March 27, 2020

Ms. Leah Fichter
Chair
Canadian Association of Pension Supervisory Authorities
c/o CAPSA Secretariat
5160 Yonge Street
16th Floor
Toronto, ON M2N 6L9

Dear Ms Fichter:

Necessary CAPSA Actions re Covid-19

The evolving Coronavirus pandemic is having a profound impact on Canadian workers and retirees, their families, and their employers. The Canadian Life and Health Insurance Association ("CLHIA") believes that pension regulators throughout Canada, together with their legislative partners, need to take decisive action to address the immediate economic concerns of pension plan members, while working to protect the continued viability of employers on whom those members' retirement incomes ultimately depend.

This letter sets out key concerns that have been raised with Canada's life insurers by pension plan sponsors, administrators and members since the onset of the Covid-19 crisis. We identify possible actions that should be addressed immediately, and we look forward to co-operating with CAPSA members to implement these options as quickly as possible.

As you know, the CLHIA is a not-for-profit, membership-based organization that represents 99% of Canada's life and health insurance companies. CLHIA's member companies help Canadians to protect their employees, themselves and their families against the financial risks surrounding illness, retirement and premature death. As service providers to a majority of pension plans in Canada, CLHIA members are keenly interested in and supportive of CAPSA's role and efforts.

To date, the legislative response to the economic impact of the Covid-19 pandemic has focused on preserving and replacing income for Canadian workers and, to a lesser extent, helping retirees reduce mandated income payments from Registered Retirement Income Funds (RRIFs) in order to preserve retirement nest-eggs and future income potential. Equally important are measures that protect long-term employment and economic activity, and consequently retirement income security. These measures focus on preserving near-term corporate liquidity and quickly returning to normal operations, as permitted by health officials. Key to facilitating that liquidity, and recognizing the disruption of normal business cash flow and staffing resources, are measures already taken by federal and regional governments to defer tax remittance and filing requirements. But more can and should be done in the pension sphere.

Revising LIF Minima

As noted in our March 19th correspondence, it is unclear how the twenty-five percent reduction in the RRIF minimum amount for 2020 will impact LIF minima, since such values are calculated based on the rules in effect at the start of each calendar year. It is unclear whether any revised values calculated for federal income tax purposes can automatically substitute for values determined under pension law, particularly where the minimum amount formula is embedded in pension legislation, rather than such legislation referencing the calculation provided under the federal *Income Tax Act*. Moreover, our understanding is that the reduction in the RRIF minimum amount may be optional on the part of the consumer and only apply upon each annuitant's request, unlike similar reductions made in the past. We therefore encourage CAPSA members to closely examine the federal initiatives and work with their legislative colleagues to provide a nationally consistent response without imposing significant complexity on individual annuitants or inappropriate compliance burdens on service providers.

Temporary Hardship Unlocking re Active Plan Members

Unfortunately, one likely result of the current health crisis is an extended economic downturn. Both retirees and workers who have been laid-off or have lost their livelihoods are looking for alternative sources of income beyond public supports such as employment insurance.

CLHIA and its members have historically opposed withdrawal of retirement funds for non-retirement purposes. At the same time, we acknowledge that permitting such access is often a politically motivated response to consumer pressure.

For those who are unable to draw pension benefits at present, some form of unlocking of funds held in successor instruments such as LIRAs and LIFs may be possible due to financial hardship. This option may not address the needs of those whose entitlements remain within pension plans and who are still technically employed, albeit at significantly reduced income due to reduced hours of work or other factors. While facilitating access to such entitlements may be beyond the purview of CAPSA members, it may be appropriate to consider temporary mechanisms that would allow limited payments to those individuals.

Bridging Benefits to Facilitate Early Retirement

In order to assist individuals who may choose early retirement, we understand that some employers are exploring transitional funding support, both within pension plans and CAPs and through other means. Such considerations obviously have both tax and pension law implications, and we would hope that an open and creative discussion with appropriate legislators and regulators at both provincial and federal levels might facilitate restructuring of workforces in order to assist employers and their workers. CLHIA believes that CAPSA members can and should play a key role in such initiatives.

Temporary Suspension of Contributions

As Canadian employers face significant cashflow challenges due to reduced consumer and international demand for their goods and services, falling global commodity prices and mandated temporary closure of operations, the ability to maintain active funding of pension obligations can be severely constrained. Pension contributions can create unsustainable pressure on operations as a whole, compounding the risk of job losses. Under such circumstances, employers are seeking relief that will preserve the liquidity and continuity of their businesses, ideally by suspending pension plan contributions by employers and/or employees on a temporary basis. Recognizing the trust applicable to such funds, there is no intention to suspend remittance of employee contributions deducted from salary.

CLHIA members fully appreciate the challenge of suspending pension plan contributions, but believe that prudent public policy may justify such suspensions in times of crisis such as the current medical and economic environment. Through CAPSA, we hope that this issue can be highlighted as quickly as possible to your legislative partners, where immediate regulatory relief is not possible. And where regulators have authority to ease contribution requirements on a temporary basis, we encourage prompt use of that authority.

"No Action" Relief

More broadly, in order to preserve and maintain the stability of existing pension plans during the current health emergency, we believe that it is becoming increasingly important for regulators to temporarily suspend compliance actions against plan sponsors, administrators, and service providers for failure to meet normally applicable deadlines relating to remittances, reporting and filing requirements. This should include deferral of any regulatory filings due at June 30, 2020 to no earlier than December 31, 2020. Unfortunately, absent such regulatory discretion, employers are likely to seek ways to terminate existing pension plans and their obligations under those plans, jeopardizing the retirement income security of their employees and retirees who rely of the continued viability of those plans.

Canada's life and health insurance companies welcome the opportunity to discuss these issues with you and your colleagues. We will be following up with the Secretariat to move responses to the Covid-19 crisis ahead as efficiently as possible. As always, should you wish to discuss these issues further, you can contact me by telephone at 416-359-2021 or by email at rsanderson@clhia.ca.

Yours truly,

Ron Sanderson
Director, Policyholder Taxation and Pensions