
Submission to the Government of Saskatchewan on the Consultation on Financial Hardship Unlocking from a Locked-in Retirement Account

Canadian Life and Health Insurance Association
April 2021

The Canadian Life and Health Insurance Association (CLHIA) is a voluntary association with member companies which account for 99 per cent of Canada's life and health insurance business. The life and health insurance industry is a significant economic and social contributor in Canada.



\$63 million in provincial tax contributions

\$11 million in corporate income tax
\$5 million in payroll and other taxes
\$47 million in premium tax



Investing in Saskatchewanians

\$25 billion in total invested assets
98% held in long-term investments

The industry also plays a key role in providing a social safety net to the people of Saskatchewan.



Protecting 910,000 Saskatchewanians

730,000 with drug, dental and other health benefits
630,000 with life insurance averaging \$256,000 per insured
340,000 with disability income protection



\$3 billion in payments to Saskatchewanians

\$1.7 billion in annuities
\$0.9 billion in health and disability claims
\$0.4 billion in life insurance policies

Our industry is pleased to provide its comments on the province's consultation about amendments to the *Pensions Benefits Act, 1992* ("PBA") regarding the unlocking of locked-in pension benefits. Our industry greatly appreciates the opportunity to provide input on this matter.

CLHIA members recognize the importance of governments considering a wide array of policy levers to assist Canadians that are experiencing financial pressures. However, it is our view that funds sourced in pension plans should, in general, be preserved in order to provide secure, adequate, post-retirement income. That is why CLHIA members deem it essential that proper controls and requirements are put in place to prevent excessive and inappropriate unlocking of locked-in pension funds that are intended to provide retirement income security.

We therefore believe that withdrawals from locked-in pension funds should be limited to a small set of specified purposes and should require adequate supporting documentation. For example, the classes of financial hardship could include the following:

- Housing (rent payments, first/last month's rent, foreclosure on principal residence/mortgage default, eviction due to rent arrears);
- Low to no income (subject to a specific dollar threshold); and
- Medical expenses not covered under a group or individual benefits plan.

We would also strongly recommend that Saskatchewan consider harmonizing legislation for unlocking locked-in pension funds wherever possible with other provinces that have introduced such provisions, such as Alberta. In our opinion, harmonization increases transparency and fairness for consumers across Canada and lowers administrative costs, which ultimately benefits consumers.

We offer the following additional comments for your consideration.

Types of Locked-in Funds

Regarding which types of locked-in pension funds should be considered for unlocking, we believe that the PBA should allow for funds within Locked-in Retirement Accounts (LIRA), Life Income Funds (LIF), and Locked-in Retirement Funds (LRIF) to be considered for unlocking for the purposes of financial hardship. This is consistent with other pension jurisdictions. We also support that province's position that active pension plan members will not be considered.

Frequency

We believe that the frequency of unlocking locked-in pension funds for financial hardship should not be more than once a year per category. Again, we would recommend harmonizing with other provinces on this provision.

For purposes of determining what year the application was made, we recommend the key date should be the date (and year) the completed application, with all required accompanying documents, is received by the financial institution. An incomplete application should not be accepted even if it was first received in the previous calendar year. There should be clear instructions on the withdrawal application whether a new application would be required if the completed application is now received in a new calendar year based on an incomplete application made in the previous year.

Maximum Amount for Unlocking Due to Low Expected Income

We support the introduction of a limit on the amount of funding that can be unlocked by a LIRA plan member. The amounts suggested within the province's consultation document (e.g. 75% of expected income for the next year less 50% of the Year's Maximum Pensionable Earnings (YMPE) is acceptable for consideration). However, we believe there should be an annual limit and overall lifetime limit specified, taking into account the age of the plan member and their health status. It is also important that the province develops guidelines on how to handle scenarios when an individual owns more than one locked-in account at the same or multiple institutions. The province may wish to look to harmonize with the guidelines and limits introduced by other provinces.

Funds Required to Secure New Principle Rental Residence

The CLHIA supports LIRA owner's ability to withdraw amounts in order to secure a new principle rental residence, however, the amounts the available amounts should also include last month's rent, in addition to first month's rent, security and pet damage deposits.

Application Form

We recommend that the application form be self-explanatory and comprehensive enough that the information provided within the application form is sufficient for a financial institution to process without significant engagement with the customer after receipt. Further, as you are aware the province currently allows for a small amount of unlocking where (1) a qualified medical practitioner has certified that the individual has a considerably shortened life expectancy, (2) the pension is determined to be a small balance, or (3) the plan member is a non-resident of Canada. In our opinion, these options should be clearly highlighted in the application form so that customers are aware, in the event that they can't meet other requirements, that they may be eligible to qualify under these considerations.

Spousal Consent

The CLHIA recommends that the province's requirement for a spousal waiver is consistent with the other provinces. It is also important to note that there may be special circumstances where requiring a signature by a witness who is physically present is difficult to achieve. We would therefore ask for flexibility regarding the physical presence of the spouse to consent to financial hardship unlocking. For instance, allowing the witnessing to be accomplished through the use of technology, such as video conferencing, could be a solution in a non-face-to-face environment.

Sunset Clause

The CLHIA is not supportive of a sunset clause in respect of the new unlocking provisions as it may encourage plan members to access funds that they may not currently need in anticipation of the provisions being eliminated in the near future. If a sunset clause is used in respect of the unlocking provisions, detailed transition rules should be provided to contemplate in-transit applications or near-completed requests to ensure a smooth transition for both plan administrators and plan owners.

An alternative option to a sunset clause is to review the financial hardship provisions, including a public consultation, in 5 years to revisit their importance and determine a reasonable timeframe to repeal the applicable provisions, with appropriate transition rules.

The CLHIA is also not supportive of financial institutions providing statistical reports to the FCAA as this would most likely be manual in nature, with the cost far outweighing the benefit. Alternatively, if statistical reporting was required, for consistency, we suggest that the report be structured the same as the statistical reporting recently introduced in Newfoundland and Labrador. To align with Newfoundland and Labrador statistical reporting, we recommend the timing to be semi-annual.

Mandatory Provision

The CLHIA is supportive of a mandatory provision in LIRA contracts to allow for financial hardship unlocking, without having to amend existing contracts, allowing for consistent administration of all contracts.

Administration of the Provision

The CLHIA also agrees that the financial institution who issued the LIRA should be responsible for reviewing the financial hardship applications, which is consistent with other jurisdictions.

Timing of Amendments

The CLHIA is supportive of a lead-time of 4-6 months in order for financial institutions to appropriately prepare their processes and systems for these new financial hardship provisions.

The CLHIA recommends that financial institutions have an opportunity to review draft Regulations, forms, and other related financial hardship documents in sufficient time prior to their release which would allow their implementation to be expedited and avoid any potential issues.

We would be happy to discuss these further should the province want to consider additional options for unlocking.

Thank you for your consideration of our comments noted above. We would be pleased to expand on these concerns should you wish to discuss any of the issues identified in our comments. Please feel free to contact me at 416-359-2047 or by email at nsimon@clhia.ca.