Canadian Physiotherapy Association
Association canadienne de physiothérapie

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Submission to the House of Commons Standing Committee on Finance

Pre-Budget Consultation

Pension Reform: Creating a strategy to reflect the changing nature of work

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Summary

The nature of work has changed dramatically over the last generation, and so has landscape of retirement savings. Careers are no longer based on employer; instead they are more often associated with profession. For example, a lawyer, engineer or physiotherapist does not work for one employer, firm or clinic throughout their career, but will maintain their professional designation. This is why the Canadian Physiotherapy Association (CPA) proposes changes to the *Income Tax Act* which would allow for professional associations to administer multi-employer pooled pension funds.

Health care workers in particular have been affected by a changing landscape in their careers. Health system reform has highlighted the importance of community-based care, but legislation and pension reform has not included discussions which accommodate for labour mobility including the movement away from union-dominated tertiary cares centres, such as hospitals, to primary care centres. Creating a health human resources component to pension reform provides a solution to many health professionals that have seen a dramatic change to work environments, including a rise in self-employed health professionals who work on contract or in small businesses. The pension reform strategy introduced in this brief proposes the federal government look to professional associations, like CPA, who are well-positioned to provide a solution that meets the needs of a changing health workforce.

Recommendation

- Amend current tax legislation to allow for Canadians to invest in multi-employer, profession-based pooled registered pension plans.

Background

The reality today is that Canadians aren't saving enough for the future, and the mechanisms for retirement savings are flawed. For most Canadians there is an evolution to employment and careers. Physiotherapists may work part of their career in the public sector, perhaps as a union member, but delisting of physiotherapy services across Canada has led to a shift to the private sector. Many physiotherapists today work on contract, are self-employed or may be a small business owner, which changes the context for retirement savings. Physiotherapists are not alone in their experiences with work. A generation ago many Canadians could rely on employer or union-based pension funds provide long term security through defined benefit plans, but these types of plans are facing significant solvency issues and likely will not be the answer for the next generation of Canadians.

Pension experts now realize even the Canada Pension Plan cannot adapt to the changing nature of work and market changes. This places governments in a position that focuses on future needs of Canadians, by trying to predict constantly evolving labour force needs, consumer behaviour, strategize how to develop incentives for Canadians to save in low interest rate environments, and amend tax legislation to support new mechanisms for retirement savings.

New pension models are developing in response to a changing landscape, but CPA would argue they are working within a system that is flawed. This is because: 1) defined contribution plans, which focus on predictable contributions and an alignment of risk and reward for plan members leave complicated investment decision making to plan members who often have no investment expertise[1]; and, 2) they rely on fragmented opportunities for long term savings that are limited to the duration of employment with one employer. In 2010, the Wall Street Journal reported that the average person, whether they live in the US, Canada, Australia or the UK, changes jobs five to seven times over the course of their career. When it comes to retirement savings, this means individuals may have five to seven retirement funds, whether pension funds, RRSPs or other investment vehicles.

Challenges with retirement savings in Canada

Financial experts are aware of the challenges facing defined benefit and defined contribution plans in today's market. Defined contribution plans operate as a capital accumulation plan, such as a group RRSP and deferred profit sharing plans (DPSPs). Predictable contributions are made with an alignment of risk and reward for plan members. However, they are not economically efficient models because they fair to capture substantial value available from pooling risks and costs among plan members. As members reach the drawdown phase for their investments, there is also a fair degree of uncertainty because one cannot predict if they will outlive their retirement, nor can they predict when market fluctuations might affect the value of their portfolio. In fact, many Canadians have been affected by significant market corrections in both 2000 and 2008, just before or just after their retirement, which has left limited opportunities under the current tax regime to manage the losses in their plans. Defined benefit plans are also becoming a thing of the past, as a prolonged low interest rate environment, paired with the volatility of equity markets has left many plans underfunded.

Solution: a profession-led pension strategy

Currently professional associations can endorse defined contribution plans for members. However, the problem with defined contribution plans is they fail to capture substantial value available from pooling of costs, investment risk and longevity risk among plan members. To overcome these challenges of efficient retirement savings, CPA proposes a new strategy that allows for professional associations to manage pension plans. This would require an amendment to tax legislation, which currently does not allow for professional associations to hold pension funds. It may also mean a shift away from union-led pension plans, to multi-employer professional association pension plans. With this proposed change to the *Income Tax Act*, CPA would support the current checks and balances required for pension plans, which ensure independent administration by a trustee, board of trustees or a not-for-profit corporation.

Conclusion

Innovation is sometimes about making hard choices. If we are to have a pension system that reflects the reality of Canadians, we have to look to the future and make changes that reflect what Canadians will experience. At CPA we understand this proposed strategy would require an effort to align provincial legislation, which supports inter-jurisdictional, multi-employer plans led by a professional association. To

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[1] Jana R. Steele, Angela Mazerolle and Mel Bartlett. 2014. *Target-Benefit Plans in Canada – An Innovation Worth Expanding*. C.D. Howe Institute. Commentary No. 411.

make this idea a reality, we proposing working together with the federal government, the Department of Finance, the Chartered Professional Accountants of Canada and other key stakeholders to define the appropriate mechanisms for success. We see this as a long term strategy, which requires some thought given to technologies that would support multi-employer contributions to a plan held by professional association members. Notwithstanding some of the procedural details, CPA believes it is possible to create the appropriate mechanisms to make such a plan successful, not just for physiotherapists, but for health professionals across Canada.