

Retirement saving instruments for workers in small and medium-sized enterprises

The Simplified Pension Plan

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Coverage of SMEs by collective retirement arrangements (2005)

Number of employees	Supplemental pension plan	Group RRSP
Less than 20	9 %	6 %
20 to 99	26 %	37 %
100 to 499	64 %	57 %

Source : Statistics Canada, *Workplace and Employee Survey Compendium*, special extracts for Quebec, 2005.

Reasons why SMEs do not offer a pension plan or a group RRSP to their employees

Reason	%
Cost too high	26,4
Not enough employees would benefit	25,7
Was not asked or considered	18,6
Not suitable for the type of employment	10,5
Employee turnover too high	6,2
Other	8,3
Does not know / Prefers not to answer	4,3
Total	100,0

Characteristics of SiPP

- Defined-contribution pension plan
- Offered and administered by a financial institution
- Contributions distributed in two accounts:
 - Locked-in account
 - Not locked-in account

SiPP response to :

- **Small and medium-sized employers**
 - Possibility to set flexible contributions (like DPSP)
 - Avoid payroll taxes (like RPP)
 - Simplified administration and possibility to unlock employees' contributions (like RRSP)
- **Employees**
 - Flexibility as regards locking-in
 - Possibility to pay additional contributions
 - Protection of the *Supplemental Pension Plans Act*
- **Financial institutions**
 - Simplified administration

Source of funds and locking-in

	Locked-in account	Not locked-in account
Employer contribution	X	
Additional employer contribution	X	
Member contribution	Employer's choice	
Additional voluntary member contribution		X
Transfer from a DPSP	Employer's choice	
Transfer from a not locked-in source		X
Transfer from a locked-in source	X	

- **Locked-in** account is used to purchase a life annuity from an insurer or is transferred to a life income fund (LIF)
- **Not locked-in** account can be withdrawn as cash, used to purchase an annuity or transferred to a registered retirement income fund (RRIF)

Administration of SiPP

- Administration
 - By a financial institution (not a pension committee)
 - May be an insurer, a bank, a savings and credit union or a trust company
 - Financial institution must register with the Régie des rentes
- Role of financial institution
 - Provides information to members and government authorities
 - Offers at least three diversified investment portfolios (with associated risk and expected return)

Role of employer

- Chooses a financial institution
- Decides on plan provisions
 - Membership rules
 - Level of employee contributions
 - Level of employer contributions
 - Locking-in (or not) of employee contributions
- Informs financial institution of new members and terminations of employment
- Deducts contributions and transmits to financial institution

Statistics on SiPP (2009)

Number of SiPPs in Québec	14
Number of participating employers	1415
Number of participants	58 000
Assets under management	900 million \$

Drawbacks of SiPP

- Available only in Quebec, Manitoba and for pension plans under federal legislation
 - Not suitable for enterprises with workers in more than one province
- Defined contribution plan
 - Risks (investment return and interest rate) supported by employee
 - Lack of advice for retirement revenue planning
 - No pension committee

Alternatives to SiPP

- Group RRSP
 - Con: Easier to divert funds for other purposes than retirement
 - Con: Contributions paid from after-tax contributions (attract payroll taxes)
- Deferred profit-sharing plan
 - Pro: Contributions linked to employer's capacity to pay
 - Con: Variability of contributions (difficulty for retirement income planning)

Annex

Retirement information committee (for 50 employees or more)

- Not an administrator
- Way to inform plan members
- Intermediary with the financial institution managing the plan

Information for members

The financial institution must provide :

- written summary of the plan
- notice of any amendments
- annual statement of benefits
- statement of cessation of participation
- upon request, statement of benefits in the event of a breakdown in a conjugal relationship
- statement in the event of a pension plan division that results in a transfer to another financial institution
- statement of benefits in the event of the plan's termination

The annual statement

- Each year, a statement indicating:
- the amount of the contributions credited to their locked-in and not locked-in accounts during the preceding fiscal year
- the contributions accumulated, with interest, since they joined the plan