

CMA's Submission to the House of Commons  
Standing Committee on Finance:

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Amending Bill C-25 to expand the PRPP  
framework to provide value to self-employed  
Canadians

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Submitted by:

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*A healthy population and a vibrant medical profession • Une population en santé et une profession médicale dynamique*

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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

The Canadian Medical Association (CMA) supports the Government of Canada's efforts to improve Canada's retirement income system, specifically by establishing a legislative framework to permit pooled registered pension plans (PRPPs) as proposed in Bill C-25, *the PRPP Act*.

The CMA has long supported the Government of Canada's efforts to expand access to pensions, including by permitting PRPPs. However, the CMA is concerned that as currently proposed, Bill C-25 limits the potential for PRPPs to expand the access to, and investment in, pensions of self-employed individuals.

The CMA has participated in, and made recommendations to, Finance Canada over the course of the department's multi-year consultative process, including responding to the 2010 consultative paper *Ensuring the Ongoing Strength of Canada's Retirement Income System*. The CMA has also made recommendations to Finance Canada as a member of the Retirement Income Improvement Coalition (RIIC), which consists of 11 national professional associations representing over 1 million self-employed professionals. The following discussion and recommendations align with those previously made by the CMA and the RIIC.

The pension framework is a critical issue to CMA's membership of over 76,000 physicians. In addressing the pension framework, including permitting PRPPs, two principles are central to the CMA's membership: to ensure that self-employed Canadians can retire with an appropriate level of retirement income (e.g., a target of 70% of pre-retirement income); and, to expand the retirement savings options that are available to self-employed Canadians.

The CMA's comments herein, and recommendations to the Finance Committee to amend Bill C-25, are in support of these two principles. As elaborated below, the CMA encourages the Finance Committee to:

1. Amend Bill C-25 to raise the combined limit for RRSPs and PRPPs in order to increase the retirement savings capacity of self-employed individuals.
2. Amend Section 12(1) of Bill C-25 to expand the PRPP framework so it includes defined benefit and targeted benefit pension plans, which provide more secure savings vehicles than defined contributions plans.
3. Ensure the eligibility clauses of Bill C-25 (Sections 14-26) would allow well-governed professional organizations that represent a particular membership to be able to sponsor and administer RPPs and PRPPs for their own members, including self-employed members.

## 1. Increase the combined contribution limit

It is our understanding that the core benefit of the proposed 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. However, as explained by the Explanatory Notes accompanying the proposed *Income Tax Act* amendments, “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 the CMA recognizes the value of, and supports, this objective, this proposal in effect maintains the status quo for self-employed individuals.

Like the Canadian population at large, physicians represent an aging demographic — 38% of Canada’s physicians are 55 or older — for whom retirement planning is an important concern. In addition, the vast majority of CMA members are self-employed physicians and, as such, they are unable to participate in workplace registered pension plans (RPPs). At present, physicians are more reliant on registered retirement savings plans (RRSPs) relative to other retirement savings vehicles.

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*<sup>i</sup>, “[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 Finance Committee to consider amending Bill C-25 to increase 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 currently proposed, Section 12(1) of 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 in 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 contribution plans. The CMA encourages the Finance Committee to amend Bill C-25 to expand the PRPP framework to include defined benefit and targeted benefit pension plans.

### **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 under Bill C-25. While Sections 14-26 of Bill C-25 can be interpreted to extend administrator eligibility to organizations that are able to fulfill the criteria it establishes, Finance Canada’s Framework for Pooled Registered Retirement Plans states that eligibility of administrators would be limited to “regulated financial institutions that are capable of taking on a fiduciary role.”

The CMA encourages the Finance Committee to ensure that the eligibility clauses of Bill C-25 would allow well-governed professional organizations that represent a particular membership to 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 limitations currently proposed by Bill C-25 should be addressed to ensure that PRPPs also provide value to self-employed Canadians, including physicians. The CMA appreciates the opportunity to comment to the Finance Committee as part of its study of Bill C-25.

## Summary of Recommendations

### Recommendation 1

Amend Bill C-25 to raise the combined limit for RRSPs and PRPPs in order to increase the retirement savings capacity of self-employed individuals.

### Recommendation 2

Amend Section 12(1) of Bill C-25 to expand the PRPP framework so it includes defined benefit and targeted benefit pension plans, which provide more secure savings vehicles than defined contributions plans.

### Recommendation 3

Ensure the eligibility clauses of Bill C-25 (Sections 14-26) would allow well-governed professional organizations that represent a particular membership to be able to sponsor and administer RPPs and PRPPs for their own members, including self-employed members.

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<sup>i</sup> Prepared for the Research Working Group on Retirement Income Adequacy of Federal-Provincial-Territorial Ministers of Finance.