# CMA's Submission to Finance Canada regarding proposed amendments to the Income Tax Act

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ASSOCIATION MÉDICALE CANADIENNE
CANADIAN MEDICAL ASSOCIATION

The Canadian Medical Association (CMA) is the national voice of Canadian physicians.  Founded in 1867, CMA's mission is to serve and unite the physicians of Canada and be the national advocate, in partnership with the people of Canada, for the highest standards of health and health care.

On behalf of its more than 76,000 members and the Canadian public, CMA performs a wide variety of functions. Key functions include advocating for health promotion and disease/injury prevention policies and strategies, advocating for access to quality health care, facilitating change within the medical profession, and providing leadership and guidance to physicians to help them influence, manage and adapt to changes in health care delivery.

The CMA is a voluntary professional organization representing the majority of Canada's physicians and comprising 12 provincial and territorial divisions and 51 national medical organizations.

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## Introduction

As previously indicated in the Retirement Income Improvement Coalition's (RIIC) letter to the Minister of Finance on August 10, 2011, the CMA supports the federal government's proposal to expand access to pensions, specifically by establishing a legislative and regulatory framework to permit pooled registered retirement plans (PRPPs).

The CMA is concerned that as currently proposed, the PRPP framework, including Bill C-25 and the proposed legislative amendments to the *Income Tax Act,* would limit the potential for PRPPs to contribute to expanding access to, and investment in, pensions for self-employed individuals.

With respect to the pension framework, a critical issue, two principles are central to the CMA's membership of over 76,000 physicians. These are, to encourage the federal government to: 1) ensure that self-employed Canadians can retire with an appropriate level of retirement income (e.g., a 70% of pre-retirement income target); and, 2) expand the retirement savings options that are available to self-employed Canadians. The CMA's comments herein on the proposed amendments to the *Income Tax Act* are in support of these two principles.

As elaborated below, the CMA encourages the federal government to:

1. Increase the retirement savings capacity of self-employed individuals by raising the combined limit for RRSPs;
2. Expand the PRPP framework to include defined benefit and targeted benefit pension plans; and,
3. Clarify the eligibility criteria of "PRPP administrators" to include professional associations.

## 1. Increase the combined contribution limit for PRPPs and RRSPs

As proposed, it is our understanding that the core benefit of the PRPP framework is in providing smaller businesses access to low-cost pension plans, thereby providing a vehicle to encourage employers to establish, and contribute to, pensions for their employees. While the CMA recognizes the value of, and supports, this objective, this proposal in effect maintains the status quo for self-employed individuals.

Under Clause 10 of the proposed amendments to the *Income Tax Act*, the contribution limit to PRPPs would be calculated as an additional component of the current registered retirement savings plan (RRSP) contribution limit. As outlined in the Explanatory Notes, "an employer's contributions to an individual's PRPP account [and…] an individual's PRPP contributions in a taxation year will immediately reduce the individual's ability to make deductible RRSP contributions in that same year."

While individuals with employer contributions stand to benefit from increased retirement savings via employer contributions, self-employed individuals are merely provided with access to an alternate retirement savings vehicle. As explained in the Summary Report on Retirement Income Adequacy Research[i], "[h]igher income groups tend to exhibit a greater tendency to substitute one form of saving for another since they tend to be bound by limits…[I]f newly introduced plans are included in limitations imposed on the degree to which contributions may be deductible for tax purposes, saving may not increase for individuals who are constrained (i.e. saving up to their limit), since they would more likely substitute one type of saving for another (e.g., RRSP for a private pension plan)."

Therefore, the CMA encourages the federal government to consider increasing the retirement savings capacity of self-employed individuals by raising the combined limit for RRSPs and PRPPs.

## 2. Include defined benefit and targeted benefit pension plans

As noted under Clause 12, the registration criteria for PRPPs will be established by the PRPP Act, Bill C-25. Of concern, Bill C-25 limits PRPPs to defined contribution pension plans by specifically excluding from eligibility of registration: (a) a pension plan as defined by 2(1) of the Pension Benefits Standards Act; (b) an employees' or a deferred profit sharing plan; (c) an RRSP or a retirement compensation arrangement defined by 248(1) of the *Income Tax Act*; and, (d) any other prescribed plan or arrangement.

As highlighted by the Summary Report on Retirement Income Adequacy Research, "defined benefit pension funds and annuities enable investors to share longevity risks as well as pool risky investments to diversify risk." By pooling risk, defined benefit and targeted benefit pension plans provide more secure savings vehicles than defined contributions plans. The CMA encourages the federal government to expand the PRPP framework to include defined benefit and targeted benefit pension plans. While the CMA will advance this recommendation to the House of Commons Finance Committee during its consultation on Bill C-25, we include it as part of this submission as modifications to the proposed amendments to the *Income Tax Act* would be required.

## 3. Clarify the eligibility criteria of "PRPP administrators" to include professional associations

Further clarification is required on the type of organization that may qualify as a PRPP administrator. As noted under Clause 12, an administrator of a PRPP is authorized under the *PRPP Act*. As Bill C-25, the *PRPP Act*, is still in the legislative process, the CMA will elaborate on this issue during the formal Parliamentary consultation.

However, as it stands, further clarification is required on the eligibility criteria proposed by Bill C-25. While Bill C-25 can be interpreted to extend administrator eligibility to organizations that are able to fulfill the criteria established by the *PRPP Act*, Finance Canada's Framework for PRPPs states that eligibility of administrators would be limited to "regulated financial institutions that are capable of taking on a fiduciary role". Well-governed professional organizations that represent a particular membership should be able to sponsor and administer RPPs and PRPPs for their own members, including self-employed members.

## Conclusion

While the CMA supports the proposed PRPP framework in principle, the proposed limitations to PRPPs should be addressed to ensure that they also provide value to self-employed Canadians, including physicians. The CMA appreciates the opportunity to comment on the proposed amendments to the *Income Tax Act* and to once again advance recommendations to Finance Canada on the PRPP framework.

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[i] Prepared for the Research Working Group on Retirement Income Adequacy of Federal-Provincial-Territorial Ministers of Finance.