

December 11, 2009

The Honourable James M. Flaherty, Minister of Finance of Canada
L'honorable Raymond Bachand, ministre des Finances du Québec
The Honourable Greg Byrne, Minister of Finance of New Brunswick
The Honourable Dwight Duncan, Minister of Finance of Ontario
The Honourable Iris Evans, Minister of Finance and Enterprises of Alberta
The Honourable Dennis Fentie, Premier and Minister of Finance of Yukon
The Honourable Rod Gantfoer, Minister of Finance of Saskatchewan
The Honourable Colin Hansen, Deputy Premier and Minister of Finance of British Columbia
The Honourable Tom Marshall, Minister of Finance of Newfoundland
The Honourable J. Michael Miltenberger, Deputy Premier and Minister of Finance of Northwest Territories
The Honourable Keith Peterson, Minister of Finance of Nunavut
The Honourable Wesley J. Sheridan, Provincial Treasurer of Prince-Edward-Island
The Honourable Graham Steele, Minister of Finance of Nova Scotia
The Honourable Rosann Wowchuk, Minister of Finance of Manitoba

Subject: Simple Changes for Stronger Pensions

At the meeting in Whitehorse next week, you will have an opportunity, together with the other Finance Ministers from across Canada, to influence the type of change that is needed to improve the pension system in Canada. Working Canadians are relying on government to find the most practical and affordable solution to help them attain their retirement goals, without putting the burden on future generations.

As a major provider of retirement solutions for Canadians for many decades, Standard Life strongly believes that Canadians deserve a well-conceived, thorough solution that will engage them in the decisions that will affect their future.

Government already plays an important role by providing basic social programs to Canadians and by ensuring appropriate governance, solvency and consumer disclosure frameworks for financial services. We fully support proposals that focus on simple reforms that could significantly enhance accessibility and affordability of retirement plans. However, we believe that creating a government-run plan to address the need for better pension adequacy may fall short of accomplishing that goal and could have two unintended consequences:

1. Employers who currently sponsor an occupational pension plan for their employees in the private sector could see this as an opportunity to transfer fiduciary responsibility to the government by switching to the government plan.

2. If structured as a defined contribution adjunct to a government plan, such an arrangement could create an expectation from members that benefits will be guaranteed by the government.

Alternatively, it is our opinion that government should leverage the long-standing expertise of the Canadian life and health insurance industry in the delivery of financial services to Canadians. An insurance industry solution would give Canadians the ability to save for retirement under a registered pension plan. It would also extend to them other retirement savings opportunities, such as RRSPs and tax-free savings accounts (TFSA) which could be tailored to individual circumstances and allow Canadians to accumulate wealth and transition comfortably into their retirement years.

Our industry currently administers over 70 per cent of Canadian pension plans and a larger proportion of employer-sponsored RRSPs. These plans provide flexible retirement planning for many Canadians, but existing pension legislation, which differs substantially between provinces, discourages many employers from offering pensions. As well, current legislation effectively prohibits 3 million self-employed Canadians from participating in a pension plan.

Standard Life has supported continuous product evolution and innovation. Our only constraint to reaching out to more Canadians is the restriction under legislation that currently exists.

By removing the impediments in legislation that prevent the insurance industry from developing products tailored to self-employed workers and other unrelated individuals and employers, and by building increased flexibility in the legislation to allow for flexible plan designs, a greater proportion of the target underserved demographic could be serviced by our industry.

Three simple legislative and regulatory changes would kick-start greater retirement savings, and these should be introduced as quickly as is feasible:

1. The federal Income Tax Regulations should be amended to allow unrestricted participation in "multi-employer pension plans". For defined contribution plans, the required employment relationship between the plan administrator and plan participant should be eliminated. Vigorous competition among providers will ensure affordable, flexible, and accountable pension plans are available to all Canadians. Expert pension managers will assume much of the compliance burden now borne by employers.
2. Employment standards must be updated to allow automatic enrolment into pension plans, since current rules requiring explicit employee consent for pension contributions too often prevent Canadians from saving, with negative consequences.
3. The same rules should permit automatic, formula-driven, increases in contribution rates, to ensure robust savings that can provide secure income levels in retirement.

Over the longer term, efforts to harmonize pension legislation across jurisdictions must continue. But implementing these three simple changes now would set all Canadians on a firm road to a more secure future.

Furthermore, one of the benefits we can offer, as an industry, is our ability to build relationships with members in order to service their diverse needs throughout their lifetimes, thereby facilitating their transition to retirement. Another key advantage of the private sector is our ability to offer an advice component, a public requirement that is specifically tailored to the individual and that includes ongoing communication, education and guidance.

We also recognize that employers may require advice in the selection of providers and retirement solutions associated to their participation in a multi-employer pension plan. In addition to our expertise, our industry partners with a vast network of intermediaries who can deliver value-added services to assist employers in the decision-making process.

The Canadian insurance industry is competitive and constantly evolving. We invest in the development of new products, value-added services and innovative technology that is designed to attract and retain business. We train and develop our human resources to be experts in the retirement industry. Most of us have a far-reaching distribution network to reach our customer base across Canada. Over the years, we have built a solid infrastructure with quality resources in support of the needs and expectations of Canadians while effectively managing risk.

Standard Life, as a leader in the industry, is in agreement that there is an underserved segment of the market and the private sector should be considered as the primary resource to meet the challenge of increased pension coverage for Canadians. We welcome the opportunity to assist government to arrive at the best sustainable solution to address the need for all Canadians to have more opportunities to participate in pension plans.

Yours sincerely,

[Originals signed by Joseph Iannicelli]