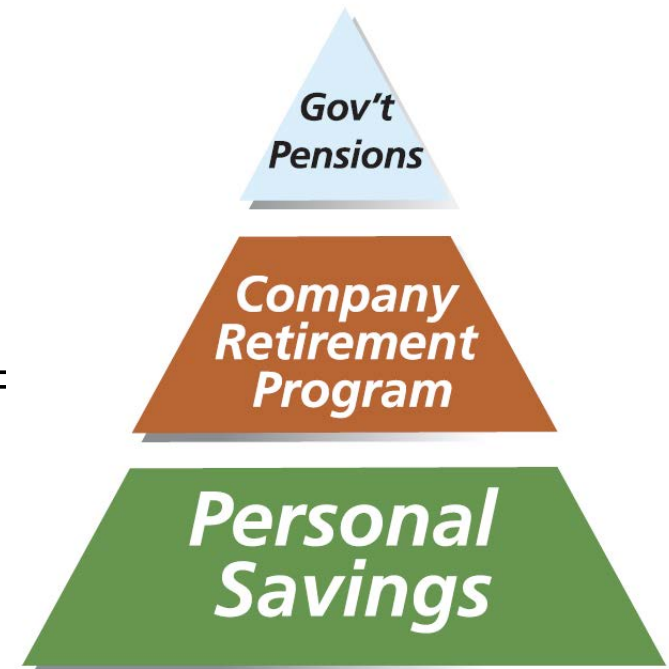
Today's Agenda

- ❖ Highlight the three pillars of the Canadian retirement system
- ❖ Identify key features of government plans
- ❖ Outline the types of employer-sponsored retirement plans

Canadian Retirement System Overview



1. Government Pensions
 - Old Age Security (OAS)
 - Canada Pension Plan (CPP)
2. Company Retirement Plans
 - Registered:
 - ❖ Registered Pension Plan (RPP)
 - ❖ Group RRSP
 - ❖ Deferred Profit Sharing Plan (DPSF)
 - ❖ Group TFSA
 - ❖ Pooled Registered Pension Plan (PRPP)
 - Non-Registered
3. Personal Savings
 - Registered plans
 - Non-registered investments



Government Pensions



Government pensions overview

Old Age Security (OAS)

- *Universal program provides basic pension income to all Canadians*
- *Funded by general tax revenues*
- *Designed to replace 15% of income up to average wage*

*Canada Pension Plan (CPP) **

- *Provides pension income to working Canadians*
- *Funded by employee and employer contributions*
- *Designed to replace 25% of income up to average wage (increasing to 33% with planned enhancements)*

**Quebec residents participate in Quebec Pension Plan (QPP)*



Old Age Security (OAS)

- ❖ Available to most Canadians who have lived in Canada for at least 10 years after age 18
- ❖ Benefits start at age 65 – can delay start date in exchange for a higher benefit
- ❖ No direct contributions – funded through general tax revenues
- ❖ Maximum monthly benefit - \$578 (Q2 2017)
 - “Clawback” of benefits starts at \$73,756 of annual income
 - Full benefit eliminated if income \geq \$119,615
- ❖ Benefit is taxable income



Old Age Security (OAS)

- ❖ Includes means tested Guaranteed Income Supplement (GIS) and Allowance
 - Guaranteed Income Supplement – additional income for low-income seniors receiving OAS pension
 - Allowance – payable to spouse aged 60 to 64 of OAS + GIS recipient
- ❖ GIS and Allowance payments not subject to income tax



Old Age Security (OAS) History

Year	Highlight
1952	OAS introduced
1965	Eligibility age dropped from 70 to 65
1967	Guaranteed Income Supplement established
1972	Cost-of-living indexation introduced
1975	Spouse's Allowance introduced
1977	Payment of partial pensions based on years of residence in Canada



Old Age Security (OAS) History

Year	Highlight
1989	Clawback introduced
2000	Benefits extended to same-sex common-law partners
2012	<p>Federal budget announced changes to OAS:</p> <ul style="list-style-type: none">• Increase in pension age to 67 - Change was later cancelled by the current Liberal government• Voluntary deferral of OAS pension• Proactive enrolment

Canada Pension Plan (CPP) – Current state



- ❖ Financed by employee and employer contributions
 - 4.95% each of pensionable earnings (total of 9.9%):
 - ❖ YBE = Year's Basic Exemption (\$3,500 in 2017)
 - ❖ YMPE = Year's Maximum Pensionable Earnings (\$55,300 in 2017)
- ❖ Contributory period begins at age 18 and ends at age 70
- ❖ Full CPP pension payable at age 65
 - Can take reduced pension starting at age 60
 - Can delay start date in exchange for a higher benefit

Canada Pension Plan (CPP) – Current state



- ❖ Maximum monthly retirement pension at age 65
 - \$1,114 effective January 1, 2017
 - Average benefit = \$685
 - Cost of living adjustment each January
- ❖ Designed to replace 25% of earnings on which contributions are collected
- ❖ CPP payments are taxable income
- ❖ CPP also provides disability, survivor's, orphan's, and lump sum death benefits
- ❖ Quebec residents participate in QPP

Canada Pension Plan (CPP) – Future state



- ❖ Phase one contribution increase:
 - Employers and employees contributions increase from 4.95% to 5.95%
 - Phased-in between 2019 to 2023
- ❖ Phase two contributions:
 - 4% employee and 4% employer on contributions between YMPE and YAMPE (114% of YMPE)
 - Starting in 2024
- ❖ Increase income replacement from 25% to 33% of pensionable earnings

Canada Pension Plan (CPP) History



Year	Highlight
1966	<ul style="list-style-type: none">• CPP introduced
1966-1986	<ul style="list-style-type: none">• Introduction of full annual indexation• Availability of the same benefits to male and female contributors• Exclusion of periods of zero or low earnings while caring for a child under the age of seven• Division of pension credits (credit splitting) on marriage breakdown

Canada Pension Plan (CPP) History



Year	Highlight
1987	<ul style="list-style-type: none">• Flexible retirement benefits payable at age 60• Increased disability pension• Continuation of survivor's benefits if the survivor remarries• Sharing of retirement pensions between spouses or common-law partner• Expansion of credit splitting to cover married or common-law partners
1998	<ul style="list-style-type: none">• Moved from pay-as-you-go financing to fuller funding• Contribution rates increased• New investment policy introduced



Canada Pension Plan (CPP) History

Year	Highlight
2000	<ul style="list-style-type: none">• Benefits and rights extended to same-sex common-law relationships
2012	<ul style="list-style-type: none">• Allow payment of benefits while working• Increase low earnings drop-out• Require contributions by those receiving benefits while still working• Changes to adjustments for those starting benefits before and after age 65
2015	<ul style="list-style-type: none">• Agreement reached to make major changes

Company Retirement Programs





Company Retirement Programs

- ❖ Employer sponsored
- ❖ Union sponsored
- ❖ Multi-employer



Glossary

- | | |
|---------------------------------|---|
| Registered plan | <ul style="list-style-type: none">▪ Contributions tax deductible up to legislative limits▪ Investment earnings tax-sheltered until withdrawn |
| Non-registered plan | <ul style="list-style-type: none">▪ Contributions are not tax deductible▪ Investment income taxable when earned |
| Vesting | <ul style="list-style-type: none">▪ Waiting period before a member is entitled to employer contributions made on his/her behalf |
| Locking-in | <ul style="list-style-type: none">▪ Locked-in funds must be used to purchase a lifetime retirement income and cannot be withdrawn in a lump-sum payment |
| Capital Accumulation Plan (CAP) | <ul style="list-style-type: none">▪ Plans where members make decisions on how their contributions are invested |

Types of company retirement programs



Registered plans

- *Registered Pension Plan (RPP)*
- *Group Registered Retirement Savings Plan (RRSP)*
- *Deferred Profit Sharing Plan (DPSP)*
- *Tax-Free Savings Account (TFSA)*
- *Pooled Registered Pension Plan (PRPP)*

Non-Registered plans

- *Employee Savings Plan (ESP)*
- *Employee Profit Sharing Plan (EPSP)*

Registered Pension Plan (RPP) overview



	Defined Benefit	Defined Contribution
Benefit amount	Known	Unknown
Contribution amount	Unknown	Known
Investment risk	Sponsor	Member



Defined Benefit RPP

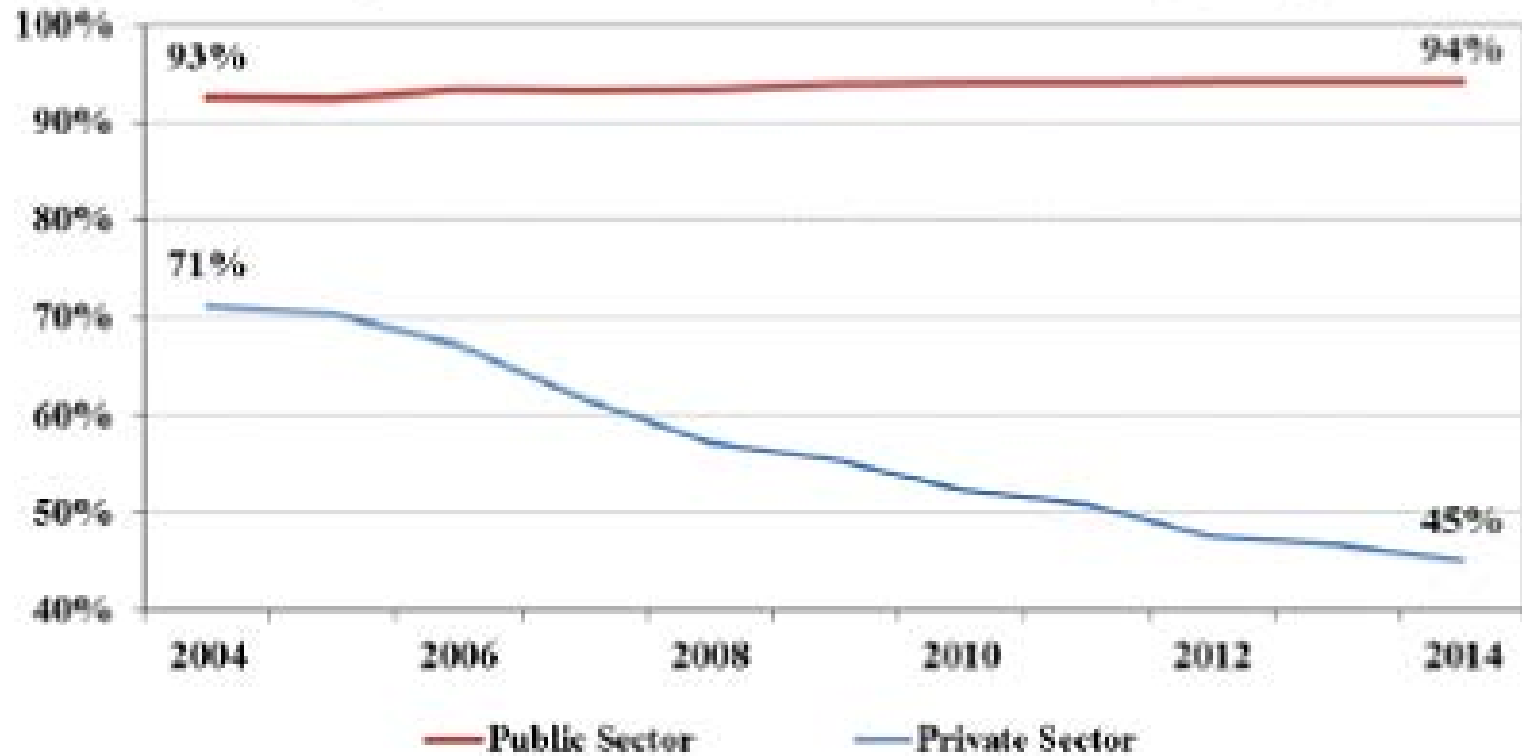
- ❖ **Benefit** amount is prescribed or **defined**
- ❖ Types of benefit formulae:
 - Flat benefit – fixed dollar amount per year of service
 - Career average earnings – percentage of earnings per year
 - Final average earnings – percentage of highest average earnings
- ❖ The cost to fund the benefit is not defined – varies from year to year
- ❖ Investment risk borne by employer
- ❖ Vesting and locking-in rules apply



Defined Benefit RPP

- ❖ Predominant in public sector
- ❖ Numbers reducing in private sector
- ❖ Low interest (discount) rates and investment volatility creates undue financial risks to sponsors
- ❖ Expensive to operate
- ❖ Difficult for members to understand

Proportion of active RPP Members Covered by DB plan





Defined Contribution RPP

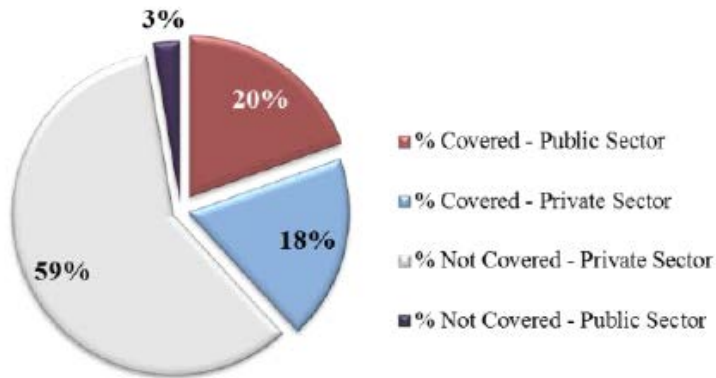
- ❖ Also known as Money Purchase plan
- ❖ **Contribution** amount is prescribed or **defined**
- ❖ Contribution amount typically a percentage of salary
 - Employer contributions only (non-contributory), or
 - Employer and employee contributions (contributory)
- ❖ The individual's fund balance (contributions plus investment returns less expenses) is known from year to year – the benefit amount is **not**.
- ❖ Investment risk borne by employee
- ❖ Vesting and locking-in rules apply



Defined Contribution RPP

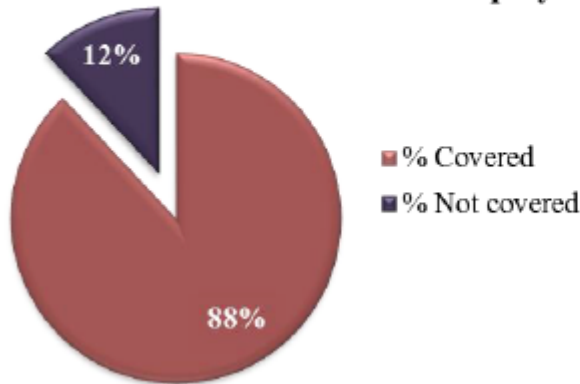
- ❖ Numbers of RPPs stagnant in private sector; push for Group RRSPs
- ❖ Easier for members to understand
- ❖ Recent market volatility has many re-evaluating their goals and investing process

Registered Pension Plan (RPP) coverage

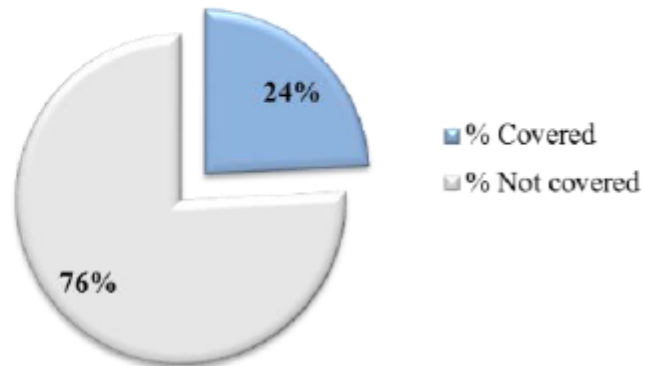


*When Group RRSP and DPSPs are taken into consideration:
Overall coverage increases from 38% to 47% of employees
Private sector coverage increases from 24% to 36%*

RPP Coverage - Public Sector Employees



RPP Coverage - Private Sector Employees



Source: Registered Pension Plans (RPP) and Other Types of Savings – Coverage in Canada – 2014 - Office of the Superintendent of Financial Institutions Canada (OSFI)



Transition from DB to DC

Common Terminology

- ❖ **“Closing a Plan”** – New entrants are no longer permitted to join after a set date; new entrants will enter a different plan (or not have a plan)
- ❖ **“Freezing a Plan”** – Future DB accruals are no longer provided after a specified date; new credits, if any, will be provided under a new DC plan
- ❖ **“Terminating a Plan”** – Pension entitlements will be crystallized at the specified date, with no future entrants or accruals
 - Typically, but not always, a terminated plan is fully wound up and settled



Combination Plan

- ❖ Defined benefit and defined contribution component
 - Example: Employer funds defined benefit and employee contributes to defined contribution component
- ❖ Rare
- ❖ Complex administration
- ❖ Difficult to explain to employees



Multi-Employer Pension Plans

- ❖ Unrelated employers agree to participate in single pension plan
- ❖ Usually employees engaged in similar employment
- ❖ Usually collectively bargained
- ❖ Participating employers commit to amount of contribution
- ❖ Normally no contribution from employees
- ❖ Benefit level determined by Plan Sponsor with assistance from Actuary



Target Benefit Pension Plan (TBPP)

- ❖ Has characteristics of DC and DB
- ❖ Contribution amounts are fixed
- ❖ Plan members receive a targeted DB-type pension at retirement
- ❖ Benefits may be adjusted (up or down) to balance the plan's funding
- ❖ Legislation introduced in AB, BC, NS, ON, PEI recognizing single-employer TBPP

Group Registered Retirement Savings Plan (RRSP)



- ❖ Defined contribution arrangement
- ❖ Employer not required to contribute – may make voluntary contributions
- ❖ Contributions typically percentage of earnings
- ❖ Voluntary employee contributions usually permitted to CRA limit
- ❖ Usually allow withdrawals while employed, but employer may establish withdrawal restrictions

Group Registered Retirement Savings Plan (RRSP)



- ❖ No vesting or locking-in provisions
- ❖ Options at retirement:
 - Lump sum payment (subject to withholding tax)
 - Annuity
 - Registered Retirement Income Fund (RRIF)
- ❖ Registered only with federal government (CRA)



Deferred Profit Sharing Plan

- ❖ Defined contribution arrangement
- ❖ Employer contributions related to profits
- ❖ Employee contributions are not permitted
- ❖ Monies held in trust (individual or corporate)



Deferred Profit Sharing Plan

- ❖ Vesting rules apply
- ❖ No locking-in provisions
- ❖ Options at retirement:
 - Lump sum payment (subject to withholding tax)
 - Annuity
 - Registered Retirement Income Fund (RRIF)
- ❖ Registered only with federal government (CRA)



Tax-Free Savings Accounts (TFSA)

- ❖ New in 2009
- ❖ Individual can contribute up to \$5,500 per year
 - Contributions are not tax deductible
- ❖ Investment earnings grow tax free
- ❖ Group TFSA available
- ❖ No vesting or locking-in provisions

Pooled Registered Pension Plan (PRPP)



- ❖ Savings mechanism for companies with no existing workplace retirement plan
- ❖ Outcome of pension reform discussions
- ❖ Federal legislation passed in June, 2012:
 - Changes to Income Tax Act
 - PRPP legislation for federal jurisdiction
- ❖ Many details still to be worked out – including provincial legislation changes
 - Quebec – VRSP legislation took effect July 1, 2014
 - ❖ Will eventually make it **mandatory** for employers to offer a plan
 - Ontario passed legislation in 2015
 - BC, AB, SK, NS have tabled or passed legislation

Pooled Registered Pension Plan (PRPP)



- ❖ Defined contribution pension plan
- ❖ Targeted at small businesses and self-employed
- ❖ Allows multiple employers to join
- ❖ Anticipated benefits:
 - Easy for employers to administer
 - Accessible and straightforward for members to understand
 - Create scale that results in lower investment management costs
 - “Auto-features” increase savings
 - Portable and with ease of transfer between plans

Pooled Registered Pension Plan (PRPP)



- ❖ Sponsored by “Qualified Financial Institution” (QFI):
 - Oversight of investment platform
 - “Duty of care” for plan member
 - Plan member communication and education
 - Administration of plan (recordkeeping, regulatory reporting etc)
- ❖ Employer:
 - Selects plan offered by QFI
 - Decides if they are going to contribute (i.e., employer match)
 - Deducts and remits contributions
 - Notifies QFI of employee changes (adds and deletes)

Non-registered savings arrangements



Employee Savings Plan (ESP)

Employee Profit Sharing Plan (EPSP)

Not tax sheltered
(Investment earnings taxable as earned, No withholding tax on withdrawals)

No limit on contributions

Employer can contribute on a required or voluntary basis

No vesting rules

Vesting rules apply

No locking-in rules

Personal Savings





Personal Savings

- ❖ Individual RRSP
 - Tax treatment is the same as a Group RRSP
- ❖ Individual TFSA
 - Same limits and tax treatment as a Group TFSA
- ❖ Non-registered investments
 - Investment earnings taxable

Thank You!



For more information:

OAS & CPP

<http://www.servicecanada.gc.ca>

ORPP

Ontario.ca/orpp

Financial Services Commission of Ontario

<http://www.fsco.gov.on.ca/>

Pooled Registered Pension Plan

<http://www.prpp.com>