

**YOU CAN'T TAKE IT WITH YOU:
ANALYZING EXEMPTIONS TO THE LOCKING-IN OF
PRIVATE PENSIONS IN BRITISH COLUMBIA**

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Abstract

This study examines why some current and former private pension plan members and beneficiaries with the ability to unlock some or all of their pension savings chose to do so and uses these findings to assess and recommend alternatives to the current locking-in of private pension benefits in British Columbia. The primary source of information is a survey of members of the Canadian Association for the Fifty Plus, which reveals that, given the opportunity, 29 per cent choose to unlock for mostly re-investment purposes. Detailed statistical analysis further reveals that respondents with less conservative investment preferences, lower household income and smaller pensions are more likely to unlock. The policy alternatives are assessed on the basis of cost to government, stakeholder acceptability, effectiveness and taxpayer risk. This study recommends that British Columbia repeal its existing provision for unlocking of small monthly pensions and adopt 25 per cent unconditional unlocking.

Keywords:

Financial Hardship; Locked-in; Private Pension; Small Monthly Pension; Unconditional Unlocking

Subject Terms:

Finance; Pensions; Retirement Income Security; Savings and Investment

Executive Summary

This study utilizes a policy analysis approach to explore options to the locking-in of private pension benefits in British Columbia (BC). Specifically, this study proposes alternatives designed to provide greater flexibility in retirement income planning and consumption while minimizing the risks associated with relaxing withdrawal restrictions on retirement savings.

The primary source of information is a survey of 364 current and former private pension plan members and beneficiaries with the ability to unlock at least some of their private pension savings. The sample was drawn from members of the Canadian Association for the Fifty Plus (CARP). The survey aims to identify why some current and former private pension plan members and beneficiaries with the ability to unlock chose to do so while others do not. Descriptive statistics and logistical regression are used to analyze survey data and provide the following key findings:

- Given the opportunity, 71 per cent chose not to unlock and only 29 per cent chose to unlock at least some of their private pension benefits;
- Those that did unlock, unlocked relatively small amounts as the median unlocked amount was \$27,000 and the median percentage of pension unlocked was 18 per cent;
- 38 per cent of those that unlocked did so primarily for re-investment, with 18 per cent unlocking primarily for ‘discretionary’ reasons, which rises to 28 per cent when all unlocking reasons are examined;
- 65 per cent of those that did not unlock stated that their primary reason for not doing so was due to satisfaction with their current private pension payments;
- In comparison to those with household income under \$30,000, those with household income between \$40,001 to \$60,000 are 61 per cent less likely to unlock and those with household income between \$100,001 to \$120,000 are 74 per cent less likely to unlock;
- In comparison to those whose size of pension is or was in the case of those who unlocked, under \$15,000, those whose size of pension is or was between \$15,001 to \$30,000 are 68 per cent less likely to unlock and those whose size of pension is or was over \$100,000 are 53 per cent less likely to unlock; and
- Those with less conservative investment preferences are 1.5 times as likely to unlock as those who are conservative or neutral in their investment preferences.

A combination of survey results, stakeholder interviews and existing exemptions to the locking-in of private pension benefits available in other Canadian jurisdictions are used to identify alternatives to the current locking-in of private pension benefits in BC. The following alternatives are identified as potential reforms to the statutes governing private pensions in BC:

- *Repealing the Existing Unlocking of Small Monthly Pensions* would bring BC closer to regulatory harmony with the small amounts unlocking available in other jurisdictions by no longer allowing pensions up to \$77,400 to be unlocked 100 per cent in pre-retirement;
- *Targeted Unlocking* based on specified circumstances of financial hardship in order to meet financial needs of current and former private pension plan members and beneficiaries in BC; and
- Allow up to 25, 50 or 100 Per Cent Unconditional Unlocking via cash withdrawal or transfer to one or more unlocked retirement vehicles after termination of plan membership and reaching 55 years of age.

While the three unconditional unlocking alternatives are mutually exclusive the other alternatives are not. The proposed alternatives are assessed on the basis of cost to government, stakeholder acceptability, effectiveness and taxpayer risk. As a result of multi-criteria policy analysis, this study concludes by recommending that BC simultaneously repeal the existing unlocking of small monthly pensions and introduce up to 25 per cent unconditional unlocking of locked-in pension funds. Adopting both alternatives in unison will allow for greater flexibility in retirement income planning and consumption for former private pension plan members and beneficiaries in BC while reducing the risks associated with relaxing withdrawal restrictions on retirement savings relative to the status quo. Both alternatives are supported by stakeholders and consistent with existing provisions in other Canadian jurisdictions.

Dedication

To my parents, wherever you are, and RW ...

without you I never could have made it.

To Elliott ...

my thoughts are with you; I'll see you again.

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I would first like to thank William Gleberzon without whom the sample could not have been drawn. I am also thankful to the members of CARP for taking the time to complete my survey; your responses were astute and appreciated.

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Table of Contents

Approval.....	ii
Abstract.....	iii
Executive Summary.....	iv
Dedication.....	vi
Acknowledgements.....	vii
Table of Contents.....	viii
List of Figures.....	x
List of Tables.....	xi
Glossary.....	xii
1: Introduction and Policy Problem.....	1
2: Background.....	3
2.1 Private Pension Plans in Canada and BC.....	3
2.2 Exemptions Allowing Unlocking of Private Pensions in Canada.....	5
2.3 Summary.....	9
3: Who Unlocks their Private Pensions and Why (I).....	11
3.1 Study Sample.....	11
3.2 Dependent Variable.....	12
3.2.1 Reasons for Unlocking.....	15
3.2.2 Reasons for Not Unlocking.....	17
3.3 Summary.....	18
4: Who Unlocks and Why (II).....	19
4.1 Respondent Demographics.....	19
4.2 Investment Behaviour and Acumen.....	23
4.3 Financial Situation.....	25
4.4 Logistical Regression.....	28
4.4.1 Overall Fit of Statistical Models.....	29
4.5 Analysis of Significant Variables.....	32
4.5.1 Household Income.....	32
4.5.2 Private Pension Size.....	33
4.5.3 Conservativeness of Investment Preference.....	34
4.6 Summary of Major Findings.....	34
5: Criteria and Measures.....	37
5.1 Cost.....	37
5.2 Stakeholder Acceptability.....	39
5.3 Effectiveness.....	40

5.4	Taxpayer Risk	42
6:	Policy Alternatives and Assessment	43
6.1	Alternative 1: Status Quo.....	44
6.2	Alternative 2: Repeal Existing Unlocking of Small Monthly Pensions.....	45
6.3	Alternative 3: Targeted Unlocking.....	48
6.4	Alternative 4: 25 Per Cent Unlocking.....	49
6.5	Alternative 5: 50 Per Cent Unlocking.....	51
6.6	Alternative 6: 100 Per Cent Unlocking.....	51
6.7	Assessment.....	52
6.7.1	Status Quo (15.5).....	54
6.7.2	Repeal Existing Unlocking of Small Monthly Pensions (17).....	54
6.7.3	Targeted Unlocking (11).....	55
6.7.4	Unconditional Unlocking: 25 Per Cent (16.5), 50 Per Cent (13) and 100 Per Cent (11).....	57
6.8	Recommendations.....	58
6.8.1	Repeal Existing Unlocking of Small Monthly Pensions.....	58
6.8.2	Adopt 25 Per Cent Unconditional Unlocking.....	58
7:	Implementation, Limitations and Conclusion.....	60
Appendices	63	
Appendix A.....	64	
Additional Background	64	
Financial Hardship.....	69	
Appendix B.....	72	
Survey Instrument.....	72	
Appendix C.....	83	
Filters (1-9).....	83	
Appendix D.....	85	
Estimation of Model 2 (Blocks 1-5).....	85	
Appendix E.....	87	
Collinearity Diagnostics.....	87	
Appendix F.....	88	
Estimation of Model 1 (Block 5).....	88	
Appendix G.....	89	
Stakeholder Acceptability Rankings.....	89	
Appendix H.....	90	
Calculation of Effectiveness.....	90	
Calculation of Taxpayer Risk.....	93	
Bibliography	95	
Works Cited.....	96	
Interviews	98	
Public Documents	99	
Statutory Laws	101	
Works Consulted.....	102	
Websites Reviewed.....	103	

List of Figures

Figure 3.1 Distribution, Respondent Unlocking Amounts.....	13
Figure 3.2 Distribution, Proportion of Private Pensions Unlocked.....	14
Figure 3.3 Reasons for Unlocking	15
Figure 3.4 Reasons for Not Unlocking	17
Figure 7.1 Registered Pension Plans Members in BC by Type of Plan (1974-2006)	67

List of Tables

Table 2.1 Cross-Jurisdictional Summary of Exemptions to Locking-In of Private Pension Benefits.....	6
Table 4.1 Demographic Variables and Hypothesized Effects	20
Table 4.2 Cross-tabulation, Respondent Demographics and Unlocking.....	21
Table 4.3 Investment Behaviour and Acumen Variables and Hypothesized Effects.....	23
Table 4.4 Cross-tabulation, Respondent’s Investment Behaviour and Acumen and Unlocking	24
Table 4.5 Financial Variables and Hypothesized Effects	25
Table 4.6 Cross-tabulation, Financial Situation and Unlocking	27
Table 4.7 Logistical Regression, Model 1, 5 Blocks.....	30
Table 5.1 Criteria and Measures for Assessment of Policy Alternatives	37
Table 6.1 Policy Alternatives and Definition.....	44
Table 6.2 Detailed Assessment of Policy Alternatives.....	53
Table 7.1 Characteristics of Private Pension Income for the Population Aged 65 or Over in Canada (2000).....	66
Table 7.2 Financial Hardship Unlocking in Alberta and Ontario (April 1, 2005 – June 30, 2006).....	70
Table 7.3 Filtering Process.....	83
Table 7.4 Logistical Regression, Model 2, 5 Blocks.....	86
Table 7.5 Collinearity Statistics	87
Table 7.6 Correlation Coefficients	87
Table 7.7 Logistical Regression, Model 1, Block 5	88
Table 7.8 Stakeholder Acceptability Rankings.....	89

Glossary

DC Plan	A Defined Contribution Plan is a pension plan under which benefits are determined solely by reference to what is provided by contributions made by a member and on a member's behalf by an employer and interest and any other amounts allocated in respect of a member or former member.
DB Plan	A Defined Benefit Plan is a pension plan that is not a Defined Contribution plan. DB plans pool employee benefits and require actuarial calculations based on age, gender, life expectancy and other factors to determine specific employee benefits.
CAPSA	The Canadian Association for Pension Supervisory Authorities is a national inter-jurisdictional association of pension supervisory authorities whose purpose is to facilitate an efficient and effective pension regulatory system in Canada.
CARP	Canadian Association for the Fifty-Plus is the largest seniors' group in Canada with over 400,000 members.
CPP	Canada Pension Plan.
EPPA	<i>Employment Pension Plans Act</i> . The EPPA sets standards, rules and regulations that govern private-sector pension plans in Alberta.
FICOM	Financial Institutions Commission of BC. FICOM is the government agency that is responsible for the regulation of private pension plans in BC.
FSCO	Financial Services Commission of Ontario. FSCO is the government agency that is responsible for the regulation of private pension plans in Ontario.
FTE	Full Time Employee.
GIS	Guaranteed Income Supplement.
ITA	Income Tax Act of Canada.
LAAC	Locked-In Account Advisory Committee. The Alberta LAAC meets on a monthly basis and may review any information filed with the Alberta Superintendent of Pensions in consideration of applications for unlocking on the basis on financial hardship.
LIF	Life Income Fund. A locked-in retirement income vehicle that private pension benefits may be transferred to; subject to plan and statutory provisions. LIFs are

subject to prescribed maximum withdrawal limits set by provincial statutes and minimum withdrawal requirements set by the federal *Income Tax Act*.

- LIRA** Locked-in Retirement Account. A LIRA is a locked-in retirement income vehicle that private pension benefits may be transferred to subject to the plan provisions and relevant statutes. LIRAs are subject to prescribed maximum withdrawal limits set by provincial statutes and minimum withdrawal requirements set by the federal *Income Tax Act*.
- Locked-in** After a period of time, two years in most cases, private pension benefits are vested in the beneficiary and locked-in, meaning that the funds are no longer freely available but rather, upon reaching a prescribed (retirement) age or termination of plan membership, must be either paid as a regular retirement income or transferred to another locked-in retirement plan or used to purchase an annuity.
- LRIF** Locked-In Retirement Income Fund. A locked-in retirement income vehicle that private pension benefits may be transferred to subject to the specific plan provisions and relevant legislation. LRIFs were introduced in some provinces as an alternative to LIFs where there is no requirement to purchase an annuity on reaching a prescribed age. LRIFs are subject to prescribed maximum withdrawal limits set by provincial statutes and minimum withdrawal requirements set by the federal *Income Tax Act*.
- OAS** Old Age Security.
- OSFI** The Office of the Superintendent of Financial Institutions. OSFI is the government agency that is responsible for the regulation of private pension plans that are registered under federal jurisdiction.
- PBSA** *Pension Benefit Standards Act*. The PBSA sets standards, rules and regulations that govern employer-provided pension plans in BC.
- PBSR** *Pension Benefit Standards Regulation*. The PBSR is the regulation under the PBSA that defines certain standards, amounts, periods and other specifics of the PBSA.
- Private Pension** Also called employer provided pensions or employee pensions. Private pensions are distinct from publicly provided pensions, such as the Canada Pension Plan, Old Age Security and Guaranteed Income Supplement, in the sense that they are voluntarily employer provided plans that are jointly funded by employers and employees. Private pensions are regulated by distinct legislation and agencies. Public sector employee pensions are private pensions in the sense that they are employer provided and distinct from public pensions. However, public sector pensions are not always subject to the same statutory provisions that regulate private sector employer provided pensions.
- PV** Present Value.

QPP	Quebec Pension Plan.
RPP	Registered Pension Plan. In order to gain tax-deferred status, employer-provided pension plans are required to be registered under the <i>Federal Income Tax Act</i> . In addition, each plan is required to be registered under the jurisdiction in which they have the majority of members. Each jurisdiction has the responsibility of regulating employer-provided plans and have distinct legislation for that purpose.
RIA	Retirement Income Arrangement. In Alberta, a RIA, usually associated with benefits accrued under DC plans, is a locked-in retirement income vehicle where, upon reaching a prescribed age, funds are subject to prescribed maximum withdrawal limits set by provincial statutes and minimum withdrawal requirements set by the federal <i>Income Tax Act</i> .
RRIF	Registered Retirement Income Fund. A RRIF is a registered retirement savings vehicle where, upon reaching a retirement age, funds are taxed upon withdrawal but not subject to maximum withdrawal limits.
RRSP	Registered Retirement Savings Plan. Normal RRSPs are personal retirement income savings arrangements where deposited funds offset taxes in working years but are paid upon withdrawal. There are also locked-in RRSPs that are subject to minimum withdrawal limits under federal legislation and maximum withdrawal limits under provincial jurisdiction.
SFSC	The Saskatchewan Financial Services Commission. SFSC is the government agency that is responsible for the regulation of private pension plans that are registered in Saskatchewan.
TILMA	<i>Trade Investment and Labour Mobility Agreement</i> . Under the recently signed TILMA, Alberta and British Columbia have pledged to mutually recognize existing, and reconcile future, rules and regulations that may restrict or impair trade, investment or labour mobility between the two provinces.
Unlock	After a period of time, two years in most cases, private pension benefits are vested in the beneficiary and locked-in, meaning that the funds are no longer freely available but rather, upon retirement or termination in the plan, must be either paid as a regular retirement income or transferred to another locked-in retirement plan or used to purchase an annuity. Unlocking refers to the process through which private pension funds become freely available to beneficiaries. Unlocked funds are not subject to the maximum and minimum withdrawal limits set by provincial and federal legislation, respectively, and are available as cash or may be transferred to one or more unlocked accounts such as most Registered Retirement Savings Plans or Registered Retirement Income Funds.
YMPE	Year's Maximum Pensionable Earnings. The Canada Pension Plan sets the YMPE as the maximum amount of annual contributable earnings. The YMPE is used by pension plans in determining contribution rates, benefits and the cost of service.

1: Introduction and Policy Problem

Many employers offer employees the opportunity to regularly contribute to a pension plan that provides a monthly, lifetime income upon retirement. These employer-provided pensions are distinct from federally provided public pensions such as Old Age Security (OAS) and Canada Pension Plans (CPP) and are referred to as private pensions. Private pensions provide additional retirement income security for approximately 5.5 million current plan members in Canada and nearly 500,000 in British Columbia (BC) (Statistics Canada, CANSIM, Table 280-0009).¹ In order to qualify for special tax treatment, private pension plans are required to be registered under the federal *Income Tax Act* (ITA). They are also required to be registered and are regulated under legislation in the jurisdiction in which most of the plan's members reside.²

Both federal and all provinces' legislation governing private pension plans in Canada provides that after a period of time, two years in most cases, private pension benefits are vested in the beneficiary and locked-in, meaning that the funds are no longer freely available and must be used to provide a lifetime pension in retirement years subject to minimum and maximum withdrawal limits.³ In case of termination of plan membership after benefits have vested, the funds may be transferred to another plan, if allowed, or to a locked-in retirement account, such as a Life Income Fund (LIF), or used to purchase a deferred life annuity. All private pension plan legislation in Canada contains exemptions allowing, or requiring plans to provide for, some or all private pension benefits to be 'unlocked,' meaning that locked-in funds may be available as cash or may be transferred to an unlocked account, such as normal Registered Retirement Savings Plan

¹ Figures refer to Registered Pension Plans (RPPs). For more on RPPs refer to Appendix A.

² In addition to provincial jurisdiction, the federal Office of the Superintendent of Financial Institutions (OSFI) is responsible for the regulation of employer-provided pensions provided to employees working under federal jurisdiction; for example federally registered banks, communication and transportation companies providing pensions for their employees. For more additional background on private pensions refer to Appendix A.

³ Minimum withdrawal limits are set by the federal ITA *Regulations* and maximum withdrawal limits by provincial statutes and maximum limits. In BC, benefits that had not vested prior to 1993 are not locked-in (Queen's Printer Victoria, 2007). The locking-in of private pension benefits applies to both Defined Benefit (DB) and Defined Contribution (DC) plans. When funds are transferred one or more unlocked tax-registered vehicles, the tax liability is further deferred.

(RRSP) or Registered Retirement Income Fund (RRIF).⁴ In the past these conditions included unlocking in cases of shortened life expectancy, small pension amounts, non-residency and unlocking of pre-retirement survivor benefits in the case of death of a member or former member.

However in 2002, the government of Saskatchewan moved beyond these limited provisions to allow *unconditional* unlocking of up to 100 per cent of private pension benefits for former private pension plan members and beneficiaries upon termination of plan membership and reaching a prescribed age.⁵ New Brunswick followed in 2003 with 25 per cent unconditional unlocking. Manitoba provided 50 per cent unlocking in 2005, Alberta 50 per cent in 2006 and Ontario 25 per cent in 2007. In addition, Alberta, Ontario and Nova Scotia currently allow *targeted* unlocking of some or all locked-in pension funds under specified circumstances of financial hardship.⁶

Unlike most provinces in Canada, BC currently allows neither unconditional nor financial hardship unlocking. The purpose of this study is to consider whether changes might be made to private pension plan legislation in BC and, if so, what changes should be undertaken. To do so the study surveys current and former private pension plan members and beneficiaries living in jurisdictions allowing greater unlocking opportunities to explore if those with the ability to unlock take advantage of this allowance and why or why not. Generated from the analysis of survey data, six policy options suggesting how BC's *Pension Benefit Standards Act* (PBSA) and *Pension Benefits Standards Regulation* (PBSR) may be reformed. Evaluated according to cost to government, stakeholder acceptability, effectiveness and taxpayer risk, the following options are considered: (1) maintaining the status quo; (2) repealing the existing unlocking of small monthly pensions; (3) allowing for targeted unlocking under circumstances of financial hardship; and finally, unconditional unlocking of (4) twenty-five, (5) fifty and a (6) hundred per cent of private pension benefits. The study concludes with recommendations and suggestions for implementation.

⁴ 'Normal' RRSPs are not locked-in accounts. However, there are locked-in RRSPs where funds are subject to minimum and maximum withdrawal limits.

⁵ Unconditional unlocking can be exercised by individuals after termination of plan membership and reaching the age of 50 in Alberta, 45 in Ontario, 55 in Saskatchewan, Manitoba and New Brunswick (Alberta Finance, 2006c; Government of New Brunswick, 2006; Government of Ontario E-Laws, 2007; Laws of Manitoba, 2007; SFSC Pensions Division, 2006).

⁶ For additional background information on financial hardship unlocking refer to Appendix A.

2: Background

This section explains the relevance and current place of private pension plans in Canada and BC in particular. It first outlines details of private pensions in BC and the importance of private pensions in the larger context of Canada's retirement income system. It then briefly defines and surveys exemptions currently available to current and former private pension plan members and beneficiaries in Canada.

2.1 Private Pension Plans in Canada and BC

Private pension benefits are designed to provide retirement income security that complement, and in some cases partially offset, public pensions including OAS, the Guaranteed Income Supplement (GIS) and CPP. Private pensions are an integral component of private retirement savings vehicles that compose one of the three pillars of Canada's retirement income system (Statistics Canada, 2006). In 2000, 56.8 per cent of Canada's population over the age of 65 received an average annual payment of \$12,154 from private pensions, which is more than twice the average OAS or GIS and CPP or Quebec Pension Plan (QPP) income at the time (Statistics Canada, 2006, 390). Despite the relative importance of private retirement savings, individuals and employers are not required to contribute to retirement savings vehicles (Statistics Canada, 2006). Rather, favourable tax treatment is used to stimulate private retirement savings and encourage employers to offer private pensions (Statistics Canada, 2006).

Considering the importance of private pensions as a source of retirement income security in Canada, it is troublesome that in recent years there has been a documented "decline in the relative importance of pension plans covered by pension legislation ... in favor of savings vehicles, such as group RRSPs [or stock options] which are not covered by these laws" (Pozzebon, 2004, 13). Even if the drop in regulated employer-provided pensions were offset by other employer-provided retirement savings arrangements, unregulated pension plans carry with them significant risks including unregulated minimum employee and employer contributions, unregulated vesting and locking-in requirements, unregulated minimum investment requirements and, "in the wake of the Enron scandal[,] it is legitimate to question the security of pension arrangements built on company stock" (Pozzebon, 2004, 15). The adoption of unconditional and

financial hardship unlocking in Canadian jurisdictions corresponds to the shift away from the relative importance of regulated employer-provided pensions and may help stimulate declining private pension coverage.⁷

Jack Mintz argues that the locking-in of private pensions “puts millions of pensioned employees at a severe disadvantage compared with RRSP holders who change jobs” (2007, FP15). Funds invested in RRSPs are not locked-in, a fact which “provides a significant incentive to invest in retirement funds” (Mintz, 2007, FP15). Investments in RRSPs are voluntary but, for many employees, membership in private pension plans is not. Given a choice, Mintz argues, individuals would choose to invest in RRSPs rather than private pensions and, more importantly, that individuals should be afforded the choice to choose a more flexible retirement savings arrangement.

There are many reasons why individuals may want or need more than the maximum private pension annual withdrawal limit. Seniors may wish to utilize more funds early in retirement knowing they may not have the opportunity in later years (Walliser, 2001). Conversely, others may face increasing medical costs that require more funds in later retirement. Fortunately, Alberta, Ontario Nova Scotia and the federal government allow for funds to be unlocked for high medical costs, low income and other specified circumstances of financial hardship. Between April 1, 2005, and June 30, 2007, 1,977 private pension plan members in Alberta, and 13,475 in Ontario were approved for varying amounts of private pension benefits to be unlocked for reasons of financial hardship (Alberta Finance, 2007; FSCO, 2007b).⁸

British Columbia regulates approximately 800 registered pension plans under the PBSA with assets of \$27 billion (Government of Alberta, 2007).⁹ The BC PBSA came into effect in 1993 and is designed to protect the interests of pension plan members by setting minimum standards for private pension plans registered in BC (FICOM, 2007b). The minimum standards apply in areas such as eligibility, vesting, locking-in and portability of benefits, survivor benefits, employer contributions, funding and solvency measures and disclosure to members (FICOM, 2007b).¹⁰ From 1993 to 2003, the PBSA was administered by the Pension Standards Branch of the Ministry of Skills Development and Labour (FICOM, 2007c). Effective April 1, 2003, the

⁷ For more information on recent shifts towards private pension plans that offer greater flexibility, refer to Appendix A.

⁸ The federal government and Nova Scotia have recently adopted financial hardship unlocking but no data is yet available. For more information on financial hardship unlocking refer to Appendix A.

⁹ Figures do not include public sector plans.

¹⁰ Portability provisions require plans to allow for prescribed transfer of private pension benefits on upon termination of pan membership.

Pension Standards Branch is incorporated into the Financial Institutions Commission of BC (FICOM) and FICOM continues to regulate private pensions in BC (FICOM, 2007c). FICOM regulates private pension plans principally through the requirement of registration. A pension plan is required to be registered in BC if there are more members of that plan that work and reside in BC than in any other province or territory (FICOM, 2007c). The PBSA does not, however, have jurisdiction over pension plans covering federal public sector employees or private sector employees working in federally regulated industries or jurisdictions (FICOM, 2007b).

On October 19, 2007, BC and Alberta launched the Joint Expert Panel on Pension standards to review Alberta's *Employment Pension Plans Act* (EPPA) and BC's PBSA (Government of Alberta, 2007). The Panel will examine issues including "the role of pensions in attracting and retaining the future work force while ensuring fairness for both employees and employers, balancing risks and rewards" (Government of Alberta, 2007). Alberta allows unlocking for reasons of financial hardship and unconditional unlocking of up to fifty per cent of private pension benefits. Under the recently signed *Trade Investment and Labour Mobility Agreement* (TILMA), BC and Alberta are committed to harmonizing regulations and eliminating barriers to trade, investment and labour mobility between the provinces (Government of BC / Government of Alberta, 2007). These two recent developments suggest that there is currently a policy window through which amendments could be made to the PBSA and PBSR (Kingdon, 1995).

2.2 Exemptions Allowing Unlocking of Private Pensions in Canada

With the exception of Prince Edward Island, all Canadian jurisdictions, including the federal government, have exclusive legislation providing for the regulation of private pension plans registered in their jurisdiction. While provisions vary slightly across jurisdictions, all private pension legislation contain a blanket locking-in requirement which prohibits pension benefits, once vested, from being assigned, withdrawn, commuted, charged, anticipated or given as security during the lifetime of a member, former member, spouse or other beneficiary (Queen's Printer Victoria, 2007). The purpose of locking-in private pension benefits is to provide a steady and secure retirement income simultaneously contributing to the old age security of Canadians while reducing the fiscal stress and dependence on publicly provided pensions and minimum income security programs (Doug MacArthur, Interview, 01/18/08; Michael Peters, Interview, 02/18/08; Statistics Canada, 2006). Table 2.1 provides a cross-jurisdictional summary of exemptions to the locking-in of private pension benefits in Canada.

Table 2.1 Cross-Jurisdictional Summary of Exemptions to Locking-In of Private Pension Benefits¹¹

Jurisdiction	Shortened Life Expectancy Exception	Unlock Small Amounts	Unlock Excess Contributions	Unlock Pre-Retirement Death Benefit	Financial Hardship Exception	Unconditional Unlocking
<i>Federal</i> ^a	Yes	Yes	No	No	Yes*	Yes (50%)*
<i>BC</i> ^b	Yes	Yes	Yes	No	No	No
<i>AB</i> ^c	Yes	Yes	Yes	No	Yes	Yes (50%)
<i>SK</i> ^d	Yes	Yes	Yes	Yes	No	Yes (100%)
<i>MB</i> ^e	Yes	Yes	Yes	No	No	Yes (50%)
<i>ON</i> ^f	Yes	Yes	Yes	Yes	Yes	Yes (25%)
<i>QB</i> ^g	Yes	Yes	No	Yes	No	No
<i>NB</i> ^h	Yes	Yes	Yes	Yes	No	Yes (25%)
<i>NS</i> ⁱ	Yes	Yes	Yes	Yes	Yes	No
<i>NFLD</i> ^j	Yes	Yes	Yes	Yes	No	No
%	100	100	80	60	40	60

Harmonized

*Financial hardship and 50 per cent unlocking introduced in the 2008 federal budget are not yet in place.

- Sources:
- a) Department of Justice Canada, 2007a; Department of Finance Canada, 2008;
 - b) Queen's Printer Victoria, 2007;
 - c) Alberta Government Queen's Printer, 2007;
 - d) Government of Saskatchewan Queen's Printer, 2005;
 - e) Laws of Manitoba, 2007;
 - f) Government of Ontario E-Laws, 2007;
 - g) Government of Quebec, 2007.;
 - h) Government of New Brunswick, 2006;
 - i) Nova Scotia Office of the Legislative Counsel, 2004;
 - j) Queen's Printer St. John's, 2007.

Despite requiring private pension benefits to be locked-in, legislation in every Canadian jurisdiction offers exemptions allowing some or all locked-in funds to be either withdrawn as cash or transferred to one or more unlocked accounts. As Table 2.1 shows, exemptions across Canadian jurisdictions are largely harmonized with important exceptions: Canada, meaning plans that are regulated under federal jurisdiction by the Office of the Superintendent of Financial Institutions (OSFI), and Quebec do not allow for unlocking of excess contributions; Canada, BC, Alberta and Manitoba do not allow the pre-retirement surviving spouse (death) benefit to be unlocked; Canada, Alberta, Ontario and Nova Scotia offer financial hardship unlocking; and BC, Quebec, Nova Scotia and Newfoundland do not allow unconditional unlocking of any percentage of private pension benefits. Each exemption is discussed below in greater detail.

The *shortened life expectancy* provisions state that a pension may provide current and former private pension plan members and beneficiaries to apply to unlock up to 100 per cent of

¹¹ Prince Edward Island is not included as their private pension legislation has yet to be proclaimed into force.

their pension benefits by reason of a condition, certified by a physician, that is likely to considerably shorten his or her life expectancy. *Small amounts provisions* allow plans to offer unlocking of pensions under a prescribed size. It is important to differentiate between provisions that *require* a plan to offer or not offer, and those that *allow* a plan to offer, or not offer, certain things. Alberta and BC are the only jurisdictions that require plans to provide for unlocking of small amounts (Alberta Government Queen's Printer. 2007a; Queen's Printer Victoria, 2007). The maximum allowable pension funds that may be unlocked under the small amounts provisions vary slightly across jurisdictions between a maximum of \$29,133 and a minimum of \$4,370.¹² In Alberta private pension plans must provide for unlocking of pensions under \$17,480 on termination of plan membership to beneficiaries over the age of 65 (Alberta Government Queen's Printer. 2007a). BC is different as S. 40(1)(a) of the PBSA stipulates:

A pension plan must allow for payment to a former member, or to the surviving spouse of a deceased member or former member, of an amount equal to the commuted value of the pension to which the former member or surviving spouse is entitled if the monthly pension payments that would be payable to the former member or surviving spouse at or after pensionable age are less than the prescribed amount (Queen's Printer Victoria, 2007).¹³

S.33(1) of the PBSR reads "[f]or the purposes of section 40 (1) (a) of the Act [PBSA], the amount is 1/12 of 10% of the Year's Maximum Pensionable Earnings for the calendar year in which the earlier of termination of membership, death or pension commencement occurred" (Queen's Printer Victoria, 2007a). For 2007, the Year's Maximum Pensionable Earnings (YMPE) was \$43,700, which means that these provisions require private pension plans in BC to provide for unlocking of pensions that produce a monthly pension benefit less than \$387 (FICOM, 2007). While the monthly pension benefit depends on age and plan indexation, it is not unreasonable to expect that current and former private pension plan members and beneficiaries in BC to be able to unlock pensions up to \$77,400 under relatively generous small amounts provisions.¹⁴ However, this provision can only be utilized at the plan level, on termination of plan membership prior to transferring benefits to one or more locked-in accounts. Once benefits have been transferred to a locked-in RRSP, LIF or used to purchase an annuity, current and

¹² The maximum size limit presented here is subject to market fluctuations at commutation, actuarial mechanics, whether or not plan is indexed and how often, that may affect author's calculation. It may be possible, though unlikely, to unlock more than the stated maximum approximation.

¹³ In BC, S.38 of the PBSA defines pensionable age to be 55 (Queen's Printer Victoria, 2007).

¹⁴ $(387)(12) = 4644 / .06 = 77,480$. The maximum size limit of \$77,480 is based on an individual aged 55 or under who has a maximum LIF withdrawal limit of six per cent (FICOM, 2007e). The figure is subject to market fluctuations at commutation, actuarial mechanics, whether or not plan is indexed and how often, that may affect author's calculation. It may be possible, though unlikely, to unlock more than the stated maximum approximation.

former private pension plan members and beneficiaries are able to unlock only if the total value of the pension is under 20 per cent of YMPE (\$8,740) if under the age of 65 and 40 per cent of YMPE (\$17,480) if over the age of 65 (Queen's Printer Victoria, 2007; Queen's Printer Victoria, 2007).

Upon termination of plan termination, member's contributions that account for more than 50 per cent of the commuted pension value are defined as '*excess*' contributions. The locking-in provisions do not apply in respect of excess contributions except in Canada and Quebec where excess contributions must be used to increase pension, transferred to another pension plan, or, if the plan provides, may be transferred to a locked-in RRSP, LIF or used to purchase an immediate or deferred life annuity (Department of Justice Canada, 2007; Government of Quebec 2007). Under circumstances of a *pre-retirement death of a member*, former member or beneficiary, the benefit is not locked-in and must be available as a lump-sum payment to the surviving spouse, except in Canada, BC, Alberta, and Manitoba where the pre-retirement death benefit payable to the surviving spouse must be transferred to another pension plan, LIF, locked-in RRSP or may be used to purchase a deferred life annuity.

The second-to-last column of Table 2.1 shows there is less harmonization regarding *hardship* as Canada, Alberta, Ontario and Nova Scotia allow private pension benefits to be unlocked under circumstances of financial hardship. Unlike other unlocking provisions, individuals can unlock for reasons of financial hardship prior to reaching retirement age. Between April 1, 2005 and June 30, 2006, 49.9 per cent of approved applications and 59.5 per cent of funds released under Alberta hardship were approved on the basis of low income (Alberta Finance, 2006). During the same time, 77.0 per cent of approved applications and 78.6 per cent of funds released under Ontario hardship were approved on the basis of low income (FSCO, 2007a; 2007b). The low-income thresholds are \$29,933.33 in Ontario and Alberta and \$17,960 in Nova Scotia (Alberta Finance, 2006a; FSCO, 2007a; Nova Scotia Department of Environment and Labour, 2007). Aggregate data on unlocking due to financial hardship in Ontario and Alberta during this time period can be found in Appendix A. Disaggregated data are not available from Ontario but were provided by Alberta Finance and can also be found in Appendix A. Since Nova Scotia implemented this provision on July 1, 2007, data on the Nova Scotia financial hardship program are not yet available. Similarly, the federal government introduced 50 per cent unconditional unlocking and financial hardship unlocking in the 2008 budget and no data is yet available.

The final column of Table 2.1 shows that most Canadian jurisdictions currently allow some percentage of unconditional unlocking. Only Saskatchewan offers 100 per cent unconditional unlocking. The effect of 100 per cent unlocking is that private pension benefits, upon termination of plan membership and reaching age 55, are available as cash or may be transferred to one or more retirement income accounts where withdrawals are taxed as income. Canada, Alberta and Manitoba allow 50 per cent of locked-in pension benefits to be available in this manner. 50 per cent unlocking effectively splits the risk that an unlocking former private pension plan member or beneficiary may spend their retirement savings only to reduce their standard of living and increase their consumption of publicly provided benefits in future years by requiring 50 per cent of an individual's private pension to remain locked-in to provide a lifetime pension. In addition to splitting the risk, a maximum of 50 per cent of the locked-in portion of an individual's private pension benefits are made by the employee, meaning that employees in Alberta, Manitoba and under federal jurisdiction have, at a minimum, access to all their contributions with their employer contributions remaining locked-in.¹⁵ Similarly, Ontario and New Brunswick allow 25 per cent unconditional unlocking, which further reduces the risks associated with unlocking while still allowing additional flexibility in retirement income planning and consumption.

2.3 Summary

While private pensions are an important component of retirement income security for approximately 5.5 million current plan members in Canada and 58.9 per cent of Canadians aged over 65, the statutes that regulate private pension withdrawals are not uniform across Canada (Statistics Canada, 2006, 390; Statistics Canada, CANSIM, Table 280-0009). The regulation of private pensions protects Canadians, but there is a relative decline in the importance of regulated private pensions in favour of other arrangements, such as group RRSPs and stock options, that do not have to adhere to the minimum standards of pension legislation (Pozzebon, 2004). This trend corresponds with the movement to allow greater access to locked-in private pension funds. As a population seniors face a number of circumstances, such as high medical expenses, that would require greater flexibility in private pension payments. Most provinces have opted to allow financial hardship or unconditional unlocking as a means for greater flexibility in retirement income planning and consumption. However, BC's PBSA requires plans to offer unlocking of

¹⁵ Federal 50 per cent unconditional and hardship unlocking was introduced in the 2008 budget and it is not yet clear when the changes will take effect.

small monthly pensions but only at the plan level, prior to transfer of benefits, and not necessarily in retirement. The exemption does not target unlocking to the fiscal needs of current and former private pension plan members and beneficiaries. Nor does it balance the risk that individuals will unlock and spend their retirement savings only to become dependent on state-sponsored programs later in retirement years by requiring a remaining locked-in principal to provide a lifetime pension.

For all these reasons the study aims to identify, analyze and recommend alternatives to the locking-in of private pension benefits in BC. To do so, it now turns to a survey of current and former private pension plan members and beneficiaries in order to determine the motives and unlocking behaviour of the target population with respect to the aforementioned locking-in exemptions. The survey analyzes the unlocking behaviour of current and former private pension plan members and beneficiaries in order to determine key factors that drive unlocking behaviour, some of which are and some of which are not explained by the legislative unlocking provisions. Descriptive statistics will be used to identify significant factors in making unlocking decisions and logistical regression will be used to further signify each variable in multivariate statistical estimation.

3: Who Unlocks their Private Pensions and Why (I)

To better understand how BC's private pension plan legislation might be reformed, this study offers data from a survey of current and former private pension plan members and beneficiaries with the ability to unlock some or all of their private pension benefits under the relevant locking-in exemptions of their jurisdiction of pension registry. To date, no studies have specifically examined the unlocking behaviour of private pension plan members in Canada. To fill this gap, and later provide policy suggestions for BC, this study surveys former and current private pension plan members and beneficiaries with the ability to unlock some or all of their pension funds. This section briefly outlines survey specifics, including sample and questionnaire, as well as providing key descriptive statistics.

3.1 Study Sample

In order to examine the behaviour of current and former private pension plan members and beneficiaries with the ability to unlock some or all of their private pension benefits a non-random convenience sample was drawn from the members of the Canadian Association of the Fifty-Plus (CARP). CARP is the largest senior's interest group in Canada with over 400,000 members, 52,000 of which are located in BC (Morgenthau, 2002). CARP was chosen for its size and its willingness to allow members to be contacted for survey participation. Other organizations with contact information for significant numbers of current and former private pension plan members, such as provincial pension regulators, financial institutions and private pension administrators, were limited by privacy policies and were unable to provide contact information for research purposes.

A link to an electronic survey was sent with the monthly *CARP Action Newsletter*, which has a circulation of approximately 60,000 and provides registered users with e-mail alerts and updates on major policy matters affecting CARP members (CARP, 2007; CARP, 2007a).¹⁶ The electronic survey employed several filters to arrive at the final sample of current and former private pension plan members and beneficiaries with the ability to unlock some or all of their

¹⁶ A copy of the survey instrument is in Appendix B.

locked-in pension funds. Filters one through four removed respondents that either were not current or former private pension plan members or beneficiaries, did not have private pensions registered in jurisdictions with private pension legislation or did not answer whether they had ever unlocked some or all of their locked-in pension funds; the dependent variable question.¹⁷ Filters five through nine examined respondents stating that at least one of their reasons for not unlocking was because they were not allowed or did not know they were allowed to do so. Filters five through nine determined the validity of this assertion using the relevant exemptions to the locking-in of private pension benefits that exist in each jurisdiction of pension registry. Specific details of the filtering process can be found in Appendix C. 364 respondents were ultimately determined to be current or former private pension plan members or beneficiaries with the ability to unlock some or all of their private pension benefits.

3.2 Dependent Variable

The dependent variable under study is whether those eligible to do so unlocked at least some of their private pension funds, as assessed by the question: have you ever unlocked some or all of your private pension benefits? 71.2 per cent (n=259) of respondents indicated they had not unlocked with 28.8 per cent (n=105) stating they had unlocked.¹⁸ This result is surprising and directly contradicts the arguments most often made in support of locking-in private pension benefits (Alan Black, Interview 02/21/08, Art Kube, Interview 01/15/08; Laibson et al., 1998; Walliser, 2001). For example, the current locking-in provisions were enacted in BC to reduce the number of private pension plan members using their benefits for reasons other than re-investing in retirement savings and to alleviate the additional stress placed on public pensions and other income tested public programs (Doug MacArthur, Interview, 01/18/08).¹⁹ Private pension benefits are also locked-in, in part, to secure retirees from outside interests that may deplete their retirement savings such as fraudulent investment schemes and seniors allocating funds meant to

¹⁷ The electronic survey instrument enabled some questions to require answers. In this case, respondents could not continue to answer questions testing demographics or other explanatory variables without first answering the dependent variable question. To view the survey instrument, please refer to Appendix B.

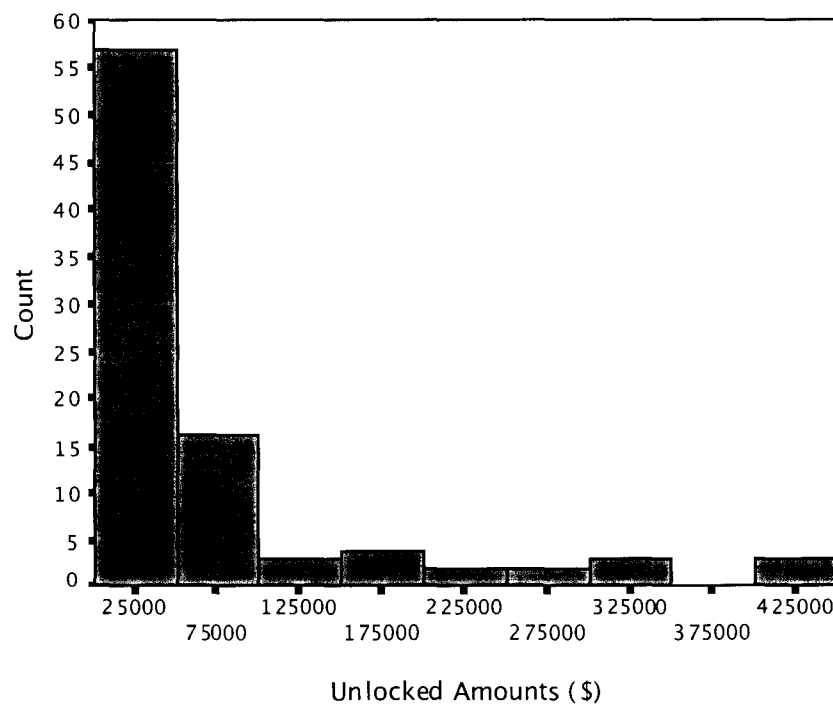
¹⁸ The dependent variable can also be measured as a scale based on how much was unlocked. While those that unlocked were asked how much they unlocked, a value of zero was inputted for those that did not unlock. It was originally hoped that a scale dependent variable would allow for least-squares regression analysis testing the incremental impact of each independent variable on the choice to unlock. Unfortunately, the distribution of amounts unlocked were not parametric as unlocked amounts produced a value of .000 when subjected to the Kolmogorov-Smirnov test, confirming its non-parametric nature.

¹⁹ Doug MacArthur was Deputy Minister to the Premier and Cabinet Secretary in BC when the current locking-in provisions were introduced. See also Statistics Canada, 2006 and Walliser, 2001.

provide for their well being in retirement years to their non-dependent children and other family members (Alan Black, Interview 02/21/08; Art Kube, Interview, 01/15/08; Pachner, 2007).

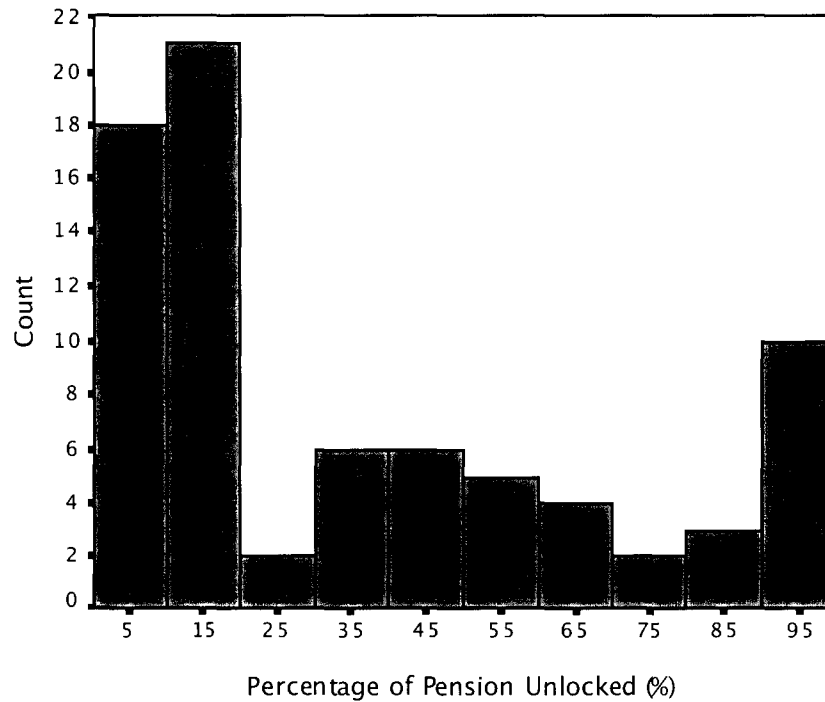
It is also surprising that those that did unlock unlocked relatively small amounts. Figure 3.1 shows the distribution of unlocked amounts of respondents that stated how much they unlocked (n=90).

Figure 3.1 Distribution, Respondent Unlocking Amounts



As Figure 3.1 shows, the majority of those that unlocked, 63 per cent (n=57), unlocked less than \$50,000. Unlocked amounts range from \$500 to \$450,000 with a mean of \$67,590.98, median of \$27,000.00 and a standard deviation of 99,371.74. In addition to unlocking small amounts, respondents unlocked small percentages of their pensions. . Of the 77 respondents that provided suitable information, the mean percentage of pension unlocked was 36.2 per cent, with a median of 18.2 per cent and a standard deviation of 32.94. The minimum amount unlocked relative to size of pension was .24 per cent and the maximum was 100 per cent. Figure 3.2 shows the distribution of unlocking as a proportion of pension size.

Figure 3.2 Distribution, Proportion of Private Pensions Unlocked



As Figure 3.2 shows, the majority of those that unlocked, 53.2 per cent (n=41), unlocked less than 25 per cent of their pensions and only 10.4 per cent (n=8) unlocked 100 per cent of their pension. The data is skewed towards smaller unlocking due to the restrictions placed on unlocking. Only in Saskatchewan former private pension plan members and beneficiaries unlock their benefits 100 per cent.

The survey of CARP members provides surprising results as, given the opportunity to unlock, most current and former private pension plan members and beneficiaries did not do so and those that did unlock mostly unlocked small amounts and small percentages of their pensions.²⁰ However, the preceding arguments may still hold validity if those that unlocked, whether for moral hazard or simply to enjoy their savings in early retirement, significantly damaged their future retirement income security in favour of present consumption.²¹ In order to determine whether this is the case, the following subsections explore why some survey respondents with the opportunity to unlock choose to do so while others do not.

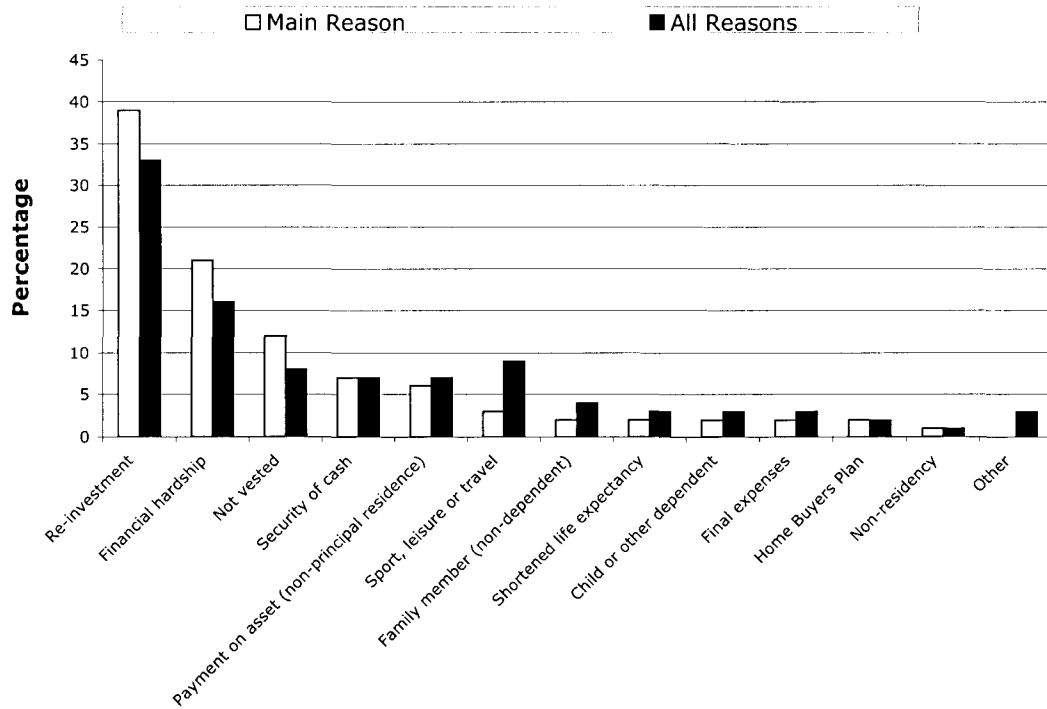
²⁰ As a group actively lobbying for increased unlocking opportunities, it was hypothesized that CARP members are more likely to unlock than the actual population of current and former private pension plan members and beneficiaries.

²¹ Laibson et al., 1998 provides classic examples of this.

3.2.1 Reasons for Unlocking

Survey respondents were also asked to explain why they did or did not unlock their private pensions. Of the 105 respondents that did unlock some or all of their private pension benefits, 98 provided at least one direct rationale. Figure 3.3 shows how these 98 respondents characterized their main, as well as all their other reasons (n=155), for unlocking.

Figure 3.3 Reasons for Unlocking



As Figure 3.3 shows, most of those that unlocked did so for re-investment purposes. Of those respondents who provided a rationale for unlocking, 38.7 per cent (n=38), cited re-investment as their main reason.²² The second most popular single reason for unlocking was financial hardship, at 21.4 per cent (n=21), with five additional respondents citing it among their reasons for unlocking.²³ The third most popular reason for unlocking was due to termination of plan membership prior to vesting of benefits with 12.2 per cent (n=12) of respondents indicating

²² Characteristics of those that unlocked for re-investment are consistent with the larger sample and those that unlocked.

²³ Characteristics of those that unlocked for financial hardship are consistent with the larger sample and those that unlocked.

it as their main, and 7.7 per cent (n=12) as of one of their reasons, for unlocking.²⁴ Significant unlocking prior to vesting of benefits was one of the main reasons the existing locking-in provisions were adopted (Doug MacArthur, Interview 01/18/2008).

'Discretionary' unlocking refers to unlocking to help a non-dependent family member, for sport, leisure or travel, for payment on an asset other than principal residence or for the security of cash.²⁵ 'Discretionary' unlocking rationale encompasses the reasons generally associated with the arguments made for keeping private pension benefits locked-in and hence 'discretionary' in comparison to the other stated reasons for unlocking (Alan Black, Interview, 02/21/08; Art Kube, Interview, 01/15/08; Laibson et al., 1998; Walliser, 2001).²⁶ While only 3.1 per cent (n=3) of those that unlocked did so principally for sport, leisure or travel, 9.0 per cent (n=14) stated that this was one of their reasons for unlocking. In aggregate, 18.4 per cent (n=18) stated that their main reason, and 27.1 per cent (n=42) stated that one or more of their reasons, for unlocking were for 'discretionary' purposes. As Figure 3.3 shows, the percentage of respondents indicating one or more 'discretionary' unlocking rationale as at least one of their reasons for unlocking rises considerably in comparison to their main unlocking reason, suggesting that respondents are using at least some of their unlocked private pension funds on 'discretionary' purchases. In comparison to their main unlocking reason, three times as many respondents identified sport, leisure or travel and twice as many indicated family member or non-dependant as one of their reasons for unlocking.²⁷

Respondents who unlocked were also asked whether, in hindsight, they would make the same decision. Of the 100 responses to this query, a majority of 63.0 per cent (n=63) would make the same choice. 20.0 per cent (n=20) said they would have unlocked more, 2.0 per cent (n=2) stated they would unlock less and 15.0 per cent (n=15) stated that given the same choice they would not have unlocked at all. In total, only 17 per cent (n=17) of those that unlocked stated at least some regret over their unlocking decision. While the majority of respondents remained satisfied with their unlocking decision, it is significant that 17 per cent admitted regret. Individuals that are expected to regret their unlocking decisions are included in the analysis of

²⁴ The question 'state all of your reasons for unlocking' allowed for multiple responses. The 98 respondents answering their main unlocking reason provided 155 responses to 'all other' unlocking reasons. For consistency, missing cases in all unlocking reasons were imputed to at least reflect each respondent's stated main unlocking reason.

²⁵ Security of cash was a not on the original survey but was written in by respondents in the 'other' category.

²⁶ Characteristics of those that unlocked for 'discretionary' rationale are consistent with the larger sample and those that unlocked.

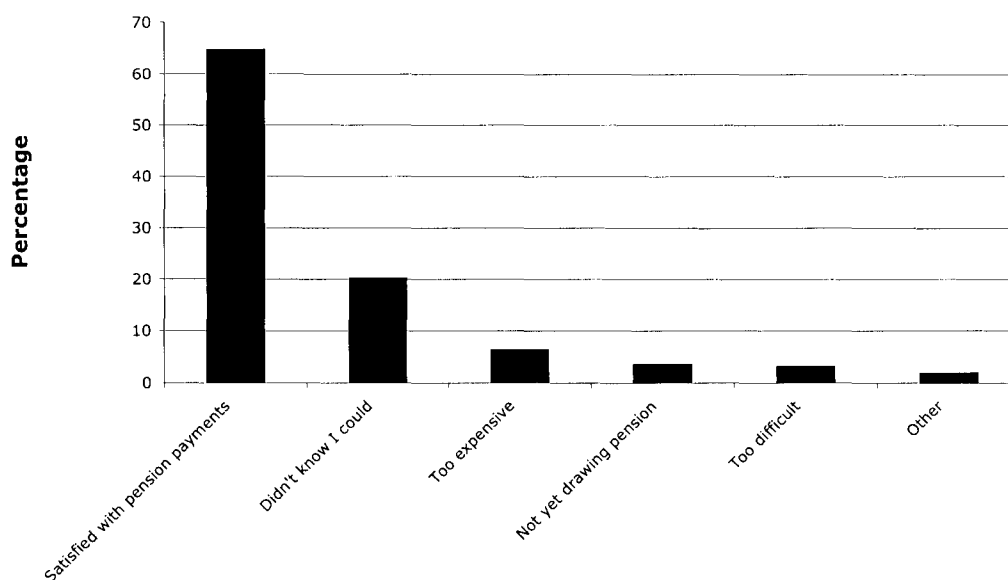
²⁷ Refers to percentage increase.

alternatives to the locking-in of private pension benefits in BC as regretful unlocking indicates how unlocking is not always an effective means of addressing the need for greater flexibility in retirement income planning and consumption.

3.2.2 Reasons for Not Unlocking

Respondents choosing not to unlock were also queried as to their behaviour. Of the 259 respondents not choosing to unlock, 253 provided their rationale. Figure 3.4 shows the categorization of rationale for not unlocking.

Figure 3.4 Reasons for Not Unlocking



As Figure 3.4 shows, the 64.8 per cent (n=164) of respondents that did not unlock did so because they were satisfied with their current private pension payments.²⁸ The majority of individuals that did not unlock due to satisfaction with their current private pension payments contradict the arguments most often made against the unlocking of private pension benefits; that without mandated withdrawal limits individuals will unlock significant portions of their

²⁸ Characteristics of those that did not unlock due to satisfaction with their current private pension payments are consistent with the larger sample and those that did not unlock.

retirement savings at the expense of the state, other taxpayers and their own long-term best interests (Alan Black, Interview, 02/21/08; Art Kube, Interview, 01/15/08; Laibson et al., 1998; Walliser, 2001).

High transaction costs on unlocking, including high marginal tax rates, administrative difficulty in applying for or transferring funds, as well as loss of high accrual rates under Defined Benefit (DB) plans, make it surprising only 3.2 per cent (n=8) of respondents that unlocked stated that their main reason for not unlocking was because it was overly difficult.²⁹ Private pension benefits are taxable as income, either as they are withdrawn as cash or subsequently as they are withdrawn from another unlocked retirement account, which makes it surprising that only 6.3 per cent (n=16) stated they did not unlock because it was too expensive. The small proportion of respondents that stated their main unlocking reason as expense suggests that marginal tax rates may not effectively deter undesirable withdrawals from retirement savings vehicles (Statistics Canada, 2006; Walliser, 2001).

3.3 Summary

In summary, the frequency of unlocking and reasons for and against unlocking provided by survey respondents provides some unexpected results. Given the opportunity to unlock, most respondents chose not to. Those that did unlock did so primarily for re-investment and unlocked relatively small amounts and small proportions of their pensions. Those that chose not to unlock did so primarily due to satisfaction with their current private pension payments. These results contradict arguments most often made in supporting the locking-in of private pension benefits (Alan Black, Interview, 02/21/08; Art Kube, Interview, 01/15/08; Laibson et al., 1998; Walliser, 2001). However, the higher proportion of respondents choosing one or more ‘discretionary’ unlocking rationales among their other reasons for unlocking suggests that there is additional, policy relevant information, such as how well respondents re-invest their unlocked funds, that can be explored using statistical analysis. Descriptive statistics are used to identify statistically significant factors in unlocking. Significant variables are used in logistical regression to determine the probability that a respondent who possesses certain characteristics will choose, or not choose, to unlock.

²⁹ The majority of private pension plans in BC are Defined Benefit (DB). For more on DB plans, refer to Appendix A.

4: Who Unlocks and Why (II)

The preceding section determined whether, and the extent to which, those surveyed unlocked their private pensions. This section moves beyond expressed personal reasons and uses more elaborate statistical analysis to test why some and not other eligible pension holders unlock their locked-in pension funds. Descriptive statistics identifying significant variables are regressed to estimate which respondents are more or less likely to unlock. The following subsections describe independent variables their measures. The rationale for the selection of each variable as well as the anticipated relationship direction, either positive or negative is also discussed.

4.1 Respondent Demographics

Demographic characteristics comprise the first set of survey questions. Table 4.1 outlines the demographic variables and hypothesized effect of each variable on making the choice to unlock. A positive hypothesized effect indicates that an increase in the independent variable increases the likelihood a respondent will unlock. Where there is insufficient literature to suggest a relationship, 'n/a' indicates the lack of a hypothesized effect.

Table 4.1 Demographic Variables and Hypothesized Effects

Variable Name	Hypothesized Effect	Source(s)
<i>Gender</i>	n/a	n/a
<i>Age</i>	-	Doug MacArthur, Interview, 01/18/08; Laibson et al., 1998; Walliser, 2001.
<i>Health</i> ³⁰	+	Walliser, 2001.
<i>Marital status</i>	n/a	n/a
<i>Length of retirement</i>	-	Laibson et al., 1998; Walliser, 2001.
<i>Household size</i>	+	Art Kube, Interview, 01/15/08; Statistics Canada, 2006.
<i>Highest level of education</i>	-	Laibson et al., 1998.
<i>Pension registered in jurisdiction with unconditional unlocking</i>	+	Laibson et al., 1998; Statistics Canada 2006; Walliser, 2001.
<i>Pension registered in jurisdiction with financial hardship unlocking</i>	+	Laibson et al., 1998; Statistics Canada 2006; Walliser, 2001.

Theories of myopic savings behaviour and the policy rationale for adopting the current locking-in provisions in BC suggest that age and length of retirement will negatively impact on unlocking (Doug MacArthur, Interview, 01/18/08; Laibson et al., 1998; Walliser, 2001). Since health is negatively correlated with age, a positive correlation with unlocking is hypothesized for healthiness (Walliser, 2001). In other words, it is expected that healthier respondents are more likely to unlock. As seniors may be pressured by, or voluntarily bequeath wealth to, family members, household size is expected to have a positive correlation with unlocking (Art Kube, Interview, 01/15/08; Statistics Canada, 2006). As higher discount rates have been associated with lower levels of education, this study hypothesizes a negative relationship between education and unlocking (Laibson et al., 1998). Literature suggests that loosening the restrictions on withdrawals from private retirement savings arrangements will result in additional withdrawals (Laibson et al., 1998; Statistics Canada 2006; Walliser, 2001). For this reason having a pension registered in a jurisdiction that allows for unconditional unlocking and/or having a pension

³⁰ More health means healthier while less health means less healthy.

registered in a jurisdiction with financial hardship unlocking are hypothesized to increase unlocking. This study offers no hypothesis regarding the impact that gender or marital status may have on the choice to unlock as there is insufficient literature to suggest a clear relationship.

Table 4.2 Cross-tabulation, Respondent Demographics and Unlocking³¹

Query	Response	% who Unlocked	% who Did Not Unlock	% of Total
<i>Are you male or female?</i>	Male	81.4	73.6	75.9
	Female	18.6	26.4	24.1
<i>What is your age?</i>	51-64	53.1	55.0	54.5
	Over 64	46.9	45.0	45.5
<i>How would you describe your health?</i>	Better than average	75.3	76.3	76.0
	Average or below	24.7	23.7	24.0
<i>Are you single or married?</i>	Single	16.7	13.0	14.0
	Married	83.3	87.0	86.0
<i>How many years have you been retired?*</i>	Not retired	28.9	18.8	21.8
	1-5 years	48.5	44.4	45.6
	Over 5 years	22.7	36.8	32.6
<i>What is the size of your household?</i>	1 person	14.6	14.4	14.5
	2 persons	71.9	74.6	73.8
	More than 2	13.5	11.0	11.7
<i>Do you have a university degree?</i>	Yes	40.6	38.8	39.3
	No	59.4	61.2	60.7
<i>Do you have a pension registered in a jurisdiction with unconditional unlocking?</i>	Yes	28.3	26.3	26.9
	No	71.7	73.7	73.1
<i>Do you have a pension registered in jurisdiction with financial hardship unlocking?</i>	Yes	67.7	68.3	68.1
	No	32.3	31.7	31.9

Pearson Chi-2 tests **Significant at <.05 , Significant **<.001*

Table 4.2 presents a cross-tabulation of unlocking and demographic characteristics of the 364 surveyed respondents that were current or former private pension plan members or beneficiaries with the ability to unlock some or all of their private pension benefits. Pearson Chi-

³¹ No cells have expected count less than 5 (n=364).

square tests are used to examine statistical significance of the relationship between the dependent and independent variables. Chi-square testing reveals only one statistically significant relationship between demographic variables and unlocking. As expected, the variable *length of retirement*, which includes 0 years (not retired) has a statistically significant relationship with unlocking (chi-square significance score of .022). Among survey respondents, those not retired or in early retirement are more likely to unlock than those in later (over 5 years) retirement. This result is expected, as individuals are less likely to be able to unlock benefits prior to termination of plan membership. Of those who unlocked, 48.5 per cent did so within the first five years of retirement. Of the 72 respondents that were not yet retired, 61.1 per cent (n=44) had not unlocked funds. Retirement is self-declared and despite having terminated membership in a private pension plan, respondents may still consider themselves in the workforce. It is also possible that seniors who have officially retired still earn undeclared wages in order to avoid increased marginal tax rates.

The cross-tabulation of demographic variables with unlocking behaviour produces some counter-intuitive results. The relationship between unlocking and either having a pension registered in jurisdiction that allows some percentage of unconditional unlocking (Alberta, Saskatchewan, Manitoba, New Brunswick) or having a pension registered in a jurisdiction that allows unlocking for reasons of financial hardship (Alberta, Ontario, Nova Scotia) is not significant. Considering the arguments against unlocking, the introduction of these policies was hypothesized to have a significant relationship with unlocking. Neither being married nor size of household is significant when compared with unlocking. Among surveyed respondents, there is not a significant relationship between household size and unlocking. This is surprising considering the theories suggesting family members and friends may pressure current and former private pension plan members or beneficiaries to unlock funds (Art Kube, Interview, 01/15/08; Walliser, 2001).

The fact that health status is not significant is unexpected as the health of a current or former private pension plan member or beneficiary would likely be a consideration when making their decision whether to unlock. It is less surprising that education does not have a significant relationship with unlocking. Higher education is not required to unlock, though basic knowledge of pension regulation would certainly be required. It is not surprising that neither gender nor marital status is not significant as there was no reason to expect such a relationship. Literature suggests that younger respondents are more likely to unlock, as individuals may want to enjoy a disproportionately larger share of their pension in early retirement (Walliser, 2001; Statistics

Canada, 2006). It is possible, however, that some of this theorized relationship is reflected in length of retirement.

4.2 Investment Behaviour and Acumen

Questions regarding respondent's investment knowledge and behaviour are another key component of the survey. The arguments made for locking-in stress the risk that retirees may unlock and lose their retirement savings, either due to myopic spending or poor investment choices, and become dependent on state-sponsored programs later in life (Alan Black, Interview, 02/21/08; Art Kube, Interview, 01/15/08; Laibson et al, 1998; Mintz, 2007; Walliser, 2001). Therefore, responses from questions that test investment behaviour and acumen are analyzed to determine whether they influence unlocking decisions. Table 4.3 displays the demographic variables and hypothesized effect of each variable on making the choice to unlock.

Table 4.3 *Investment Behaviour and Acumen Variables and Hypothesized Effects*

Variable Name	Hypothesized Effect	Source(s)
<i>Knowledge of tax status of private pension benefits</i>	-	Laibson et al., 1998; Walliser 2001.
<i>Knowledge of private pension regulations</i>	-	n/a
<i>Investment acumen</i>	-	Laibson et al., 1998; Robson, 2008.
<i>Conservativeness of investment preference</i>	-	Laibson et al., 1998.

As marginal tax rates are likely to be a major factor in making the choice to unlock, the survey tests whether respondents are aware that private pension benefits are taxable as income. Literature suggests that high marginal tax rates should act as a disincentive to withdraw retirement savings (Laibson et al., 1998; Walliser 2001). Therefore, knowledge of the tax status of private pension benefits should keep respondents from unlocking. Despite the lack of studies that test knowledge of private pension regulations, the same rationale leads to the hypothesis that a lack of knowledge of the rules that regulate an individual's private pension may keep them from unlocking. As literature suggests that withdrawing retirement savings is correlated with myopic investment behaviour, lower investment acumen is hypothesized to lead to greater unlocking

(Laibson et al., 1998; Robson, 2008). Laibson et al. (1998) suggests that there are less savings impacts for instrumental changes in withdrawal regulations for risk-averse preferences. Therefore, this study hypothesizes that the more conservative the investment preference the less likely to unlock.

Table 4.4 Cross-tabulation, Respondent's Investment Behaviour and Acumen and Unlocking³²

Query	Response	% who Unlocked	% who Did Not Unlock	% of Total
<i>Are pension benefits taxable as income?</i>	Yes	99.0	98.3	98.5
	No	1.0 ³³	1.7	1.5
<i>How would you rate your knowledge of the regulations that govern your private pension?</i>	Above average	47.4	47.1	47.2
	Average	41.2	41.7	41.5
	Below Average	11.3	11.3	11.3
<i>Can you spot the most risky investment?</i>	Yes	41.9	37.3	38.6
	No	58.1	62.7	61.4
<i>How conservative are your investment preferences?*</i>	Conservative / Neutral	15.6	13.1	13.9
	Mixed	72.9	60.2	63.9
	Less Conservative	11.5	26.7	22.3

Pearson Chi-2 tests **Significant at <.05* , *Significant **<.001*

Table 4.4 presents a cross-tabulation of investment behaviour and acumen variables and unlocking. As expected, cross-tabulation reveals a statistically significant relationship between conservativeness of investment preference and unlocking. In this study, conservative investments are defined as bank accounts, term deposits and fixed bonds and less conservative investments are defined as equity, stocks and other security instruments. Mixed refers to respondents that prefer a mix of conservative and less conservative investments. Of the 338 respondents queried about the tax status of private pensions, only 1.5 per cent (n=5) stated that the benefits were not taxable.

³² No cells have expected count less than five.

³³ Cell has an expected count less than five.

The very small number of respondents lacking this knowledge makes it impossible to prove a relationship between tax knowledge and unlocking.

Investment acumen, measured as the ability to spot the riskiest investment from a list of investment options, is not significantly related to unlocking. This finding is contrary to the arguments against unlocking that stress the importance of investment acumen (Alan Black, Interview, 02/21/08; Art Kube, Interview, 01/15/08). The lack of a statistically significant relationship between tax and regulatory knowledge regarding pensions and unlocking is not as surprising. While tax and regulatory knowledge may keep respondents from unlocking, those that do unlock require at least a basic understanding of the rules that govern their private pension. Similarly, it is unlikely that anyone who did unlock would not be aware of the tax implications of their actions.

4.3 Financial Situation

Questions that elicit detailed financial information from respondents comprise the final survey component. These questions investigate respondents' employment and income breakdown and assets including ownership of principal residence and size of largest private pension. In addition, individuals may choose to unlock or not unlock, certain amounts of pension benefits, depending on their consumption, or non-consumption, of other income-tested benefits.

Table 4.5 *Financial Variables and Hypothesized Effects*

Variable Name	Hypothesized Effect	Source(s)
<i>Average hours spent in paid employment per week in past year</i>	-	Laibson et al., 1998; Statistics Canada 2006.
<i>Ownership of residence</i>	- / +	Laibson et al., 1998.
<i>Currently receiving OAS or GIS</i>	-	Statistics Canada, 2006; Walliser, 2001.
<i>Household income</i>	- / +	Laibson et al., 1998.
<i>Value of assets</i>	- / +	Laibson et al. 1998.
<i>Size of largest private pension prior to unlocking</i>	- / +	n/a

Table 4.5 presents the hypothesized effect of financial variables on the choice to unlock. As increased employment income means less earnings that need to be replaced by private pensions, it is hypothesized that as average hours per week spent in paid employment increases, the likelihood of unlocking decreases. Literature suggests that individuals may choose to withdraw private pension funds so as to lower income in future years and maximize consumption of government provided pensions and other income tested benefits (Walliser, 2001). This potential for moral hazard has led to the hypothesized negative relationship between unlocking and the current receipt of income tested public pensions (OAS/GIS). As both spending and saving have been observed to rise and fall with income, a two-sided hypothesis is proposed for household income and unlocking (Laibson et al. 1998). Asset accumulation and savings are fundamentally correlated and have been observed to move together, peaking at retirement and then falling after (Laibson et al. 1998). However, spending has also been shown to roughly follow the same pattern (Laibson et al. 1998). For these reasons a two-sided hypothesis is suggested for assets, including ownership of residence.

Another asset, size of single largest private pension, is slightly different in that existing policies affect the relationship between pension size and unlocking. Those that unlocked are likely to have a smaller pension than those that did not. To eliminate this problem of reverse causality, the amount unlocked was added to the residual pension amount for those that did unlock to produce a new variable: *size of private pension previous to unlocking*. The size of pension prior to unlocking is likely to influence an individual's decision to unlock. A large pension could keep individuals from unlocking, as it would disqualify them from unlocking under the small amounts provisions discussed in section 2.2. At the same time, a very large pension could tempt an individual to unlock. Despite the lack of literature studying the effect of private pension size and unlocking, a two-sided hypothesis is suggested for the relationship between size of largest pension prior to unlocking and unlocking.

Table 4.6 presents a cross-tabulation of financial variables and unlocking.

Table 4.6 Cross-tabulation, Financial Situation and Unlocking³⁴

Query	Response	% who Unlocked	% who Did not Unlock	% of total
<i>How many hours on average did you spend in paid employment per week in the past year?</i>	0 Hours	48.4	53.3	51.9
	0 – 20 Hours	21.1	24.0	23.1
	21 – 40 Hours	30.5	22.7	25.0
<i>Do you own the residence where you currently reside?*</i>	Yes	84.4	92.1	89.9
	No	15.6	7.9	10.2
<i>Are you currently receiving OAS or GIS?³⁵</i>	Yes	33.7	35.9	35.3
	No	66.3	64.1	64.7
<i>What is your approximate total annual household income?*</i>	\$0 - \$30,000	10.2	5.1	6.7
	\$30,001 - \$60,000	25.0	14.4	17.7
	\$60,001 - \$100,000	31.8	40.5	37.8
	Over \$100,000	33.0	40.0	37.8
<i>What is the approximate total value of your assets?</i>	\$0 - \$250,000	19.8	10.2	13.2
	\$250,001 - \$500,000	27.5	29.9	29.2
	\$500,001 - \$1,000,000	29.7	36.0	34.0
	Over \$1,000,000	23.1	23.9	23.6
<i>What is / was the size of your largest private pension prior to unlocking?*</i>	\$0 - \$15,000	9.1	21.4	17.6
	\$15,001 - \$30,000	7.8	7.5	7.6
	\$30,001 - \$100,000	19.5	24.3	22.8
	Over \$100,000	63.6	46.8	52.0

Pearson Chi-2 tests **Significant at <.05* , *Significant **<.001*

The cross-tabulation presented in Table 4.6 produces expected and unexpected results. While it is unexpected that there is not a statistically significant relationship between average hours spent in paid employment and unlocking, it is likely that the principal factor represented by this variable, labour force participation, is captured in length of retirement. Retirement is a

³⁴ No cells have expected count less than five.

³⁵ The majority of survey respondents did not answer questions inquiring about OAS and GIS payments. The distribution of household income presented in the final column of Table 4.6 suggests that the break between those who are and are not receiving OAS or GIS would not be accurate for the entire sample.

subjective term and captures the perspective of labour force participation that, among surveyed respondents, is significantly related to the choice to unlock. It is possible to regard oneself as retired while still participating in the labour force.

Two variables that are similarly related are ownership of residence and value of assets. Home ownership increases the value of assets. While cross-tabulation reveals a significant relationship between residence ownership and unlocking, no relationship could be substantiated between value of assets and unlocking. Also as hypothesized, household income and size of largest private pension prior to unlocking are statistically significant factors in making the choice to unlock. Each of these variables both influence unlocking behaviour and are components of exemptions to the locking-in of private pension benefits; income tests are used in the determination of unlocking for reasons of financial hardship and the size of private pension is used in the determination of eligibility for unlocking under the small amounts provisions discussed in section 2.2.

The lack of a statistically significant relationship between receiving income-tested public pensions and unlocking among surveyed respondents is surprising insofar as it contradicts the theory that without government regulated withdrawals private pension members will unlock their benefits to minimize future income and maximize consumption of income-tested public pensions (Walliser, 2001). However, only 11 respondents indicated they were receiving GIS and 241 did not answer whether or not they were receiving OAS. Since these pensions are income tested, the relationship may be reflected in the significant relationship between household income and unlocking. In total, cross-tabulation reveals five statistically significant variables that impact on respondent's choice to unlock: *length of retirement, conservativeness of investment preference, residence-owner, household income and size of pension prior to unlocking*. The probability that respondents who have or do not have a particular characteristic, with respect to each of these explanatory variables, will either choose or not chose to unlock will be estimated through the Block-Enter method of multivariate logistical regression in the following subsections.

4.4 Logistical Regression

Multivariate logistical regression aids in estimating which characteristics of eligible current and former private pension plan members and beneficiaries increase or decrease the probability that they will choose to unlock a portion of their private pensions. The regression also estimates the significance of each variable holding other significant variables constant. The Block-Enter method is used to sequentially add predictors to effectively examine an old model

and then add a new variable to the model to see whether, and how, the model is improved. In reality, a number of factors influence the decision to unlock and the estimation reveals the significance of each variable on unlocking in respect of a multivariate relationship.

Not all 364 survey respondents provided answers to all questions, thus reducing the number of cases, from 285 in Block 1 to 238 in Block 5, tested in Model 1. The impact of these missing answers was accessed using a second model in which these missing answers are replaced using median values. For example, when respondents were asked to approximate their household income, 79 did not provide a response. These 79 cases were subsequently added to the \$60,001 - \$80,000 category. As significant changes in estimation occur when missing cases are imputed as median values, coupled with insignificant changes in pseudo- R^2 values that appear to distort findings, Model 1 is retained as the preferred estimation.³⁶ Diagnostic tests on all independent variables reveal no problems of multicollinearity in the data used in Model 1.³⁷ Significance for variables is indicated at the 90, 95 and 99 per cent confidence intervals.

4.4.1 Overall Fit of Statistical Models

The Block-Enter method of logistical regression is employed to demonstrate not only how different types of variables can predict unlocking, but also how these variables interact with each other. Block 1 incorporates only household income as the sole predictor of unlocking. Subsequent Blocks add variables on the basis of their approximated significance on unlocking; Block 2 incorporates size of pension prior to unlocking, Block 3 length of retirement, Block 4 ownership of residence and finally Block 5 includes conservativeness of investment preference. The addition of each variable changes the significance of each explanatory variable, as well as the overall predictive ability of the model. Once all variables are included in the estimation the Nagelkerke pseudo- R^2 , the measure of model predictive ability, rises from .048 in Block 1 to .152 in Block 5, explaining about 15 per cent of the variance in the dependent variable. Table 4.7 shows the estimation of Blocks 1 through 5 of Model 1.³⁸

³⁶ For details on Model 2, which was estimated with imputed cases, refer to Appendix D.

³⁷ For collinearity diagnostics refer to Appendix E.

³⁸ For full details of Model 1, including beta values, expected beta values, residuals, Wald statistics exact significance of all variables, refer to Appendix F.

Table 4.7 Logistical Regression, Model 1, 5 Blocks³⁹

Variable	Category	BLOCK 1	BLOCK 2	BLOCK 3	BLOCK 4	BLOCK 5
<i>Household Income</i>	\$0 - \$30,000	-	-	-	-	-
	\$30,001 - \$40,000	1.081	1.031	.992***	1.007	.896
	\$40,001 - \$60,000	.433*	.339**	.347**	.382*	.390*
	\$60,001 - \$80,000	.484	.389*	.420	.462	.457
	\$80,001 - \$100,000	.399*	.317**	.357**	.392	.397
	\$100,001 - \$120,000	.315*	.252**	.258**	.289**	.262**
	Over \$120,000	.577	.476	.409	.468	.531
<i>Pension Size (prior to unlocking)</i>	\$0 - \$15,000		-	-	-	-
	\$15,001 - \$30,000		.264***	.314**	.319**	.319**
	\$30,001 - \$100,000		.640	.665	.663	.640
	Over \$100,000		.494*	.523*	.484*	.470**
<i>Length of Retirement</i>	Not retired			-	-	-
	1-5 years			2.044	1.824	1.788
	Over 5 years			1.756	1.736	1.666
<i>Residence-owner</i>				.601	.686	
<i>Conservativeness of Investment Preference</i>	Conservative / Neutral					
	Mixed					2.259
	Less Conservative					2.484**
N		285	247	240	240	238
Nagelkerke pseudo-R ²		.048	.106	.123	.128	.152

*Significant at < .10, **Significant < .05, ***Significant < .01

4.4.1.1 Block 1

Model 1 estimates equations without imputing missing cases. Block 1 estimates an equation using household income as the sole explanatory variable. The predictive capacity of this model is weak, indicated by a Nagelkerke pseudo-R² value of .048. The number of cases included drop to 285 as 79 respondents did not answer the household income question. Using logistical regression allows comparison between categories within each explanatory variable. In

³⁹ Figures indicate expected beta values.

Block 1, respondents with household income between \$40,001 and \$60,000 are 56.7 per cent less likely to unlock than those with household income between \$0 and \$30,000 (the reference category), which is significant at the 90 per cent confidence level.⁴⁰ Respondents with household income between \$80,001 and \$100,000 are 60.1 per cent, and those with household income between \$100,001 and \$120,000 are 68.5 per cent, less likely to unlock than those with household income between \$0 and \$30,000.

4.4.1.2 Block 2

Block 2 adds size of pension, the size of pension prior to unlocking in the case of respondents that did unlock, to the estimation, raising the Nagelkerke pseudo-R² value to .106 and dropping the case count to 247. In Block 2, the predictive capacity of all categories of household slightly change with lower income earnings being more likely to unlock. Respondents with pension size between \$15,001 and \$30,000 are 73.6 per cent less likely to unlock than those with pensions between \$0 and \$15,000, which is significant at the 99 per cent confidence level. The addition of pension size produces consistent results as the expected betas for categories of household income only slightly change while two categories of size of pension prior to unlocking are significant and consistent with the two-sided hypothesis.

4.4.1.3 Block 3

Block 3 adds length of retirement to the estimation, raising the Nagelkerke pseudo-R² value to .123 and dropping the cases count to 240. Income category results are relatively unchanged, although we can now be more confident of the relationship. The same three categories of pension size are significant at the same confidence levels as in Block 2 and the odds ratios are also very similar to those of the previous model. None of the three categories of length of retirement are significant in Block 3. This means that when other significant independent variables are added the, significance of length of retirement drops suggesting that the other variables - *household income, size of pension* - are actually explaining much of the hypothesized relationship between length of retirement and unlocking.

⁴⁰ Logistical regression can predict probabilities using categorical independent variables. Probabilities equate to the expected beta value less one and are in reference to one of the categories, hence 'reference category'.

4.4.1.4 Block 4

Block 4 adds ownership of residence to the estimation, raising the Nagelkerke pseudo-R² value to .128. The number of cases remains constant at 240 in this estimation. In Block 4, two categories of household income, \$30,001 to \$40,000 and \$80,001 to \$100,000, are no longer significant. In addition, the same three categories of pension size are significant at the same confidence levels as in Block 3. The three categories of length of retirement remain non-significant in Block 4. The additional variable, ownership of residence, is shown to not be significant when estimating a multivariate relationship.

4.4.1.5 Block 5

Block 5 adds the fifth and final variable, *conservativeness of investment preference*, to the estimation, raising the Nagelkerke pseudo-R² value to .152 and dropping the case count to 238. In Block 5, all categories of all previously included variables remain significant at the same confidence levels as in Block 4. The addition of conservativeness of investment preference reveals that respondents who are less conservative in their investment preferences are 1.5 times as likely to unlock as those who are conservative or neutral in their investment preferences, which is significant at the 95 per cent confidence level. Laibson et al, (1998) found that there were less impacts on changing withdrawal regulations for risk-averse preferences. This finding goes further to suggest that those with less conservative investment preferences are more likely to unlock and therefore more likely to lose their retirement funds on higher risk, higher yield investments.

4.5 Analysis of Significant Variables

The following subsections examine variables that are statistically significant in the estimation of Model 1 (Block 5) to determine consistency with previously defined hypotheses and to provide detailed information that will be used in the development and analysis of policy alternatives.

4.5.1 Household Income

Two categories of household income are significant in the estimation of Model 1. Respondents with household income between \$40,001 and \$60,000 are 61 per cent less likely,

and those with household income between \$100,001 and \$120,000 are 73 per cent less likely, to unlock than respondents with income between \$0 and \$30,000. This is not surprising considering having annual income under \$29,933 is an eligibility criterion for unlocking for reasons of low-income under the financial hardship provisions in Ontario and Alberta. Respondents with household income under \$30,000 are more likely to require additional funds. As a population, seniors are more likely to face unexpected shocks to their financial security (Statistics Canada, 2006). Unanticipated medical costs, final expenses and, in some cases, family members may all exert pressure on the fiscal security of seniors. Given these demands, it is not surprising that respondents with higher household income are less likely to unlock than those with lower household income. This finding is consistent with the hypothesized relationship between income and unlocking discussed in section 4.3.

As high income is correlated with high spending, it has also been suggested that individuals may prefer to unlock large amounts of private pension funds to enjoy sport, travel or other leisure activities in early retirement (Laibson et al., 1998; Walliser, 2001). This is not the case among higher income survey respondents as they are less likely to unlock and the 12 respondents that indicated sport, leisure or travel as one of the reasons they unlocked were evenly distributed across household income ranges with half falling below the median household income.

It had also been suggested that in the absence of government regulated withdrawals individuals would be tempted to withdraw large amounts of private pension benefits in early retirement to maximize the consumption of public pensions and other income tested benefits in future years (Walliser, 2001). OAS is clawed back for individual net income ranges from \$63,511 to \$103,191 (HRSDC, 2006). GIS is fully phased out for singles with annual income over \$15,240 and for couples with a combined income over \$20,112 (HRSDC, 2006). As respondents with household income under \$30,000 are more likely to unlock, it is possible that individuals are unlocking funds so as to consume incremental GIS payments in subsequent years. However, the questions eliciting OAS and GIS receipt had a large number of non-responses making it difficult to draw any conclusion with confidence.

4.5.2 Private Pension Size

Three categories of private pension size, prior to unlocking in the case of individuals who unlocked, were significant in the estimation of Model 1, Block 5. As with household income, the higher the private pension size the less likely it is that a respondent will unlock. Respondents

with private pensions between \$15,001 and \$30,000 in size are 68.1 per cent less likely, and those with pensions over \$100,000 are 63 per cent less likely, to unlock than those with smaller pensions (\$0 to \$15,000), which are significant at the 95 per cent confidence level. These findings are consistent with the hypothesized relationship between pension size and unlocking. Among survey respondents, a large pension reduces unlocking opportunities as it disqualifies them from unlocking under the small amounts provisions discussed in section 2.2.

It was also suggested that large pensions could act as an incentive to unlock as mandated withdrawals could keep current and former private pension plan members or beneficiaries from receiving significant portions of their pensions until late in retirement, if at all (Gleberzon, 2007; Mintz, 2007). This is not the case among surveyed respondents as those with pensions greater than \$100,000 are less likely to unlock than those with pensions under \$15,000. Among surveyed respondents, there is no basis to substantiate the theory that, given the opportunity to unlock some or all private pension funds, a larger pension is likely to tempt current and former private pension plan members or beneficiaries to unlock. However, the finding that those with smaller pension sizes are more likely to unlock, while consistent with financial hardship unlocking, small amounts unlocking and the fact that seniors face circumstances where they need additional resources, is also troublesome in that those with lower income and smaller pension sizes are the most likely to consume extra public benefits and programs at the expense of other taxpayers.

4.5.3 Conservativeness of Investment Preference

One category of conservativeness of investment preference is significant in the estimation of Model 1. Those respondents that prefer less conservative investments, such as equity, stocks and other securities instruments, are 1.5 times as likely to unlock than those who are conservative or neutral in their investment preferences. This finding confirms the hypothesized relationship between conservativeness of investment preference and unlocking. As higher risk investments often carry the potential to yield significant dividends, the temptation to unlock is higher among those with less conservative investment preferences who are more likely to prefer higher-risk, higher-reward investments to regular pension payments.

4.6 Summary of Major Findings

In summary, regression analysis on survey data concerning the unlocking behaviour of current and former private pension plan members and beneficiaries with the ability to unlock

some or all of their pension benefits, yields important, yet mixed, policy-relevant findings. While chi-square tests are used to identify the significance of a relationship between variables, multivariate logistical regression is able to test the significance of that relationship in combination with other significant causal factors. In the estimation of Model 1, two variables that produced significant chi-square values in cross-tabulation with unlocking, *length of retirement* and *residence-ownership*, are no longer significant. It is suggested that, given the ability to unlock, retirees might be impatient and withdraw disproportionately more funds in early retirement due to myopic savings behaviour, hyperbolic discount rates or simply to get the most enjoyment out of the money in their healthiest and most youthful retirement years (Laibson, 1998; Robson, 2008; Walliser, 2001). However, length of retirement is no longer significant when the variables *household income*, *size of pension* and *conservativeness of investment preference* are added to the estimation suggesting that the relationship that was hypothesized between length of retirement and unlocking is actually being explained by the other significant variables.

As an asset, residential ownership was hypothesized to either lead to greater unlocking, as asset size and spending are correlated, or to less unlocking as asset size and saving are correlated (Laibson et al., 1998). This two-sided hypothesis cannot be proven with confidence in the current study, as ownership of residence is no longer significant when the other significant variables are added to the equation. This is reasonable as literature has shown that home-ownership to be positively correlated with income and assets, which includes size of private pension, suggesting that the relationship between residence-owner and unlocking is likely being explained by the other significant variables in estimation (Laibson et al., 1998).

Analysis of statistically significant variables confirms a negative relationship between household income, pension size, and a positive relationship between conservativeness of investment preference, and unlocking. These findings are troublesome in respect of the unlocking rationale discussed in section 3.2.1. All reasons for unlocking involve either re-investing or spending retirement savings. The fact that respondents with small pensions and household income are more likely to unlock is expected as these respondents currently have greater opportunity to unlock and may have a greater need to spend pension funds. However, this finding is troublesome in that respondents with small pensions and lower income also have a greater need for the retirement income security that locked-in pensions funds provide. The fact that those with less conservative investment preferences are more likely to unlock means that even those that re-invest their unlocked funds may not do so wisely and may lose some of their retirement savings on less conservative investments.

The decision whether or not to unlock is clearly a complex one that incorporates many factors, depending on the individual. Given the complexity of the choice, there are a plethora of variables, each one associated with a hypothesized relationship. However, all the hypothesized relationships were based on similar behaviour, such as retirement saving versus spending in the United States, and were not observed in respect of unlocking private pensions in Canada. The use of statistical tools helps to limit speculation by focusing on factual, rather than anecdotal, evidence. The following sections utilize findings from the survey results and statistical analysis to develop and assess policy alternatives regarding private pension legislation in BC.

5: Criteria and Measures

This section discusses the criteria and measures that will be used to assess policy alternatives to the locking-in of private pension benefits in BC. Table 5.1 defines the criteria and the following subsections further explain the relevance and measures of each.

Table 5.1 *Criteria and Measures for Assessment of Policy Alternatives*

Criterion	Definition	Measure
<i>Cost</i>	<p>Implementation costs to government include:</p> <ul style="list-style-type: none"> - One average annual BC public service FTE salary will be used as a proxy for estimating the transaction costs of adopting new legislation; and - One quarter of an average annual BC government FTE will be used as an estimation for the cost of each statutory change and publication required to implement each alternative. <p>Operating costs to government include the Present Value (PV) of average annual FTE salaries required to maintain operation and administration of alternative per year.</p>	Real 2007 Canadian dollars
<i>Stakeholder Acceptability</i>	Each alternative will get a percentage score based on rankings provided by three groups: the pension industry; seniors' representatives; and Michael Peters.	Percentage score
<i>Effectiveness</i>	<p>The degree to which each alternative addresses the needs for flexibility in retirement income planning among the target population:</p> <ul style="list-style-type: none"> - Number of current and former private pension plan members and beneficiaries in BC expected to unlock each year but not regret unlocking, with the adoption of each alternative, will be used as a proxy for measuring effectiveness. 	Count
<i>Taxpayer Risk</i>	<p>The degree to which current and former private pension plan members and beneficiaries benefit at the expense of other taxpayers:</p> <ul style="list-style-type: none"> - Number of current and former private pension plan members and beneficiaries expected to unlock under 'discretionary' rationale with the adoption of each alternative each year in BC will be used as a proxy for measuring taxpayer risk. 	Count

5.1 Cost

Cost is a primary consideration in making any policy decision. Under this criterion implementation and operating costs to government from adopting each alternative are accounted

for. The implementation costs include the bureaucratic cost of statutory change and the development of policy bulletins and other forms needed to implement each alternative. Some alternatives require publication of a policy bulletin and the publication of an informed spousal waiver, all of which need to be available on-line and at FICOM headquarters. This study estimates the bureaucratic cost of each statutory change and each publication required as one quarter of an average annual BC public service Full-Time Employee (FTE) salary. Implementation costs also include the transaction costs of defending new legislation in parliament. The transaction costs of adopting new legislation are difficult to quantify. For the purposes of this study, one average annual BC public service FTE salary will be used as a proxy for the transaction costs of each legislative change.

Cost to government also includes on-going costs of operating each alternative each year. The Present Value (PV) of the salary of each FTE salary required to maintain operation of each alternative each year in BC will be used as an estimation of the operating cost of each alternative. A four per cent discount rate will be used over an infinite time horizon, which is a reasonable estimation of the opportunity cost of capital invested in FTE salaries (Boardman et al., 2006). The average annual BC FTE salary for policy analysts in finance and economics in 2007 was \$68,803.68 (BC Public Service Agency, 2007).⁴¹ The monetary cost of each alternative will be presented in real 2007 Canadian dollars.

When considering cost it is important to be aware of incremental government revenues and expenditures that may also result from the adoption of each alternative. For example, the unlocking of private pensions will alter the distribution of taxation revenue over time. There will be greater tax revenue generated on unlocked funds that are withdrawn as cash. These initial tax revenues on unlocked funds will be offset by lower future annual incomes. However, due to higher marginal tax rates on higher incomes when large lump sums are unlocked, the tax revenues on unlocked funds may be incrementally higher than foregone tax revenues on lower income in years to come. Unfortunately, there is insufficient information for the cost criterion to estimate the monetary impact of this distributional change in tax revenue to government. Unlocked funds may also result in incremental government expenditure on the provision of income-tested benefits to current and former private pension plan members and beneficiaries with lower future annual incomes due to each unlocking alternative. While there is insufficient information to estimate these costs, they are accounted for under the taxpayer risk criterion by which alternatives are

⁴¹ Figure represents the average of three pay categories of policy analysts in economics and finance in BC with five pay scale ranges in each.

evaluated in respect of how each favours current and former private pension plan members and beneficiaries over other taxpayers.

5.2 Stakeholder Acceptability

As with most public policy, the adoption of any unlocking alternative will have disproportionate consequences on specific groups. The stakeholder criterion is used to measure the impacts of adopting policy alternatives with respect to the three groups that hold a disproportionately large interest in unlocking, or not unlocking, private pension benefits: the private pension industry, seniors and FICOM. Rankings for the pension industry is achieved by averaging rankings for each alternative provided by representatives from two aspects of the pension industry: financial institutions that administer unlocking exemptions on transfer of funds; and pension administrators. Rankings for seniors' representatives is achieved by averaging rankings for each alternative provided by the Canadian Association for the Fifty Plus (CARP) and the Council of Senior Citizens Organizations of BC (COSCO). Information provided by these groups, including responses from interviews with key representatives, will be used to determine the stakeholder acceptability of adopting each alternative. These groups will provide an average aggregate ranking of alternatives on a scale of 1 to 6, 1 being the least preferred.⁴² The average aggregate rankings will produce a score out of 18, which will be presented as a percentage in order to allow easy comparability across policy alternatives.⁴³

In order to measure the stakeholder acceptability of each policy alternative, five interviews with stakeholders and key representatives were conducted: (1) William Gleberzon, Director of Government Relations, CARP; (2) Art Kube, Acting President, COSCO; (3) Michael Peters, Executive Director of Pensions at FICOM; (4) Alan Black, Manager Pension and Benefits, Human Resources, Simon Fraser University; and (5) Anonymous representative from a Canadian financial institution.⁴⁴ Michael Peters' rankings are based on his opinions and his experiences as

⁴² Average aggregate ranking applies to stakeholder groups with more than one representative. For these groups the rankings will be averaged.

⁴³ In the case of alternatives that are equal in the views of specified stakeholders, the rankings will reflect the indifference without biasing scores. To achieve this, rankings of alternatives (/6) will not be able to distribute more or less than 21 ranking points over the six alternatives. For example, if pension professionals prefer the status quo, dislike repealing the existing unlocking of small monthly pensions and are indifferent between unlocking alternatives, the status quo will receive a 6, repealing existing unlocking of small monthly pensions will receive a one and the remaining unlocking alternatives will each receive a score of 3.5 in order to maintain the 21 ranking points for each sub-criterion.

⁴⁴ Alan Black has over 30 years of experience in pension administration, which includes Pension Trust Officer at Canada Trust and Manager of Pension and Benefits, Woodward's Department Store.

a pension regulator but in no way reflect the position of FICOM or the BC provincial government (Interview, 02/18/08). The anonymous representative's rankings are based on the perspective of financial institutions as a profit-maximizing firm (Interview, 02/22/08).⁴⁵ Collectively, these interviewees represent a range of stakeholder groups that have a disproportionately large interest in the adoption of alternatives to the locking-in of private pension benefits in BC.

Interviews with William Gleberzon and Art Kube were conducted to approximate seniors' acceptability of policy alternatives. However, interviews indicate diametrically opposite position on all policy alternatives (Art Kube, Interview, 01/15/08; William Gleberzon, Interview, 01/23/08; Interview). Mr. Gleberzon argued that unlocking 100 per cent was not just the position of CARP but "a win-win scenario for both seniors and government" (Interview, 01/23/08). In contrast Mr. Kube argued that the threats posed to seniors' retirement income security by both family members and fraudulent investment schemes outweigh the benefits of unlocking (Interview, 01/15/08). Their polar opposite positions cancel each other out and result in an averaged aggregate ranking of 3.5 for seniors' representatives stakeholder acceptability of all proposed policy alternatives.⁴⁶

5.3 Effectiveness

Effectiveness measures the impact of each policy alternative on the target population. In a sense, the effectiveness of each policy alternative is a measure of justification for policy action. With respect to unlocking alternatives, the rationale for policy action centres on the need of current and former private pension plan members and beneficiaries for greater flexibility in retirement income planning and consumptions. Data obtained from the financial hardship programs in Alberta and Ontario indicate that current and former private pension plan members and beneficiaries, like all individuals at some point in their life, require additional funds to maintain their accustomed standard of living (Hicks, 2004). However, current and former private pension plan members and beneficiaries are unique in that they have additional funds that could be used to address their fiscal needs. Effectiveness will measure the degree to which each alternative affords current and former private pension plan members and beneficiaries the opportunity to access their locked-in funds. Effectiveness will be measured as the approximate

⁴⁵ A number of major Canadian Financial Institutions were contacted to provide comments and rankings of alternatives. Most did not provide an opinion. In addition to Anonymous, the Regional Contact for BC and Yukon, Media Relations, Royal Bank of Canada (RBC) provided the opinion "[we] recommend ... searching out a government opinion on this matter" (Smith, 2007).

⁴⁶ To see detailed acceptability rankings provided by each stakeholder representative, refer to Appendix G.

number of current and former private pension plan members and beneficiaries expected to unlock under each alternative each year in BC.

In order to properly measure effectiveness it is also important to consider not just the behaviour of unlocking current and former private pension plan members and beneficiaries but also their interests. Survey results show that looking back, some individuals that unlocked would now choose to unlock less or not at all and therefore regret their unlocking decision. For these individuals, unlocking was not an effective means of addressing their fiscal needs. For this reason, the number of current and former private pension plan members and beneficiaries expected to unlock under each alternative each year in BC is reduced by the number expected to regret unlocking under each alternative each year.

In order to calculate effectiveness, the average number of individuals that unlock each year under Alberta financial hardship unlocking (1,257) is first adjusted by the difference in approximate number of current private pension plan members in BC (500,000) relative to Alberta (330,000), then adjusted by the percentage difference of those that lived in jurisdictions that offer each alternative that unlocked relative to jurisdictions that offer financial hardship unlocking and finally discounted by percentage of respondents that unlocked that regret unlocking in jurisdictions that offer each alternative discounted 50 per cent for those who would unlock less and 100 per cent for those who would not unlock at all (Alberta Finance, 2007; Alberta Government, 2007). For example, the adjusted number expected to unlock if financial hardship unlocking were introduced in BC is 1,904.⁴⁷ Of the survey respondents that unlocked in jurisdictions with financial hardship (n=60), none would unlock less and 16.7 per cent (n=10) would not unlock at all. Therefore, the number expected to unlock but not regret unlocking if financial hardship were introduced in BC is 1,586.⁴⁸ Effectiveness of each alternative is presented as a count for accuracy and to allow easy comparability between the effectiveness and taxpayer risk criterion across alternatives. For a detailed explanation of the calculation of individuals expected to unlock but not regret unlocking with the introduction of each alternative each year in BC, refer to Appendix H.

⁴⁷ $500,000$ (number of current private pension members in BC) / $330,000$ (current private pension plan members in Alberta) = 1.515 ; $(1.515) * (1,257)$ (the average number that unlocks each year for financial hardship in Alberta) = $1,904$ (the expected number to unlock each year if financial hardship unlocking were introduced in BC).

⁴⁸ $.167$ (percentage of those that regret unlocking that unlocked in jurisdictions that offer financial hardship unlocking, undiscounted as all 16.7 per cent stated that looking back, they would not unlock at all) * $1,904 = 318$; $1,904 - 318 = 1,586$.

5.4 Taxpayer Risk

Finite resources mean that the adoption of any policy alternative will have distributional consequences, resulting in winners and losers. The purpose of considering these tradeoffs is to give standing to individuals within groups that are not represented in the other criterion. In considering policy alternatives to the locking-in of private pension in BC, the paramount risk to consider is the degree to which each alternative favours current and former private pension plan members and beneficiaries over other taxpayers. The best measure of taxpayer risk would be the PV of the actual monetary costs of incremental consumption of income-tested or other publicly provided benefits resulting from the adoption of each alternative in BC. However, this estimation would also have to consider the PV of impacts on income, sales and other taxes arising from unlocking. Unfortunately, there is not enough information at this time to estimate the exact number of current and former private pension plan members and beneficiaries that will benefit at the expense of other taxpayers nor the incremental effects on tax stream revenues. Individuals that unlock for ‘discretionary’ rationale do not present the only risk to other taxpayers but are the most likely to consume incremental public benefits in future years due to unlocking, either due to spending retirement savings or due to lower future annual income and consequentially increased consumption of income tested benefits, at the expense of other taxpayers. Therefore, the number expected to unlock for ‘discretionary’ unlocking rationale with the adoption of each policy alternative each year in BC will be utilized as a proxy for measuring taxpayer risk.

Taxpayer risk is calculated in a similar manner to effectiveness with the number expected to unlock under each alternative each year in BC adjusted by the percentage of survey respondents that have pensions registered in jurisdictions that offer each alternative that unlocked for ‘discretionary’ unlocking rationale. For example, 1,904 individuals are expected to unlock each year if financial hardship unlocking were introduced in BC. 21.7 per cent of survey respondents that unlocked in jurisdictions that offer financial hardship unlocking, unlocked for one or more ‘discretionary’ unlocking rationale. Therefore, 413 individuals are expected to unlock for one or more discretionary unlocking rationale each year in BC if financial hardship unlocking were introduced. Taxpayer risk associated with each alternative is presented as a count for accuracy and to allow easy comparability between the taxpayer risk and effectiveness criterion across alternatives. For a detailed explanation of the calculation of individuals expected to unlock for ‘discretionary’ unlocking rationale with the introduction of each alternative each year in BC, refer to Appendix H.

6: Policy Alternatives and Assessment

This section examines policy alternatives to the current locking-in of private pension benefits in BC. The purpose of the study is to analyze the effect that the adoption of these policies had in other jurisdictions and use the data to estimate the impact of introducing similar policies in BC. As the subject matter is the locking-in of private pension benefits, the alternatives are limited to tightening or loosening - including partial, targeted or complete unlocking - the current locking-in provisions in BC. The alternative of repealing the existing unlocking of small monthly pensions has been drawn from survey results and stakeholder interviews. Alternatives that loosen the locking-in provisions were generally determined in reference to policies that exist in other Canadian jurisdictions. The focus on policies that exist in other Canadian jurisdictions as a starting point for choosing policy alternatives reflects the policy objectives of a streamlined approach to harmonized cross-jurisdictional pension regulations (CAPSA, 2004; Ministry of Small Business and Revenue, 2007).

Some alternatives are mutually exclusive; others are not. Repealing the existing unlocking of small monthly pensions is not mutually exclusive and can be adopted with, or without, the adoption of other unlocking alternatives. Similarly, targeted unlocking can be introduced with unconditional unlocking of 25 or 50 per cent of private pension benefits. 100 per cent unlocking is mutually exclusive as there would be no need for targeted or limited small amounts unlocking if all funds are available. The policy alternatives will not include potential changes to programs under federal jurisdictions, such as CPP, OAS or GIS, as the regulation of private pensions registered in BC is under provincial jurisdiction and recommendations are being made to the BC Minister of Finance. Table 6.1 briefly details the policy options considered in this study followed by a more detailed explanation of each.

Table 6.1 Policy Alternatives and Definition

Alternative	Explanation
<i>(1) Status Quo</i>	No change, current locking-in exemptions remain.
<i>(2) Repeal Existing Unlocking of Small Monthly Pensions</i>	No longer allow unlocking of small monthly pensions in BC; repeal S. 40(1)(a) of the PBSA and 33(1) of the PBSR, in BC. However, the other harmonized small amounts provisions remain.
<i>(3) Targeted Unlocking</i>	Target unlocking to individuals experiencing specified circumstances of financial hardship including low income, medical expenses, default on mortgage, unpaid rent, renovation due to disability and other financial hardship.
<i>(4) 25 per cent Unconditional Unlocking</i>	Allow for unconditional unlocking of up to 25 per cent of locked-in pension funds via cash withdrawal or transfer to one or more unlocked retirement vehicles after termination of plan membership and reaching 55 years of age.
<i>(5) 50 per cent Unconditional Unlocking</i>	Allow for unconditional unlocking of up to 50 per cent of locked-in pension funds via cash withdrawal or transfer to one or more unlocked retirement vehicles after termination of plan membership and reaching 55 years of age.
<i>(6) 100 per cent Unconditional Unlocking</i>	Allow for unconditional unlocking of up to 100 per cent of locked-in pension funds via cash withdrawal or transfer to one or more unlocked retirement vehicles after termination of plan membership and reaching 55 years of age.

6.1 Alternative 1: Status Quo

The status quo is both a legitimate alternative and a base case from which to compare and evaluate the other alternatives. In considering whether maintaining the status quo with respect to the locking-in of private pension benefits in BC is a viable policy option, there are important factors to consider. In recent years Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick and Nova Scotia have amended their legislation to allow for greater fiscal flexibility in retirement planning and consumption by allowing greater access to private pension benefits. Alberta, Ontario and Nova Scotia allow access to private pension benefits on the basis of financial hardship. The utilization of these programs, especially in Ontario, speaks to the financial needs of current and former private pension plan members and beneficiaries. In these provinces, current and former private pension plan members and beneficiaries can unlock only if they can prove significant financial need. In contrast, Alberta, Saskatchewan, Manitoba, Ontario and New Brunswick allow unconditional access to mandated percentages of pension funds. In comparison to the majority of Canadian jurisdictions, current and former private pension plan members and beneficiaries in BC are at a disadvantage as the current legislation allows relatively limited opportunities to access locked-in funds. However, BC does have a relatively generous unlocking of small monthly pension benefit that allows significant pensions to be unlocked 100 per cent.

Also worthy of consideration is the trend towards, and benefits of, regulatory harmonization. The Canadian Association of Pension Supervisory Authorities (CAPSA) developed a model law that is based on ‘best practices’ and is intended to serve as an example when jurisdictions amend their pension statutes (CAPSA 2004; Pozzebon, 2004). Under the recently signed TILMA Alberta and BC have pledged to mutually recognize existing, and reconcile future, regulations that may restrict or impair trade, investment or labour mobility between the two provinces (Government of BC / Government of Alberta. 2007). The status quo would mean the current imbalance of exemptions to the locking-in of private pension benefits, particularly the existing unlocking of small monthly pension amounts, between BC and all other Canadian jurisdictions, particularly Alberta, would remain unchanged.

Ultimately, the viability of maintaining the status quo in BC hinges on which alternative best balances the interests of current and former private pension plan members and beneficiaries, stakeholders, risk to taxpayers and costs to government. The evaluation of the status quo will depend on the behaviour of current and former private pension plan members and beneficiaries as survey results gathered from individuals who have unlocked under the varied provisions available across Canadian jurisdictions will be used to determine whether the status quo or other alternatives are the best strategy for balancing conflicting interests with the effective provision of flexibility in retirement income planning and consumption.

6.2 Alternative 2: Repeal Existing Unlocking of Small Monthly Pensions

While the majority of survey respondents that unlocked some or all of their private pension benefits did so for relatively ‘legitimate’ reasons, such as financial hardship, final expenses, shortened life expectancy, re-investment or for a child or other dependent, a portion unlocked for more ‘discretionary’ reasons, including sport, leisure or travel, payment on asset other than principal residence, to help a non-dependent family member or for the security of cash. 23.3 per cent (n=7) of the respondents that unlocked under ‘discretionary’ rationale (n=30) unlocked in jurisdictions that had neither financial hardship nor unconditional unlocking suggesting that other exemptions to the locking-in of private pension benefits, including non-vested benefits, shortened life expectancy, small amounts and survivor benefits may be providing unlocking opportunities that result in undesirable consumption of retirement savings.

In BC private pension benefits vest after two years of plan membership (Queen's Printer Victoria, 2007). The current vesting provisions were enacted in order to encourage saving and discourage pre-retirement consumption of retirement funds (Doug MacArthur, Interview, 01/18/08). One survey respondent that released funds that had not vested used those funds for payment on an asset other than principal residence. The shortened life expectancy provisions are designed to provide release of funds, with physician approval, to individuals who would otherwise die prior to exhausting their locked-in pension funds. The 'discretionary' unlocking rationale is not discretionary in respect of shortened life expectancy unlocking as the provision is designed to provide for spending rather than saving. Survivor benefits are intended to provide release of funds in the case of the pre-retirement death of a spouse or common-law partner who is a current or former private pension plan member. The 'discretionary' rationale does not apply to this provision, as BC does not currently allow for unlocking of pre-retirement survivor benefits.

The small amounts unlocking provisions in most Canadian jurisdictions are designed to allow plans to provide for release of small pensions that would not provide payments large enough to improve retirement income security. Regression analysis indicates that, among survey respondents, those with private pensions over \$15,000 are less likely to unlock than those with smaller pensions suggesting the small amount unlocking provisions are being utilized. However, the small amounts provisions in BC are slightly different from those available in other jurisdictions. Like other jurisdictions, BC allows pensions under 40 per cent of the YMPE (\$17,480) to be unlocked 100 per cent (Queen's Printer Victoria, 2007; Queen's Printer Victoria, 2007a). However, BC also allows much more significant unlocking at the plan level, prior to transfer of benefits, if the commutable monthly pension benefit would be under \$397 a month (Queen's Printer Victoria, 2007; Queen's Printer Victoria, 2007a).⁴⁹ This allows for significant pensions, up to \$77,400 in value, to be unlocked and is somewhat comparable, in unlocking potential, to the unconditional and financial hardship unlocking available in other jurisdictions.⁵⁰

Eight survey respondents in total unlocked funds in BC. Of these, two unlocked under the federal 'Home Buyers Plan', one unlocked for reasons of shortened life expectancy, two unlocked for re-investment and three for financial hardship. As BC has neither financial hardship unlocking nor unconditional unlocking it is reasonable to assume that these five respondents unlocked under some other exemption, such as the relatively generous small amounts provisions.

⁴⁹ 'At the plan level' refers to the window of opportunity after termination of plan membership prior to transfer of benefits.

⁵⁰ Market fluctuations at commutation, actuarial mechanics, whether or not plan is indexed and how often may affect author's calculation. It may be possible to unlock more than the stated approximation.

Unlocked amounts range from \$5,000 to \$77,000, which is consistent with small amounts unlocking in BC. Of the three respondents that unlocked \$5,000, \$8,000 and \$9,000, which they could have unlocked under the small amounts provisions of other jurisdictions, two stated that, looking back, they would have unlocked the same amount, while the respondent that unlocked the least stated that, looking back, they would unlock more. The respondents that unlocked \$60,000 and \$77,000 said that, looking back, they would have unlocked less. Both of the respondents that unlocked amounts that are greater than the amount that could be unlocked under other jurisdictions small amounts provisions but not greater than what can be unlocked under BC's unlocking of small monthly pensions stated that one of their other reasons for unlocking was for sport, leisure or travel.

In total, survey results suggest a single case of 'discretionary' unlocking under the vesting provisions across Canada and two cases of 'discretionary' unlocking likely under the relatively generous small amounts provisions, in BC. The existing unlocking of small monthly pensions at the plan level, based on commutation of monthly pension benefit determined in year of plan termination, offers some flexibility in retirement income planning. However, this small amounts test is complicated and can only be done on plan termination, prior to transfer of benefits. The provision allows for significant pensions to be 100 per cent unlocked in pre-retirement, which does not balance the risks associated with unlocking by requiring some funds to remain locked-in to provide future retirement income security. The small amounts unlocking provisions in other jurisdictions do not allow unlocking of pensions large enough to provide significant income security as the largest monthly pension amount that could be unlocked is \$291.33 to an individual aged over 88 or \$145.66 to an individual aged 55 or under (FICOM, 2007e).⁵¹ In contrast, the loss of up to \$387 per month of future retirement income security is significant, especially as it is available on plan termination, likely in early retirement or before. 100 per cent (n=2) of survey respondents that were likely to unlock under the current small monthly pension commuted benefit unlocking at the plan level in BC unlocked for 'discretionary' rationale and regretted their decision. These findings suggest that the existing unlocking of small monthly pensions might be repealed. The removal of this provision from the PBSA is a non-mutually exclusive policy alternative to the locking-in of private pension benefits in BC that will be considered in respect of the status quo and unlocking alternatives that exist in other jurisdictions.

⁵¹ Based on private pensions in BC, other jurisdictions may have slightly different maximum withdrawal limits.

6.3 Alternative 3: Targeted Unlocking

Targeted unlocking is not necessarily mutually exclusive of the other alternatives. Both Ontario and Alberta have adopted targeted unlocking based on financial hardship in conjunction with unconditional unlocking of 25 and 50 per cent, respectively, of locked-in pension funds. The choice of allowable rationale for the targeted unlocking alternative will impact on its viability. For example, the more allowable rationale the greater the administrative difficulty, the greater the eligibility, the greater the amount of funds unlocked and the greater the risk of current and former private pension plan members and beneficiaries exhausting their pension funds and relying more heavily on the provision of public programs and income tested benefits. For these reasons it is important to carefully construct a rationale for targeted unlocking based on the needs of current and former private pension plan members and beneficiaries as indicated in the best available data. All three existing financial hardship programs include unlocking for low income, medical expenses and to avoid default on ownership of principal residence (Alberta Finance, 2006a; FSCO, 2007a; Nova Scotia Department of Environment and Labour, 2008). There would be little value in adopting a financial hardship provision in BC without at least including these three basic criteria.

Unlocking for unpaid rent is the third most popular unlocking rationale in Alberta and second most popular in Ontario (Alberta Finance, 2006; FSCO, 2007b).⁵² Considering the demonstrated need for unlocking for unpaid rent in Alberta and Ontario and the importance of maintaining a residence, the targeted unlocking alternative should specifically include default on rent. No individuals unlocked because of renovation due to disability in Alberta. In Ontario, renovations on principal residence due to disability is the least popular of six unlocking criterion. Despite the relative lack of unlocking there is no reason to deny necessary renovations on a principal residence due to disability. To introduce financial hardship unlocking in BC without adding this criterion would be inequitable, unpopular and would significantly reduce the viability of the alternative without providing many benefits.

In Alberta, the second most popular reason for unlocking is due to other financial hardship. On the application form current and former private pension plan members or beneficiaries are asked to provide written explanation of their circumstances of financial hardship, including length of hardship, and written documentation of the costs that are requesting to be covered (Alberta Finance, 2006b). The large number of individuals who unlocked in

⁵² For statistics on financial hardship unlocking in Ontario and Alberta refer to Appendix A.

Alberta under this category evidences the need for flexible hardship unlocking. The purpose of this alternative is to provide unlocking for current and former private pension plan members or beneficiaries facing financial hardship and unlike unconditional unlocking alternatives, individuals can unlock for reasons of financial hardship prior to reaching retirement age. Without including an ‘other’ category the alternative would not be as effective. In addition, as unlocking for income tax arrears is the second least popular rationale for hardship unlocking in Alberta, income tax arrears could be used as an example of unlocking for other hardship. Unlocking for income tax arrears is easily documented and provides a clear basis for unlocking under the ‘other’ category.

Similar to the financial hardship programs in other Canadian jurisdictions, the targeted unlocking alternative proposed for BC should include categories of low income, medical expenses, default on mortgage, unpaid rent, renovation due to disability and other financial hardship. The exemption should be administered by the FICOM, the government agency responsible for the regulation of private pension plans in BC. The exemption will require the drafting of forms that are available both on-line and in hard copy at FICOM offices in Surrey, BC. The forms should make clear as possible the requirements under each criterion, citing examples, and using plain language as much as possible. Both Alberta and Ontario charge a fee to process applications for unlocking based on financial hardship (Alberta Finance, 2006b; FSCO, 2007a). Similarly, in order to help offset operating costs, FICOM will charge a fee of two per cent of the amount eligible to withdraw under circumstances of financial hardship ranging from a minimum of \$200 to a maximum of \$500 (FSCO, 2007a). The administrative body at FICOM will forward approved forms to the financial institution holding the pension funds, authorizing a specified release of funds. The form will also be forward to Revenue Canada for tax purposes. A receipt of the transaction will be released to the individual to be included with their tax return.

6.4 Alternative 4: 25 Per Cent Unlocking

Unconditional unlocking of varying percentages of locked-in private pension funds has been adopted in Alberta, Saskatchewan, Manitoba, New Brunswick and, most recently, Ontario. The operational details of unconditional unlocking are slightly different in each jurisdiction. As these jurisdictions offer different amounts of unconditional unlocking, the following will explore unconditional unlocking alternatives separately on the basis of their operation in each jurisdiction of interest in order provide a model for BC based on the most appropriate information.

As the largest province in Canada, pension regulatory changes in Ontario are worthy of note for other provinces regulating significant private pension assets. In order to promote regulatory harmony, and to respond to greater demands for flexibility with respect to locked-in funds, BC amended its pension regulations in 2004 to no longer require the use of remaining money in locked-in LIF accounts to be used to purchase an annuity at age 80 (FICOM, 2007d). In order to achieve this, Ontario introduced a new retirement income vehicle, the Locked-in Retirement Income Fund (LRIF). In contrast, BC merely removed the annuity requirement from BC LIFs. The introduction of 25 per cent unconditional unlocking is slightly more complex than the removal of the annuity requirement. The exemption must be limited to a one-time only transfer or individuals could exercise the 25 per cent transfer repeatedly. To accommodate 25 per cent unlocking Ontario introduced a new LIF that does not require the purchase of an annuity and from which up to 25 per cent of locked-in funds may be transferred to one or more unlocked accounts or withdrawn as cash.

As the focus of this study is not the requirement to purchase an annuity, it is recommended that the alternative of 25 per cent unlocking should follow the Ontario example except that a new type of account is not required. Rather, a one time only transfer, or withdrawal, not before reaching age 55, of up to 25 per cent of the balance of one or more locked-in accounts to an unlocked account, such as an RRSP or RRIF, should be introduced. This approach reduces the regulatory burden to government by having financial institutions administer unlocking on transfer or withdrawal of funds. It reduces the possibility of repeat unlocking by allowing only a one-time transfer and limiting the time frame for unlocking, from the establishment of any locked-in account, to 90 days. The alternative will also require transitional provisions to allow individuals currently holding LIFs the option to unlock up to 25 per cent of the value of their locked-in funds. A reasonable time limit for these transitional provisions, which has been adopted in Ontario, is one year from the time the unlocking exemption is introduced (FSCO, 2007). While financial institutions bear the administrative burden they are free to offer or not offer any account they wish. Private pension benefits are taxable as income, which is why unlocked benefits must either be withdrawn as cash or transferred to another unlocked retirement vehicle. A spousal consent form will need to be provided both on the FICOM website and as a hard copy at their headquarters in Surrey. Completed forms will be presented to and processed by the financial institution holding locked-in funds.

6.5 Alternative 5: 50 Per Cent Unlocking

Unlike Manitoba and Alberta, locked-in funds in BC are not held in Retirement Income Arrangements (RIAs), Locked-In Retirement Accounts (LIRAs) or LRIFs. Building on the Alberta and Manitoba models, the alternative of 50 per cent unconditional unlocking in BC should be available, upon reaching age 55, as a one-time withdrawal or transfer of up to 50 per cent of pension benefits being transferred to a LIF. The alternative will also require transitional provisions, similar to 25 per cent unlocking. After this one-year transitional period, funds may only be unlocked, by individual's aged 55 or over, when they are transferred from a pension plan to a LIF or within 90 days out of a newly created LIF. Similar to Alberta and Manitoba, financial institutions can administer the unlocking exemption. Since funds may be unlocked only on transfers, it is easy for financial institutions to ensure that no more than 50 per cent of pension benefits are unlocked and that unlocking is exercised only once. A form should be made available on-line at the FICOM website but also in hard copy at the Surrey offices that provides informed spousal consent, where applicable. The form will be presented to financial institutions, which will release or transfer locked-in funds. Once unlocked, funds may, at the option of the owner, be paid in cash (as income) or transferred to one or more RRSPs or RRIFs.

6.6 Alternative 6: 100 Per Cent Unlocking

On March 28, 2002, Saskatchewan amended their *Pension Benefits Regulations* to allow money in existing LIFs LIRAs and LRIFs to be transferred to a prescribed RRIF (SFSC, 2007). Effective May 10, 2006 the *Pension Benefits Regulations* were again amended to allow, but not require, a Defined Contribution (DC) plan to offer a Variable Benefit to members and former members that are eligible to retire (SFSC, 2007a). A Variable Benefit, which is similar to a RRIF, provides members with additional flexibility in retirement income options (SFSC, 2007a).

The four-year period between the adoption of unconditional unlocking and the establishment of Variable Benefit Accounts in Saskatchewan show how, even when benefits are no longer locked-in, public demand remains for the provision of regular private pension payments. As an alternative to the status quo in BC, 100 per cent unlocking should first allow individuals the opportunity, not before reaching age 55, to withdraw as cash or transfer benefits in existing LIFs or directly from pension plans on termination to one or more unlocked RRIFs or RRSPs. Once unconditional unlocking has been established for years in BC, government regulators will be better able to gauge subsequent demands for flexibility in unlocked retirement

accounts. As with the other unconditional unlocking alternatives, a form should be made available on-line at the FICOM website and also in hard copy at the Surrey offices that provides informed spousal consent, where applicable. The form will be presented to financial institutions, which will provide for release of funds.

6.7 Assessment

The following sub-sections provide an assessment of the six policy alternatives to the locking-in of private pension benefits in BC. The criteria and measures established in section five are used to evaluate each option under consideration. Alternatives are first presented in a matrix in order to allow for easy comparison of the relative merits and drawbacks of each policy alternative. Evaluation of each alternative is based on the best available information including survey data, interviews with key stakeholders, relevant public documents and the disaggregated data dump of the financial hardship program in Alberta provided by Alberta Finance. Table 6.2 presents a detailed assessment of policy alternatives and comparative ranking scores for each alternative across criteria, six being the highest available ranking under each criterion.

Table 6.2 Detailed Assessment of Policy Alternatives

Alternative	Cost	Stakeholder Acceptability	Effectiveness	Taxpayer Risk	Aggregate Ranking Score (/24)
<i>Status Quo</i>	\$0 No implementation or operating costs to government. Comparative Cost Ranking: 6	Pension Industry: 5 Seniors' Representatives: 3.5 Michael Peters: 6 Total: 14.5 / 18 = 81% Comparative Stakeholder Ranking: 5.5	# expected to unlock but not regret unlocking: per year in BC: 1,232 Comparative Effectiveness Ranking: 2	# expected to unlock for 'discretionary' unlocking rationale per year in BC: 597 Comparative Taxpayer Risk Ranking: 2	15.5
<i>Repeal Existing Unlocking of Small Monthly Pensions</i>	1 legislative change; 2 statutory changes; 0 publications; and no operating costs = \$103,205.52 Comparative Cost Ranking: 5	Pension Industry: 6 Seniors' Representatives: 3.5 Michael Peters: 5 Total: 14.5 / 18 = 81% Comparative Stakeholder Ranking: 5.5	# expected to unlock but not regret unlocking: per year in BC: 1,137 Comparative Effectiveness Ranking: 1	# expected to unlock for 'discretionary' unlocking rationale per year in BC: 0 Comparative Taxpayer Risk Ranking: 5.5	17
<i>Targeted Unlocking</i>	1 legislative change; 2 statutory changes; 2 publications; and PV of operating costs of 5 FTE salaries = \$8,738,067.36 Comparative Cost Ranking: 1	Pension Industry: 4 Seniors' Representatives: 3.5 Michael Peters: 1.5 Total: 9 / 18 = 50% Comparative Stakeholder Ranking: 3	# expected to unlock but not regret unlocking: per year in BC: 1,586 Comparative Effectiveness Ranking: 3	# expected to unlock for 'discretionary' unlocking rationale per year in BC: 413 Comparative Taxpayer Risk Ranking: 4	11
<i>25 Per cent Unconditional Unlocking</i>	1 legislative change; 2 statutory changes; 2 publications; and no operating costs = \$137,607.36 Comparative Cost Ranking: 3	Pension Industry: 3 Seniors' Representatives: 3.5 Michael Peters: 4 Total: 10.5 / 18 = 58% Comparative Stakeholder Ranking: 4	# expected to unlock but not regret unlocking: per year in BC: 1,784 Comparative Effectiveness Ranking: 4	# expected to unlock for 'discretionary' unlocking rationale per year in BC: 0 Comparative Taxpayer Risk Ranking: 5.5	16.5
<i>50 Per cent Unconditional Unlocking</i>	1 legislative change; 2 statutory changes; 2 publications; and no operating costs = \$137,607.36 Comparative Cost Ranking: 3	Pension Industry: 2 Seniors' Representatives: 3.5 Michael Peters: 3 Total: 8.5 / 18 = 47% Comparative Stakeholder Ranking: 2	# expected to unlock but not regret unlocking: per year in BC: 1,969 Comparative Effectiveness Ranking: 5	# expected to unlock for 'discretionary' unlocking rationale per year in BC: 508 Comparative Taxpayer Risk Ranking: 3	13
<i>100 Per cent Unconditional Unlocking</i>	1 legislative change; 2 statutory changes; 2 publications; and no operating costs = \$137,607.36 Comparative Cost Ranking: 3	Pension Industry: 1 Seniors' Representatives: 3.5 Michael Peters: 1.5 Total: 6 / 18 = 33% Comparative Stakeholder Ranking: 1	# expected to unlock but not regret unlocking: per year in BC: 2,079 Comparative Effectiveness Ranking: 6	# expected to unlock for 'discretionary' unlocking rationale per year in BC: 1,188 Comparative Taxpayer Risk Ranking: 1	11

6.7.1 Status Quo (15.5)

As Table 6.2 shows, the status quo is a viable alternative as it ranks very well in terms of cost and stakeholder acceptability. The status quo is the cheapest alternative as there are neither implementation nor operating costs associated with the status quo. The status quo is tied for most preferred alternative with repealing the existing small amounts unlocking in terms of stakeholder acceptability. The two representatives from the pension industry provided identical rankings for each alternative and ranked the status quo as the second most preferred alternative. Alan Black preferred the status quo to unlocking alternatives, stating that if “you give people [access to locked-in pension funds] they’re gonna go off and spend it” (Interview, 02/21/08). The anonymous representative from a Canadian financial institution stated that, from the perspective of a selfish profit maximizing firm, financial institutions prefer to keep pension funds locked-in as they profit less when funds are withdrawn (Interview, 02/22/08). Michael Peters preferred the status quo to all alternatives and stated “[i]n fact, [he] would go further and reduce the unlocking for small monthly pension from 10% of the YMPE to 4% of the YMPE” (Interview, 02/18/08).

The status quo did significantly worse in terms of effectiveness and taxpayer risk. It is the second least effective alternative, as the status quo does not provide any more or any less unlocking opportunities. Based on survey data, the second largest number of respondents are expected to unlock for ‘discretionary’ unlocking rationale per year in BC under the adoption of the status quo, which leads to the second lowest score of taxpayer risk among policy alternatives. However, it is important to note that the number expected to unlock for ‘discretionary’ unlocking rationale with the status quo is only slightly higher than the number expected for 50 per cent unconditional unlocking and significantly less, about one-half, the expected amount if 100 per cent unconditional unlocking were introduced.

6.7.2 Repeal Existing Unlocking of Small Monthly Pensions (17)

Repealing the existing unlocking of small monthly pensions has the second lowest cost to government of proposed alternatives as one legislative amendment and one regulatory amendment are required in order to repeal the existing unlocking of small monthly pensions. Specifically, the alternative calls for the repeal of S. 40(1)(a) of the PBSA and S. 33(1) of the PBSR. While the costs associated with each alternative presented here are rough estimations, they do provide a reasonable measure of both the impact, relative to other alternatives, and

magnitude of the cost to government of adopting each alternative. The cost of repealing the existing unlocking of small monthly pensions is more expensive than the status quo, less expensive than unlocking alternatives and relatively inexpensive at an approximated cost of \$103,205.52.

Repealing the existing unlocking of small monthly pension is tied for the most preferred alternative with the status quo in terms of stakeholder acceptability. It receives the highest ranking from the pension industry, with Alan Black stating that repealing the unlocking of small monthly pension amounts “makes an awful lot of sense[; it] is practical ... [and] a good solution” (Interview, 02/21/08). Michael Peters ranked this option as second to the status quo; though he suggests that it would be better to go further and reduce the post plan small unlocking tests (Interview, 02/18/08).

Repealing the existing unlocking of small monthly pensions received the lowest score in effectiveness as the least number of current and former private pension plan members and beneficiaries are expected to unlock, but not regret unlocking, under this alternative. The low effectiveness of this alternative makes it difficult to consider adopting it without also providing some additional unlocking opportunity. However, in terms of taxpayer risk, repealing the existing unlocking of small monthly pensions did very well as it is tied with 25 per cent unlocking for the least number of individuals that are expected to unlock for ‘discretionary’ rationale per year in BC if this policy were adopted.⁵³

6.7.3 Targeted Unlocking (11)

Targeted unlocking based on financial hardship was tied for the lowest aggregate comparison ranking score with 100 per cent unconditional unlocking. Targeted unlocking would require changes to both the PBSA and PBSR, the publication of a policy bulletin and forms to apply and receive approval for unlocking. It is the only alternative that would require an on-going commitment from government and would, as Michael Peters recognizes, require “a new bureaucracy ... to be created to deal with applications under financial hardship” (Interview, 02/18/08). The on-going administration may also result “in unscrupulous persons putting themselves forward as ‘experts’ and charging individuals a significant amount of financial harm by charging a percentage of the amounts unlocked in order to gain access to the funds” (Michael Peters, Interview, 02/18/08). Largely due to the PV of operating costs, targeted unlocking on the

⁵³ Based on survey data; see Appendix H.

basis of financial hardship is by far the most expensive alternative as the estimated cost is approximately 63.5 times greater than the next most expensive alternative.

As his comments suggest, Michael Peters ranked targeted unlocking as tied for the least preferred alternative with 100 per cent unlocking (Interview, 02/18/08). In contrast, targeted unlocking was the third most preferred alternative in terms of acceptability to the pension industry. Alan Black preferred targeted unlocking to unconditional unlocking alternatives but did not approve of the fact that it allows for pre-retirement withdrawals, stating that pension funds “should not be a resource if you get in financial problems” (Interview, 02/21/08). Targeted unlocking was preferable to financial institutions as, in aggregate, it will likely result in less funds being withdrawn.

Targeted unlocking was more effective than the status quo and repealing the unlocking of small monthly pensions as more current and former private pension plan members are expected to unlock, but not regret unlocking, under this alternative. However, based on this measure, targeted unlocking was not as effective as any of the unconditional unlocking alternatives. In terms of taxpayer risk, targeted unlocking was the third highest ranked alternative as less current and former private pension plan members and beneficiaries are expected to unlock for ‘discretionary’ rationale per year in BC than under the status quo or with the adoption of 50 and 100 per cent unconditional unlocking.

Also worthy of attention is the fact that targeted unlocking affords greater unlocking opportunities to less affluent current and former private pension plan members and beneficiaries. Regression analysis shows that, among survey respondents, those with smaller pensions, lower annual household incomes and less conservative investment preferences are more likely to unlock. While those with less income and smaller pensions may have a greater need to unlock funds, they also carry the greatest risk to taxpayers as they are most likely to become dependent on state-sponsored programs later in life. Furthermore, from the perspective of less affluent current and former private pension plan members and beneficiaries, targeted unlocking exploits their need by essentially “paying someone else to gain access to something that is already theirs” (Michael Peters, Interview, 02/18/08). It is also troublesome that more individuals are expected to unlock for ‘discretionary’ reasons with the adoption of targeted unlocking than are expected under 25 per cent unconditional unlocking. Due to its large cost, poor stakeholder acceptability and only moderate effectiveness, targeted unlocking based on financial hardship does not appear to be a viable alternative to the locking-in of private pension benefits in BC.

6.7.4 Unconditional Unlocking: 25 Per Cent (16.5), 50 Per Cent (13) and 100 Per Cent (11)

In addition to being mutually exclusive, unconditional unlocking alternatives all ranked equally in terms of cost to government. All unconditional unlocking exemptions require one legislative change, one regulatory change, publication of one policy bulletin and one form to assure informed spousal consent on application for withdrawal of up to 25, 50 or 100 per cent of locked-in private pension funds. While the cost of unconditional unlocking alternatives are high relative to the status-quo, \$137,607.36 is not a large monetary commitment for government especially as none of the unconditional unlocking alternatives require on-going operating costs.

100 per cent unconditional unlocking, while favoured by CARP, does the poorest of all alternatives in terms of stakeholder acceptability. Alan Black would not “agree [to] more than 25 per cent [unconditional unlocking] ever” (Interview, 02/21/08). Financial institutions are likely to profit less as the percentage of unconditional unlocking increases (Interview, Anonymous, 02/22/08). Michael Peters also ranks 100 per cent unlocking as tied for least preferred alternative, along with targeted unlocking. The rankings provided by all stakeholders, except seniors’ representatives whose rankings cancel each other out, favour 25 per cent unconditional unlocking over 50 per cent unlocking and 50 per cent unlocking over 100 per cent unlocking.

Not surprisingly, 100 per cent unlocking does very well in terms of effectiveness as the greatest number of former private pension plan members and beneficiaries are expected to unlock, but not regret unlocking, under 100 per cent unlocking. However, as with all public policy decisions, the benefit of effectively addressing the fiscal needs of the target population must be balanced with the external effects on other groups. 100 per cent unconditional unlocking is the lowest ranked alternative in terms of taxpayer risk, as the number of individuals expected to unlock for ‘discretionary’ unlocking rationale increases with greater percentages of unconditional unlocking. It is also reasonable to assume that the costs visited on taxpayers rise with greater percentages of unconditional unlocking. Furthermore, the risk to the retirement income security of former private pension plan members and beneficiaries is proportional to the percentage of unconditional unlocking and greatest with 100 per cent unlocking as that alternative does not require any remaining locked-in principal to provide for later retirement years. As the costs are equal for each unconditional unlocking alternative and both stakeholder acceptability and taxpayer risk favour lower percentages of unconditional unlocking alternatives with only effectiveness favouring higher percentages of unconditional unlocking alternatives, neither 50 per

cent nor 100 per cent unconditional unlocking appear to be viable alternatives to the locking-in of private pension benefits in BC.

6.8 Recommendations

Based on the evaluation of policy alternatives discussed in the preceding sub-sections, the provincial government of BC should consider the implementation of two non-mutually exclusive policy alternatives to the locking-in of private pension benefits in BC; specifically, repealing the existing unlocking of small monthly pensions and adopting 25 per cent unconditional unlocking of locked-in pension benefits.

6.8.1 Repeal Existing Unlocking of Small Monthly Pensions

The first recommendation is tied to, though not dependent on, the next. Logistical regression indicates that those with smaller pensions, lower income and less conservative investment preferences are more likely to unlock. These findings suggest that both current and former private pension plan members and beneficiaries and other taxpayers are best protected by repealing the existing unlocking of small monthly pensions. Repealing the existing unlocking of small monthly pensions is tied for the highest ranking in terms of stakeholder acceptability and taxpayer risk. While it is more expensive than the status quo, the cost to taxpayers of maintaining the current anomalous unlocking of small monthly pension benefits, which allows pensions up to \$77,400 to be unlocked 100 per cent, is likely much greater than the approximated monetary cost of \$103,205.52. Compared to the status quo, repealing the existing unlocking of small monthly pensions does not provide additional flexibility in retirement income planning and consumption for current and former private pension members and beneficiaries. This is why it is recommended that the repeal of the current unlocking of small monthly pensions coincide with the adoption of 25 per cent unconditional unlocking. .

6.8.2 Adopt 25 Per Cent Unconditional Unlocking

In comparison to the status quo and targeted unlocking, 25 per cent unconditional unlocking is more effective at providing access to locked-in private pension funds to former private pension plan members and beneficiaries that are not expected to regret their unlocking decision. Logistical regression indicates that those with smaller pensions, lower income and less conservative investment preferences are more likely to unlock, which does not support the

adoption of targeted unlocking based on financial hardship as targeted unlocking provides the greatest unlocking opportunities to mostly lower income individuals with smaller pension sizes that are the most likely to consume additional public benefits at the expense of other taxpayers in later retirement years (Alberta Finance, 2007). More affluent individuals are better able to afford a 25 per cent drop in their private pension income and should be afforded the same flexibility in retirement income planning and consumption that is afforded to less affluent private pension holders. While targeted unlocking allows access to pension funds as a resource for financial hardship in pre- or post-retirement, 25 per cent unlocking can be accessed only by individuals over the age of 55, upon plan termination.

In comparison to other unconditional unlocking alternatives, 25 per cent unlocking is equal in cost to government but dominates in terms of stakeholder acceptability and taxpayer risk. While the criteria have been weighted equally in this study, it is more likely that an alternative that has stakeholder support and presents less risk to other taxpayers will be adopted. In comparison to the status quo, there is less risk associated with adopting unconditional unlocking of 25 per cent of locked-in private pension funds than continuing to allow pensions up to \$77,400 to be unlocked 100 per cent in pre-retirement, at the plan level, prior to transfer of benefits. Adopting the two recommended alternatives in unison will offset the risks associated with unlocking while providing greater flexibility in retirement planning and additional opportunities to access locked-in funds for former private pension plan members and beneficiaries in their retirement years.

7: Implementation, Limitations and Conclusion

As with most policies, implementation involves more than just statutory amendment. Repealing the unlocking of small monthly pensions and adopting 25 per cent unconditional unlocking will have a major impact on the retirement income planning and consumption of current and former private pension plan members and beneficiaries in BC. As a current and former manager of large employee pension plans in BC, Alan Black, states:

I wouldn't agree more than 25 per cent [unlocking] ever. When an employee leaves here ... I've always held the philosophy that ... they're retired but I still believe they are our responsibility financially (Interview, 02/21/08).

In addition to private sector employee pensions, current and former public sector employee pension plan members and beneficiaries in BC that have yet to transfer their benefits into one or more LIF or locked-in RRSP accounts would either be caught or have to be specifically exempted, through statutory amendment, from application of the recommended alternatives.⁵⁴ The large number of powerful unions that would be affected by the policy recommendations means that implementation will likely involve negotiation with BC pension administrators and unions offering pension plans.

One implementation strategy suggested by Michael Peters would be to remove the mandatory portability requirement from the PBSA:

[I]f you are going to allow unlocking of any degree I firmly believe that mandatory portability should be eliminated. That way, an employer could prohibit portability to ensure that the pension is payable in retirement. If the employer allows portability, knowing full well that part or all of the funds may be released at the whim of the government, fine; but do not require mandatory portability and give the employer no say in whether the funds are available (Interview, 02/18/08).

Pension legislation contain *portability* requirements, meaning that on termination of plan membership, plans must allow for benefits to be transferred to another plan, if allowed, to one or more locked-in retirement accounts or used to purchase a deferred life annuity (Queen's Printer

⁵⁴ The four main public sector plans in BC are the public service, teachers, municipal and college employee pension plans, which are administered by the BC Pension Corporation under the authority of the *Public Service Pension Plans Act*. These plans are exempt from many of the provisions of the PBSA but are subject to minimum standards, including the locking-in provisions, of the PBSA. For more information refer to Appendix A.

Victoria, 2007). Removing the mandatory portability requirement would require an additional amendment to the PBSA, which would raise the cost of implementing recommended policy alternatives. While changes to the portability requirements are not included in the analysis or evaluation presented in this study, including the cost of these additional statutory changes would not change the evaluation or recommendation of alternatives as the legislative change would be an additional cost equally visited on all unlocking alternatives that are already tied for most expensive policy options.

Implementation of recommended alternatives is linked to the limitations of this study. This study makes recommendations to the locking-in of private pensions in BC but does not analyze the portability requirements of the PBSA, nor does it make recommendations for future negotiation or collective bargaining strategies. In addition, the primary source of data examined in this study is a survey that utilizes a non-random convenience sample of current and former private pension plan members and beneficiaries that are drawn from members of the Canadian Association of the Fifty-Plus (CARP). CARP gave conditional agreement for the survey to be sent to its members. The choice of questions involved negotiation and some potential questions were not included in the survey as they were deemed to be too invasive.⁵⁵ The use of a convenience sample drawn from a politically active interest group increases the probability of strategic bias. Every attempt was made to limit potential biases by basing questions on fact and observable behaviour rather than opinion. The use of a convenience sample also eliminates the ability to apply with confidence the survey findings to the larger population of all private pension plan members with the ability to unlock some or all of their benefits under various exemptions available across Canadian jurisdictions.

Statistics Canada does not record demographic information on private pension plan members making it impossible to determine the representativeness of the sample. Nonetheless, 174 of 364 survey respondents have or had a pension registered in Ontario. The Ontario bias means that 47.8 per cent of respondents were able to unlock for reasons of financial hardship but not under unconditional unlocking. As respondents were filtered out on the basis of whether they had the opportunity to unlock, the remaining sample is biased towards those with smaller pensions, as these respondents would be able to unlock under the small amounts provisions of Ontario and other jurisdictions not offering unconditional unlocking. 14.5 per cent (n=53) of respondents have or had pensions registered in Alberta. These respondents had additional

⁵⁵ One example of this is the question asking whether recipients were receiving OAS or GIS. The format was chosen to limit invasiveness but resulted in a large number of non-responses.

opportunities to unlock, as Alberta is the only province that has both unconditional and financial hardship unlocking.

Despite these limitations, the lack of previous research on unlocking private pension benefits in Canada bespeaks the importance of a study that aims to evaluate, through observable behaviour, the assumptions that lie behind the arguments most often made for and against the locking-in of private pension benefits. Cited factors affecting the current study limit its applicability but not its efficacy as original research in a field where opinions rather than fact have often been used to justify policy.

In conclusion, survey data indicate that, given the opportunity to unlock, most individuals choose not to. Those that do choose to unlock do so primarily for re-investment and unlock relatively small amounts and small proportions of their pensions. However, those that are re-investing their funds may not be doing so wisely as regression analysis indicates that, among survey respondents, those who are less conservative in their investment preferences are more likely to unlock. The recommended policy option of repealing the existing unlocking of small monthly pension amounts will no longer allow pre-retirement unlocking of pensions valued up to \$77,400 while still allowing unlocking of pensions valued under \$17,480 to former private pension plan members and beneficiaries over the age of 65. This policy recommendation is consistent with the statutes of other Canadian jurisdictions, supported by stakeholders and, based on survey data, will effectively limit the risk of unlocking visited on other taxpayers.

In place of the repealed unlocking of small monthly pensions this study recommends adopting unconditional unlocking of up to 25 per cent of locked-in pension funds upon plan termination not prior to reaching the age of 55. As those with higher income are less likely to unlock, less likely to have unlocking result in incremental consumption of public programs and income tested benefits at the expense of other taxpayers and have a greater number of private pensions with a greater amount of locked-in funds, 25 per cent unconditional unlocking is a more equitable policy than the status quo (Statistics Canada, 2006)⁵⁶. This approach allows for greater flexibility in retirement income planning and consumption for all former private pension plan members and beneficiaries. This policy recommendation is consistent with the statutes of other Canadian jurisdictions and supported by stakeholders. Adopting the two policies in unison will provide greater post-retirement access to locked-in private pension funds while posing less risk to other taxpayers than the maintenance of the status quo.

⁵⁶ For statistics on private pension beneficiaries by income decile and average annual benefit, refer to Appendix A.

Appendices

Appendix A

Additional Background

In order to be eligible for tax-exempt status employer-provided pension plans are required to be registered under the federal ITA, hence the acronym RPP. All private pensions are RPPs but not all RPPs are necessarily regulated as private pensions.⁵⁷ Depending on the jurisdiction, the standards that are applied to private sector employer-provided pensions are not always the same as those applied to public sector plans. For example, in 1999 Ontario legislation afforded the opportunity to unlock 100 per cent of Ontario Members of Provincial Parliament's locked-in pension funds (Gleberzon, 2007). In BC, public sector plans are RPPs and are caught by some, but not all, of the provisions of the PBSA. The four main public sector plans in BC, the public service, teachers, municipal and college employee pension plans, are administered by the BC Pension Corporation under the authority of the *Public Service Pension Plans Act* (BC Pension Corporation, 2007). These plans are exempt from many of the provisions of the PBSA but are subject to minimum standards, including the locking-in provisions, of the PBSA. FICOM is responsible for ensuring some, but not all, of the provisions of the PBSA are being applied to public sector plans. Recommendations will be first made to the PBSA that may or may not apply to all public sector plans in BC, depending on future negotiations.

Currently private pension benefits vest after two years of continuous employment entitling the employee to receive a pension in respect of their plan membership (Queen's Printer Victoria, 2007). Beginning in 1993, the vesting periods were reduced until the current two year vesting period came into affect in 1998. The shortened vesting periods culminated with the introduction of the current locking-in provisions in 1999 that required all plans regulated by the PBSA to not allow private pension benefits to be withdrawn or surrendered except to draw a lifetime pension (Doug MacArthur Interview, 01/18/08; Queen's Printer Victoria, 2007). 'Locked-in' funds are subject to minimum withdrawal limits set by the federal ITA and maximum

⁵⁷ There may be some employer-provided pensions, such as those providing stock option based retirement savings plans, which are not RPPs. However, pension plans must be RPPs in order to enjoy tax-deferred status and for the purposes of this study, all private pension plans are RPPs.

withdrawal limits set by the jurisdictional statutes responsible for the regulation of each pension plan; the PBSA and PBSR in BC.⁵⁸

The Canadian pension system is a massive social security program that affects every retired and working-aged Canadians (Statistics Canada, 2006). It was designed to achieve two objectives: to alleviate poverty among the elderly and to help and/or require people to allocate appropriately their lifetime income, and hence consumption, between their pre and post retirement years (Task Force on Retirement Policy, 1979). In Canada, these objectives are met jointly by the three pillars of retirement income security: (1) the income tested minimal income security system consisting of the OAS, GIS and the allowance for survivor programs; (2) mandatory public pension plans, namely the CPP and the QPP; and (3) tax assisted private pensions, including employer-sponsored RPPs and individually-based savings plans such as RRSPs (Statistics Canada, 2006). While all three pillars contribute to the two main policy objectives, the first two pillars are designed primarily to meet the objective of old age income support and the third to primarily replace earnings (Statistics Canada, 2006).

As a source of retirement income, private pensions constituted about half of the income of those with incomes of \$40,000 to \$79,999 in Canada in 2005 (Statistics Canada, 2006). Those with incomes under \$20,000 are much less likely to have private pensions with less than a tenth of their income coming from private pensions (Statistics Canada, 2006). As reliance on the public system diminishes as income increases, the system deliberately limits the earnings replacement by the public pillars in order to encourage private retirement savings including private pensions (Maser, 2003; Statistics Canada, 2006). Despite the limited income replacement provided by public pensions government neither requires employers to provide pensions nor individuals to privately save for retirement. Table 7.1 shows the distribution of private pension income for the population aged 65 or over in Canada in 2000.

⁵⁸ In BC, the maximum withdraw limit is determined in reference to the long-term bond rate (6 per cent for 2007), adjusted for the plan members age; 6.1 per cent for aged under 55 and 20 per cent for those aged 88 or over (FICOM, 2007e). The minimum withdraw limit is determined by the formula $1(90-x)$ where x is the age of the pension plan member except for those aged over 79 which are subject to specified percentages; 8.53 per cent for 79 year olds and 20 per cent for those aged 94 or over (Department of Justice Canada, 2007).

Table 7.1 Characteristics of Private Pension Income for the Population Aged 65 or Over in Canada (2000)

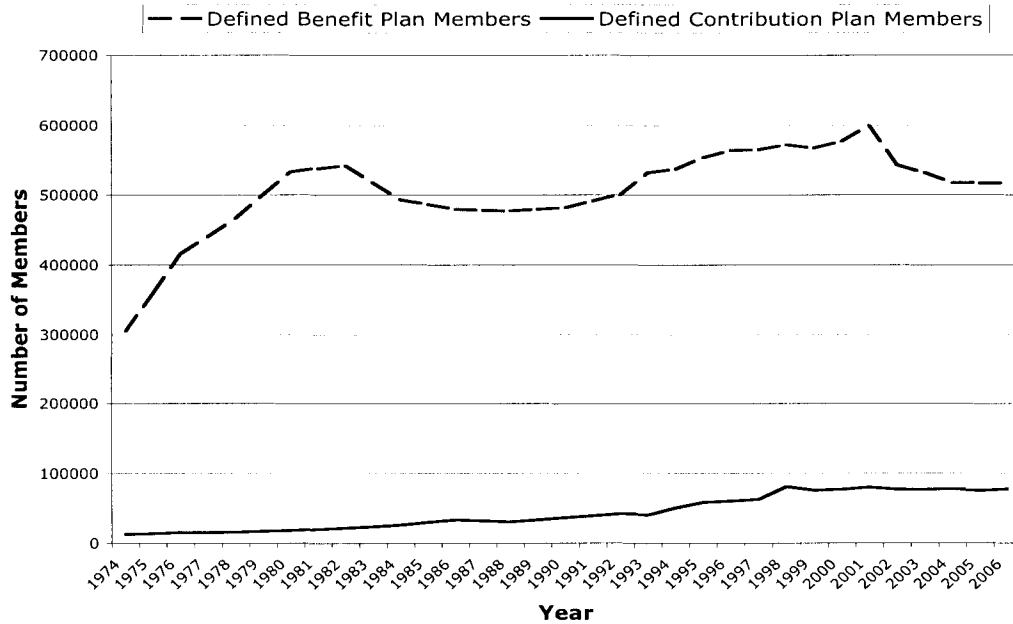
Income in Deciles (1 = lowest)	Percentage Who Receive Private Pension(s)	Average Amount Received (\$)	Percentage of Total Income
1	12.8	1,472	2.9
2	20.3	2,014	3.9
3	20.2	2,136	3.4
4	28.8	2,399	4.9
5	52.8	2,978	9.9
6	77.6	4,677	19.7
7	85.1	7,572	29.0
8	90.6	11,333	37.3
9	90.2	17,989	45.2
10	89.7	32,609	46.4
Totals	56.8	12,154	30.5

Source: Statistics Canada, 2006, 390

As Table 7.1 shows, while only 28.8 per cent of those over the age of 65 whose income were in the fourth lowest decile received private pension funds, 52.8 of those in the fifth decile, and as many as 90.6 percent of those in the eighth decile, of income received private pension funds in 2000. Those with higher income are not only more likely to receive private pension funds, but those private pension funds make up, on average, a greater proportion of their income.

Private pension plans are either Defined Benefit (DB), Defined Contribution (DC) or a combination of both as a hybrid plan (Statistics Canada, 2006). Figure 7.1 shows a history of membership in RPPs in BC by type:

Figure 7.1 Registered Pension Plans Members in BC by Type of Plan (1974-2006)



Source: Statistics Canada, CANSIM, Table 280-0008

As Figure 7.1 shows, the majority of RPPs in BC are DB plans.⁵⁹ The continued prevalence of DB plans in BC is in strike contrast to the United States (US) where there has been a strong shift towards DC plans over the last twenty years (Brown et al., 2001). Despite the fact that the shift towards DC plans has not been as dramatic as in the US, DC plans have been on a slow and steady increase in BC and Canada as a whole.⁶⁰ Over the period from 1992 to 2002, the percentages of plan members who belong to DC plans increased from 9 to 15 per cent (Statistics Canada, 2006). DC plans hold some attraction for small employers due to known financial commitments and administrative simplicity (Statistics Canada, 2006). Over this same period DB plans have increased in administrative complexity due to changes in tax and regulatory change due, in part, to growing solvency concerns over unfunded employer liabilities (Statistics Canada, 2006). For example, “various high profile cases have demonstrated the fragility of DB pension plans in situations of corporate insolvencies (or near-insolvencies), which incidentally have been

⁵⁹ In 2006 there were 517,272 DB RPPs and 77,768 DC RPPs in BC (Statistics Canada, CANSIM, Table 280-0008).

⁶⁰ For more information on the shift from DB to DC plans and why it was not as pronounced in Canada, see Brown et al., 2001.

linked to large unfunded pension liabilities” (Pozzebon, 2004, 14).⁶¹ Despite these positives, DC plans directly expose employees to investment risk and offer less incentive to attract and retain workers as DB plans generally have higher accrual rates in later employment years (Statistics Canada, 2006). In addition, DC plans “may simply not accumulate enough retirement saving, especially if plans allow [employees] control over participation, contribution, and investment decisions” (Pozzebon, 2004, 16).

A second trend in workplace pensions, no doubt associated with the shift to DC plans, is “a decline in the relative importance of pension plans covered by pension legislation (i.e. RPPs) in favor of savings vehicles, such as group RRSPs [or stock options], which are not covered by these laws” (Pozzebon, 2004, 11). It is anything but surprising that employers would prefer less burdensome arrangements when considering retirement planning strategies for their employees. Many employers may perceive the high standards set by pension regulations as overly burdensome especially for firms that operate in different provinces, and hence, must obey separate regional pension regulations; “firms with employees in more than one province sponsor some 23 per cent of Canada’s pension plans” (Pozzebon, 2004, 17).

The overall coverage of workplace pensions has been steadily decreasing over the last quarter century:

Following a long period of steady increase in the portion of employed Canadians covered by workplace pension plans, a reversal in this process began in the mid-1980s and carried on into the 1990s. Thus in 1991, 45.4 [per cent] of employed Canadians were members of workplace pension plans, and in 2001, only 40.1 [per cent] were members of workplace pension plans. Between 1992 and 2002, the absolute number of people who belong to workplace pension plans grew by 2.9 [per cent], but the employed labour force grew by 15.2 [per cent] (Statistics Canada, 2006, 400-1).

In aggregate, the actual number of workplace pension plans declined by 26 per cent from 1992 to 2002 (Statistics Canada, 2006). The decline in the number of plans significantly exceeds the decline in plan membership, which “suggests that the part of the workplace pension population that shrunk the most was smaller plans” (Statistics Canada, 2006, 401). Unfortunately, the drop in RRSP use, including employer provided group RRSPs, in the 1990s suggests that the loss of smaller plans are, at the very least, no longer being offset by RRSP contributors (Maser 2003; Statistics Canada, 2006).

The trend away from RPPs is troublesome in that even if the drop in regulated employer provided pensions were offset by other employer retirement savings arrangements, unregulated

⁶¹ The Air Canada and Stelco cases are two examples from a long list of established firms that have been adversely affected by competitive pressures (Pozzebon, 2004).

employee-provided pensions carry with them significant risks including unregulated minimum employee and employer contributions, unregulated vesting and locking-in requirements, unregulated minimum investment requirements and, “in the wake of the Enron scandal it is legitimate to question the security of pension arrangements built on company stock” (Pozzebon, 2004, 15). The adoption of unconditional and financial hardship unlocking in Canadian jurisdictions corresponds to these two shifts – (1) the shift away from the relative importance of employer provided pensions and (2) the shift away from DB to DC plans - and may help stimulate declining private pension coverage.

In an effort to promote greater statutory uniformity across Canada, the Canadian Association of Pension Supervisory Authorities (CAPSA) has circulated proposed regulatory principles for a model pension law (CAPSA, 2004). The proposed model law is based on ‘best practices’ and is intended to serve as examples when jurisdictions amend their pension statutes (CAPSA 2004; Pozzebon, 2004). However, the advantages of harmonization are greatly undermined by even the slightest regulatory imbalance. In the context of ten separate jurisdictions, regulatory harmony may be many years away from realization and even if greater legislative harmony is achieved, the administrative and financial burdens of DB plans make it unlikely that many employers will establish new DB plans, given the highly competitive global economy (Pozzebon, 2004). Furthermore, the demand for flexibility in employment provided pension arrangements will undoubtedly grow in the context of the projected future labor shortages (Pozzebon, 2004).

It seems that the state of employer provided pensions in Canada is in flux. Demands for greater flexibility have led to the increasing innovation and adoption of a plethora of retirement income arrangements; some for the better and some for the worse of Canadian employees. Thus far, change has been slow, but steady. One only has to look south to see one possible future for private pensions in Canada. “Pension law harmonization efforts and recommendations to improve pension plan governance may prove effective, or they may just be wishful thinking” (Pozzebon, 2004, 19). Within this context, it may be appropriate to now ask whether the locking-in provisions, designed specifically to address myopic savings behavior, are in fact in employees’ long-term interests (Doug MacArthur, Interview, 01/18/08).

Financial Hardship

Between April 1, 2005 and June 30, 2007 1,977 private pension plan members in Alberta, and 13,475 in Ontario were approved for varying amounts of private pension benefits to be

unlocked for reasons of financial hardship (Alberta Finance, 2007; FSCO, 2007b). The Financial Services Commission of Ontario (FSCO) charges a fee of two per cent of the amount eligible to withdraw under these circumstances from a minimum of \$200 to a maximum of \$500 (FSCO, 2007a). The application process for unlocking for reasons of financial hardship is significantly burdensome in both Alberta and Ontario requiring basic mathematics and disclosure of income and assets on application forms ranging from nine to twenty pages in length and supplemental instructions ranging from six to fifteen pages (Alberta Finance, 2006a; 2006b; FSCO, 2007a). The fact that many people complete this difficult application process and are approved for unlocking under circumstances of financial hardship evidences the needs of private pension plan members to have greater access to locked-in funds. Table 7.2 shows aggregate data on unlocking for reasons of financial hardship in Ontario and Alberta.

Table 7.2 *Financial Hardship Unlocking in Alberta and Ontario (April 1, 2005 – June 30, 2006)*

Jurisdiction	Reason	Count	Amount Unlocked	Average Release
<i>Alberta</i>	Rental Eviction	105	\$682,106	\$6,496
	Mortgage Foreclosure	70	\$711,979	\$10,171
	First and Last Months' Rent	28	\$107,601	\$3,843
	Renovation due to Disability	0	0	0
	Medical Expenses	94	483,226	\$5,141
	Low Income	986	\$8,282,761	\$8,401
	Income Tax Arrears	71	\$695,098	\$9,790
	Other Financial Hardship	582	\$2,862,184	\$4,918
	Multiple Reasons	41	\$90,233	\$2,201
Totals		1,977	\$13,916,187	\$7,039
<i>Ontario</i>	Unpaid Rent	1,084	\$8,828,104	\$8,144
	Debt Against Principal Residence	1,056	\$11,809,692	\$11,183
	First and Last Months' Rent	450	\$1,021,351	\$2,270
	Medical Expenses	404	\$2,358,507	\$5,838
	Low Income	10,374	\$93,509,296	\$9,013
	Renovations on Principal Residence	101	\$1,320,083	\$13,070
	Renovations to a Dependent's Principal Residence	6	\$90,672	\$15,112
	Totals		13,475	\$118,937,705

Source: Alberta Finance, 2006; FSCO, 2007b

As Table 7.2 shows, criteria under the financial hardship programs is largely uniform in both Alberta and Ontario. Both allow unlocking for low-income, medical expenses, unpaid rent / rental eviction, first and last month's rent (rent / security deposit), debt against a principal residence / mortgage foreclosure and renovations on principal residence due to disability, including renovations to a dependent's principal residence. The 'renovation due to disability'

category in Alberta also covers renovations to a dependent's principal residence (Alberta Finance, 2006a). Alberta offers the additional categories of income tax arrears, multiple reasons on one form and 'other' financial hardship. The other financial hardship category allows for additional flexibility and discretion in the administration of financial hardship in Alberta that is not available in Ontario.

Alberta Finance provided disaggregated data on their financial hardship program from May 13, 2003 to June 18, 2007 (Alberta Finance, 2007). Alberta Finance provided information on 6,284 applications made during this time frame. Of these 6,284 applications, 28.8 per cent (n=1,810) were denied and 71.2 per cent (n=4,473) resulted in funds being released. The maximum amount unlocked was \$125,000 and the minimum was \$0. The minimum funds released were \$300. The mean unlocked amount was \$7,135.89, with a median of \$5,226.29 and a standard deviation of 8,074.47.

Appendix B

Survey Instrument

Former Private / Employer Pension Plan Member Survey

Title Page

Thank-you very much for taking the time to complete this short five minute survey about retirement planning and private pension plans. Survey results will be used by Simon Fraser University researchers to generate policy alternatives with respect to the locking-in of private pension benefits.

Your participation in this survey is voluntary and you can withdraw at anytime. Your responses are confidential and will not be distributed to third parties. We thank you in advance for your cooperation.

*** Private pension plans are distinct from public/government pensions including Canada Pension Plan (CPP), Old Age Security (OAS), Guaranteed Income Supplement (GIS) and, in some cases, Public Service Pension Plans. They are voluntary, employer-provided pensions. Employers and employees jointly fund private pensions; employees have their contributions taken from paychecks and, upon retirement, receive a payment of benefits as a stream of retirement income.**

Have you ever contributed to, or received payments from, a private pension plan?

Yes
 No

Former Private / Employer Pension Plan Member Survey

Unlocking of Private Pension Benefits

* After a period of employment, (in most cases two years) private pension benefits vest and become locked-in, meaning funds cannot be freely withdrawn as a single lump sum. There are rules that determine the minimum and maximum amount that can be withdrawn while the principal remains locked-in. However, in some circumstances, private pension benefits may be paid out in a lump-sum payment or transferred to an account where any amount of funds can be withdrawn.

Have you ever unlocked some or all of your private pension benefits as a single lump-sum?

- Yes
 No

Former Private / Employer Pension Plan Member Survey

Regarding the Unlocking of Private Pension Benefits

These questions will help us understand your reasons for unlocking. We understand that there are many reasons why someone would choose to unlock some or all of their private pension benefits. Please try to categorize your answers as best as you can. If you have unlocked your private benefits more than once then please answer in respect of the greatest amount unlocked. There are no right or wrong answers.

Questions with a * beside them require answers.

Did you unlock for "instant access" to your private pension funds?

- Yes
 No

* How would you categorize your MAIN reason for unlocking (single largest amount) of private pension benefits (SELECT ONLY ONE)?

- For re-investment
 For reasons of financial hardship (low income, to pay medical expenses, to avoid default on a debt or mortgage against principal residence, to pay first and/or last months rent, etc.)
 For payment on car, home or other asset other than a principal residence
 For sport, leisure or travel
 To cover funerals and/or other final expenses
 As part of the Federal Government's "Home Buyers Plan"
 To help one or more of your non-dependant, over age 18, family members
 For a child or other dependant
 For reasons related to shortened life expectancy
 Other (please specify)

How would you categorize ALL of your reasons for unlocking (single largest amount) of private pension benefits (CHECK ALL THAT APPLY)?

- As part of the Federal Government's "Home Buyers Plan"
 For a child or other dependant
 For reasons related to shortened life expectancy
 To cover funerals and/or other final expenses
 For reasons of financial hardship (low income, to pay medical expenses, to avoid default on a debt or mortgage against principal residence, to pay first and/or last months rent, etc.)
 For payment on car, home or other asset other than a principal residence
 For sport, leisure or travel
 To help one or more of your non-dependant, over age 18, family members
 For re-investment
 Other (please specify)

What was approximately the single largest amount you unlocked at one time (in Canadian dollars)?

Please answer with no commas in the format (123500)

Former Private / Employer Pension Plan Member Survey

Under what jurisdiction did you apply for and receive approval for unlocking the single largest amount?

- | | | |
|--|--|---|
| <input type="radio"/> British Columbia | <input type="radio"/> Quebec | <input type="radio"/> Yukon Territories |
| <input type="radio"/> Alberta | <input type="radio"/> Nova Scotia | <input type="radio"/> Northwest Territories |
| <input type="radio"/> Saskatchewan | <input type="radio"/> New Brunswick | <input type="radio"/> Nunavut |
| <input type="radio"/> Manitoba | <input type="radio"/> Newfoundland | <input type="radio"/> Canada |
| <input type="radio"/> Ontario | <input type="radio"/> Prince Edward Island | |

* Looking back would you make the same choice to unlock or would you choose to unlock more, less or not at all?

- Unlock More
- Same Choice
- Unlock Less
- Not Unlock At All

Former Private / Employer Pension Plan Member Survey

Reasons for Not Unlocking

Questions with a * beside them require answers.

* How would you categorize your MAIN reason for not unlocking any of your private pension benefits (CHECK ONLY ONE)?

- It is overly difficult/takes too long
- I am not allowed to/not eligible
- I didn't know I could
- It is too expensive
- I am satisfied with my current private pension payments
- Other (please specify)

Are there OTHER REASONS why you did not unlock any of your private pension benefits (SELECT ALL THAT APPLY)?

- I didn't know I could
- It is overly difficult/takes too long
- I am not allowed to/not eligible
- It is too expensive
- I am satisfied with my current private pension payments
- Other (please specify)

Former Private / Employer Pension Plan Member Survey

About You

These questions are designed to give us some very general information about yourself.

Questions with a * beside them require answers.

Are you:

- Male
- Female

What year were you born in?

I was born in _____

How would you describe your health?

- Excellent
- Good
- Average
- Below Average
- Very Poor

What is your marital status?

- Single - Never married
- Single - Divorced
- Single - Widow / Widower
- Currently Married or in a Common Law Partnership

Approximately how long (in years) have you been retired?

I have been retired for _____ Length of Retirement *

Please describe your household:

Adults (over age 18) _____ Number living in household *

Children (under age 18) _____ *

Other dependents _____ *

What is the highest level of education you have completed?

- Did not complete high school
- High school
- Trade certificate
- College certificate / diploma
- Bachelor degree
- Graduate degree

Former Private / Employer Pension Plan Member Survey

* In which jurisdiction(s) is/was your private pension plan(s) registered (check all that apply)?

- | | | |
|---|---|--|
| <input type="checkbox"/> British Columbia | <input type="checkbox"/> Quebec | <input type="checkbox"/> Yukon Territories |
| <input type="checkbox"/> Alberta | <input type="checkbox"/> Nova Scotia | <input type="checkbox"/> Northwest Territories |
| <input type="checkbox"/> Saskatchewan | <input type="checkbox"/> New Brunswick | <input type="checkbox"/> Nunavut |
| <input type="checkbox"/> Manitoba | <input type="checkbox"/> Newfoundland | <input type="checkbox"/> Canada |
| <input type="checkbox"/> Ontario | <input type="checkbox"/> Prince Edward Island | |

Former Private / Employer Pension Plan Member Survey

Retirement Planning and Investment Profile

These questions are intended to provide us with some information about your retirement planning as well as savings and investment profile. There are no trick questions and no wrong answers.

To the best of your knowledge, are private pension benefits a taxable form of income?

- Yes
- No

How would you rate your knowledge of the rules, regulations and laws that govern your private pension plan?

- Excellent
- Good
- Average
- Below Average
- Very Poor

Which of the following do you think is the most risky investment?

- AA Rated Security
- Real Estate
- Minimum Investment Credit Bond
- Government Bonds
- Bank Account

I feel that the most appropriate mix of investments for me are:

- 1. Fixed bonds, Term Deposits and Bank Account
- 2. Equity, Stocks and Security Instruments
- Mix of 1. and 2.
- Either/Doesn't Matter

Former Private / Employer Pension Plan Member Survey

Financial Situation

We realize that your financial situation is personal. For this reason the answers to the below questions are optional. However, personal finances are an important factor when considering whether or not to unlock private pension benefits. We would therefore like to politely ask you a few questions about your personal financial situation. Please remember, answers are confidential and anonymous.

On average, how many hours a week have you spent in paid employment in the past year?

- 0 hours
- 1 - 10 hours a week on average.
- 11 - 20 hours a week on average.
- 21 - 30 hours a week on average.
- 31 - 40 hours a week on average.
- Over 40 hours a week on average.

Where are you currently living?

- A home I own
- A home I rent
- A Residence Owned by a Family Member Other than Yourself
- An Assisted Living Residence
- Other (please specify)

Are you currently receiving (CHECK ALL THAT APPLY):

- Old Age Security (OAS)
- Canadian Pension Plan (CPP)
- Guaranteed Income Supplement (GIS)
- Other non-private pension income (for example a government, public service or veteran pension)
- None of the above

What is the current approximate total value of your largest private pension in Canadian dollars?

For Those who
unlocked, please refer
to the the remaining
locked in principle.
Please answer with
no commas in the
format (125500)

What is your approximate total ANNUAL HOUSEHOLD INCOME (including pension(s), salary, RRSP, CPP, OAS and any other income from all sources and all retirement vehicles)

Value in Canadian dollars

Total Annual
Household Income

Former Private / Employer Pension Plan Member Survey

What is the approximate TOTAL VALUE of YOUR ASSETS, including house car etc., and other non-registered investments?

Value in Canadian dollars

Total value of Assets

--

Former Private / Employer Pension Plan Member Survey

The End

Thank-you very much for taking the time to participate in our survey.

Appendix C

Filters (1-9)

Table 7.3 Filtering Process

Filter	Explanation	Filtered Out	Remaining Sample
1	Subscribers to <i>CARP Action On-Line</i> were sent a short explanation of the survey and asked to click a link if they were private pension plan members and wanted to participate in the study.	n/a	734
2	The survey asks if they, or their employer, have ever made contributions to or received payments from a private pension plan.	135	599
3	Once collected, the respondents that did not answer the dependent variable were removed. These respondents provided no additional information, as answering the dependent variable question was required to proceed on to the rest of the survey.	36	563
4	Respondents with pensions registered only in PEI, NW Territories, Nunavut or the Yukon were filtered out, as there is no private pension legislation in those jurisdictions.	2	561
5	Respondents that did not unlock, who indicated that they could not unlock or didn't know they could unlock (n=259) ⁶² with pensions registered in BC (n=24), Quebec (n=6), Newfoundland (n=2) and Canada (n=22), but not with pensions registered in Alberta, Saskatchewan, Manitoba, New Brunswick, Nova Scotia or Ontario were filtered out unless the respondents were over the age of 65 and had pensions less than the size that would make them eligible for unlocking under the small amounts provisions discussed in section 2.2. ⁶³	54	507
6	Respondents that did not unlock, who indicated that they could not unlock or didn't know they could unlock (n=205) under the age of fifty with pensions registered in Alberta were removed as they could not unlock under the 50% unconditional unlocking provision unless (Alberta Finance 2006c). ⁶⁴	2	505

⁶² Reasons for not unlocking are discussed in section 3.2.2. Other reasons for not unlocking were first checked to ensure that the main reason for unlocking was also at least one of their other reasons for unlocking. Then respondents indicating that they did not unlock or didn't know they could unlock as one of their reasons for not unlocking were the focus of filtering to determine whether or not they could not or, in fact, did not know that they could unlock.

⁶³ The largest pension size of respondents with pension(s) only registered in BC that did not unlock, who indicated they could not unlock or didn't know they could unlock was \$15,000, which would make them eligible for the small amounts unlocking after plan termination and transfer of benefits.

⁶⁴ None of these respondents had other pensions registered outside of Alberta.

Filter	Explanation	Filtered Out	Remaining Sample
	<ul style="list-style-type: none"> 1) their household income was under \$30,000 as they would not be eligible to unlock for reasons of low-income under the Alberta financial hardship program Alberta Finance, 2006a);⁶⁵ or 2) the size of their pension and/or age would make them eligible to unlock under the Alberta small amounts provisions discussed in section 2.2. 		
7	Respondents that did not unlock who indicated that they could not unlock or didn't know they could unlock (n=203) from Saskatchewan, Manitoba and New Brunswick were removed if they were under the age of 55 as they would be too young to unlock under the unconditional unlocking provisions of their respective jurisdiction (Manitoba Labour and Immigration, 2007; SFSC Pensions Division, 2006; Government of New Brunswick, 2006). ⁶⁶	0	505
8	Respondents that did not unlock, who indicated that they could not unlock or didn't know they could unlock (n=203) and had pensions registered in Ontario were filtered out unless: <ul style="list-style-type: none"> 1) their household income was under \$30,000 as they would not be eligible to unlock for reasons of low income under the Ontario financial hardship program (FSCO, 2007a); or 2) the size of their pension and/or age would make them eligible to unlock under the Ontario small amounts provisions discussed in section 2.2. 	133	372
9	Respondents that did not unlock, who indicated that they could not unlock or didn't know they could unlock (n=70) who had pensions registered in Nova Scotia were filtered out unless: <ul style="list-style-type: none"> 1) their household income was under \$17,960 as they would not be eligible to unlock for reasons of low-income under the Nova Scotia financial hardship program (Nova Scotia Department of Environment and Labour, 2007); or 2) the size of their largest pension was less than \$29,133 and they were older than age 65 which would make them eligible to unlock under the Nova Scotia small amounts provision discussed in section 2.2. 	8	364

⁶⁵ While respondents may have been able to unlock in Alberta, Ontario and Nova Scotia under the financial hardship exemptions for reasons other than low income, low-income is the criteria under which most make their application and was an objective measure of whether or not an individual could have unlocked in those jurisdictions under financial hardship unlocking. For more information on financial hardship unlocking refer to Appendix A.

⁶⁶ Unless they also had a pension registered in Ontario and / or Nova Scotia in which case filtering process #8 and/or #9 would be employed. The small amounts test was not required as no respondents were caught by the preliminary criteria of filter 7.

Appendix D

Estimation of Model 2 (Blocks 1-5)

In order to maintain a case count of 364 through Model 2, missing cases are included in one of the specific categories within each independent variable. For each explanatory variable, missing cases are imputed using median values. In Model 2 the 79 missing cases for household income are included under the \$60,001 - \$80,000 category, the 114 missing cases for size of private pension were included in the over \$100,000 category, the 33 missing cases for length of retirement are included in the 1-5 years category, the 40 missing cases for ownership of residence are included as residence owners and the 32 missing cases for conservativeness of investment preference are included in the 'mixed' category. The large number of missing cases under size of pension is due to the fact that this variable was calculated using data collected from two questions. In addition, questions that provide financial information often yield lower response rates.

Block 5 of Model 2 generates a slightly lower Nagelkerke pseudo- R^2 value of .136 when compared to Block 5 of Model 1. Model 2 is able to predict the dependent variable category to which each case belongs with 71.7 per cent accuracy, an increase of 3.5 from Block 5 - Model 1. The inclusion of missing cases in Model 2 significantly changes the estimated beta coefficients for all categories of independent variables. Being retired for over 5 years becomes significant in Model 2 when it was not significant in Blocks 1 through 5 of Model 1. In total six categories of independent variables increase in significance at confidence levels of 90 per cent or higher in Model 2. The only variables that drop in significance are respondents that prefer less conservative investments who, when compared to respondents who are conservative or are neutral in their investment preferences, in Block 5 of Model 1 were 1.5 times as likely to unlock, are 58.4 per cent less likely to unlock in Block 5 of Model 2. The direction of the effect on unlocking of categories under length of retirement and pension size also change from negative in Model 1 to positive in Model 2. Table 7.4 shows the estimation of Model 2, where missing cases are imputed using median values.

Table 7.4 Logistical Regression, Model 2, 5 Blocks

Variable	Category	BLOCK 1	BLOCK 2	BLOCK 3	BLOCK 4	BLOCK 5
<i>Household Income</i>	\$0 - \$30,000	-	-	-	-	-
	\$30,001 - \$40,000	1.067	1.045	1.052	1.065	.925
	\$40,001 - \$60,000	.443*	.351**	.361**	.387*	.390*
	\$60,001 - \$80,000	.389**	.273***	.287***	.307***	.270***
	\$80,001 - \$100,000	.464	.366**	.404*	.433	.419
	\$100,001 - \$120,000	.375*	.304**	.281**	.305**	.285**
	Over \$120,000	.551	.434	.341*	.369*	.438
<i>Pension Size (prior to unlocking)</i>	\$0 - \$15,000		-	-	-	-
	\$15,001 - \$30,000		3.111*	2.655	2.607	2.508
	\$30,001 - \$100,000		2.340	2.178	2.069	1.950
	Over \$100,000		3.795***	3.367***	3.302***	3.404***
<i>Length of Retirement</i>	Not retired			-	-	-
	1-5 years			.654	.676	.696
	Over 5 years			.422**	.439**	.484*
<i>Residence-owner</i>				1.305	1.303	
<i>Conservativeness of Investment Preference</i>	Conservative / Neutral					-
	Mixed					1.182
	Less Conservative					.416*
N		364	364	364	364	364
Nagelkerke pseudo-R ²		.042	.082	.103	.104	.136

*Significant at <.10, **Significant <.05, ***Significant <.01

Appendix E

Collinearity Diagnostics

Table 7.5 Collinearity Statistics

Variable	Tolerance	VIF
<i>Length of Retirement</i>	.895	1.117
<i>Conservativeness of Investment Preference</i>	.904	1.106
<i>Residence-Owner</i>	.888	1.126
<i>Pension Size (prior to unlocking)</i>	.957	1.045
<i>What Income</i>	.880	1.137

Table 7.6 Correlation Coefficients

Variable	Length of Retirement	Conservativeness of Investment Preference	Residence-owner	Pension Size (prior to unlocking)	Household Income
<i>Length of Retirement</i>	1	.069	-.160	-.163	-.165
<i>Conservativeness of Investment Preference</i>	.069	1	-.120	.075	.237
<i>Residence-owner</i>	-.160	-.120	1	-.007	-.224
<i>Pension Size (prior to unlocking)</i>	-.163	.075	-.007	1	.149
<i>Household Income</i>	-.165	.237	-.224	.149	1

Appendix F

Estimation of Model 1 (Block 5)

Table 7.7 *Logistical Regression, Model 1, Block 5*

Variable	Category	B	S.E.	Wald	Sig.	Exp(B)
<i>Household Income</i>	\$0 - \$30,000	-	-	6.944	.326	-
	\$30,001 - \$40,000	-.110	.561	.038	.845	.896
	\$40,001 - \$60,000	-.942	.550	2.938	.087	.390
	\$60,001 - \$80,000	-.783	.556	1.987	.159	.457
	\$80,001 - \$100,000	-.923	.593	2.422	.120	.397
	\$100,001 - \$120,000	-1.340	.641	4.372	.037	.262
	Over \$120,000	-.634	.643	.971	.324	.531
<i>Pension Size (prior to unlocking)</i>	\$0 - \$15,000	-	-	7.510	.057	-
	\$15,001 - \$30,000	-1.141	.500	5.210	.022	.319
	\$30,001 - \$100,000	-.446	.566	.621	.431	.640
	Over \$100,000	-.755	.384	3.867	.049	.470
<i>Length of Retirement</i>	Not retired	-	-	2.184	.335	-
	1-5 years	.581	.478	1.479	.224	1.788
	Over 5 years	.510	.373	1.871	.171	1.666
<i>Residence-owner</i>		-.377	.509	.547	.459	.686
<i>Conservative-ness of Investment Preference</i>	Conservative / Neutral	-	-	4.133	.127	-
	Mixed	.815	.600	1.848	.174	2.259
	Less Conservative	.910	.448	4.133	.042	2.484
<i>Constant</i>		-.501	.803	.389	.533	.606

Percentage dependent variable category predicted correctly: 68.1

Cox and Snell pseudo-R²: .109

Nagelkerke pseudo-R²: .152

Appendix G

Stakeholder Acceptability Rankings

Table 7.8 shows the exact rankings provided by each stakeholder source and the computation of average aggregate rankings.

Table 7.8 Stakeholder Acceptability Rankings

	Pension Industry			Seniors' Reps.			Michael Peters	Sub-Total	Average Aggregate Ranking
	<i>Alan Black</i>	<i>Financial Institutions</i>	<u>Average</u>	<i>CARP</i>	<i>COSCO</i>	<u>Average</u>			
<i>Status Quo</i>	5	5	5	2	5	3.5	6	14.5	<u>5.5</u>
<i>Repeal Existing Unlocking of Small Monthly Pensions</i>	6	6	6	1	6	3.5	5	14.5	<u>5.5</u>
<i>Targeted Unlocking</i>	4	4	4	3	4	3.5	1.5	9	<u>3</u>
<i>25 Per Cent Unlocking</i>	3	3	3	4	3	3.5	4	10.5	<u>4</u>
<i>50 Per Cent Unlocking</i>	2	2	2	5	2	3.5	3	8.5	<u>2</u>
<i>100 Per Cent Unlocking</i>	1	1	1	6	1	3.5	1.5	6	<u>1</u>

Appendix H

Calculation of Effectiveness

The measure of effectiveness requires the calculation of current and former private pension plan members and beneficiaries expected to unlock under each alternative each year in BC less the number expected to regret unlocking under each alternative each year in BC. The first variable that needs to be calculated is the numbers that are expected to unlock per year with the introduction of alternate (un)locking policies in BC. To estimate this, the disaggregated time-series financial hardship unlocking data provided by Alberta Finance will be utilized. The average number of individuals unlocking under financial hardship per year in Alberta is 1,257 (Alberta Finance, 2007). In order to determine the number of current and former private pension plan members and beneficiaries expected to unlock if financial hardship unlocking were introduced in BC per year, the 1,257 average individuals that unlocked for financial hardship in Alberta will be increased by 1.515 times as BC has 1.515 times as many current private pension plan members than Alberta (Government of Alberta, 2007). Therefore, the number expected to unlock if financial hardship unlocking were adopted in BC per year is 1,904.

To determine the number of former private pension plan members and beneficiaries expected to unlock under unconditional unlocking alternatives, the number of individuals expected to unlock under financial hardship in BC per year will be adjusted by the difference of:

- the proportion of survey respondents who had pensions registered in jurisdictions with specific percentages of unlocking alternatives that unlocked; and
- the proportion of survey respondents that had pensions registered in jurisdictions with financial hardship that unlocked.⁶⁷

Survey results indicate that:

- 28.5 per cent of survey respondents that had pensions registered in jurisdictions with financial hardship unlocking unlocked;

⁶⁷ Financial hardship programs are operating in Alberta, Ontario and Nova Scotia. Alberta is a province with both financial hardship unlocking and 50 per cent unlocking. Removing Alberta in all calculations of expected unlocking and regretful unlocking of financial hardship and 50 per cent unconditional unlocking produces unrealistic and unexpected proportions as only two respondents unlocked in Manitoba. Alberta is, therefore, included in both the calculations of number expected to unlock with the adoption of 50 per cent and financial hardship unlocking.

- 22.2 per cent of survey respondents that had pensions registered in a jurisdiction with 25 per cent unlocking (n=11) unlocked, which is a difference of -6.3 per cent when compared to survey respondents that had pensions registered in jurisdictions with financial hardship unlocking;⁶⁸
- 35.2 per cent of survey respondents that had pensions registered in jurisdictions with 50 per cent unlocking (n=45) unlocked, which is a difference of +6.7 per cent when compared to survey respondents that had pensions registered in jurisdictions with financial hardship unlocking;⁶⁹ and
- 53.3 per cent of survey respondents that had pensions registered in jurisdictions with 100 per cent unlocking (n=15) unlocked which is a difference of +24.8 per cent when compared to survey respondents that had pensions registered in jurisdictions with financial hardship unlocking.⁷⁰

Based on the above information the expected number to unlock each year in BC is:

- 1,784 if 25 per cent unconditional unlocking is introduced;
- 1,904 if financial hardship unlocking is introduced;
- 2,032 if 50 per cent unconditional unlocking is introduced; and
- 2,376 if 100 per cent unconditional unlocking is introduced.

To determine the number of current and former private pension plan members and beneficiaries expected to unlock under the status quo, the number expected to unlock under financial hardship in BC per year will be adjusted by the difference in the proportion of survey respondents that unlocked with pensions registered in BC and the proportion of survey respondents that unlocked with pensions registered in Alberta:

- 49.1 per cent of survey respondents that had pensions registered in Alberta (n=37) unlocked; and
- 43.2 per cent of survey respondents that had pensions registered in BC (n=22) unlocked, which is a difference of -5.9 per cent when compared to survey respondents that had pensions registered Alberta.

⁶⁸ New Brunswick is the only jurisdiction with 25 per cent unlocking at the time of survey implementation.

⁶⁹ Alberta and Manitoba have 50 per cent unlocking.

⁷⁰ Saskatchewan is the only jurisdiction with 100 per cent unlocking.

Based on the above calculations, the number expected to unlock each year under the status quo is 1,792.

In order to determine the number expected to unlock per year in BC if the existing unlocking of small monthly pensions were repealed, the number of individuals expected to unlock under the status quo per year in BC will be reduced by the expected number that unlock in BC under the monthly small amounts provision. These current and former private pension plan members and beneficiaries are expected to not be able to unlock if the existing unlocking of small monthly pensions were repealed. Survey results indicate that 25 per cent of survey respondents that unlocked in BC (n=8) unlocked amounts that are consistent with the existing unlocking of small monthly pensions (n=2). Therefore, repealing the existing unlocking of small monthly pensions is expected to reduce the number that unlock by 25 per cent, which results in a count of 1,344 individuals that are expected to unlock per year in BC if the existing unlocking of monthly small amounts exemption was repealed.

Now that the expected number to unlock in BC per year under each policy alternative has been calculated, the figures need to be adjusted by the number expected to regret unlocking under the adoption of each policy alternative. Of the survey respondents that unlocked in BC (n=8), the status quo jurisdiction, 12.5 per cent (n=1) stated that, looking back they would unlock less and 25 per cent (n=2) would not have unlocked at all.⁷¹ To adjust the number expected to unlock if the existing unlocking of small monthly pensions were repealed, the percentage that regret unlocking in jurisdictions that offer neither financial hardship unlocking nor unconditional unlocking that are not BC, namely Canada and Quebec, will be used as BC would be one of these jurisdictions if the existing unlocking of small monthly pensions were repealed. Of those that unlocked in these jurisdictions (n=13), 15.4 per cent (n=1) stated that, looking back, they would not have unlocked at all. Of the survey respondents that unlocked in jurisdictions with financial hardship (n=60), none would unlock less and 16.7 per cent (n=10) would not unlock at all. None of the survey respondents that unlocked in jurisdictions with 25 per cent unconditional unlocking (n=2) regretted their decision. Of the surveyed respondents that unlocked in jurisdictions with 50 per cent unlocking (n=16), none would unlock less and 3.1 per cent (n=5) would not unlock at all. Of the surveyed respondents that unlocked in jurisdictions with 100 per cent unlocking (n=8), none would unlock less and 12.5 per cent (n=1) would not unlock at all. Given these survey results, the number expected to unlock, but not regret unlocking, per year in BC are:

⁷¹ Those that said they would unlock less are discounted at 50 per cent, meaning that if 4.8 per cent of respondents stated they would unlock less, 2.4 per cent of respondents are expected to regret unlocking.

- 1,232 under the status quo;
- 1,137 if existing monthly small amounts unlocking were repealed;
- 1,586 if financial hardship unlocking were introduced.
- 1,784 if 25 per cent unconditional unlocking were introduced;
- 1,969 if 50 per cent unconditional unlocking were introduced; and
- 2,079 if 100 per cent unconditional unlocking were introduced.

Calculation of Taxpayer Risk

In order to calculate taxpayer risk, the expected number to unlock for ‘discretionary’ rationale under each alternative each year in BC will be estimated. In order to do so, the percentage of survey respondents that unlocked in jurisdictions offering each alternative will be calculated. The expected number to unlock under each alternative, previously defined but unadjusted for regret, will be adjusted by the proportion of survey respondents that unlocked for ‘discretionary’ unlocking under each jurisdiction offering relevant unlocking alternatives. This will produce the expected number of current and former private pension plan members and beneficiaries expected to unlock for ‘discretionary’ rationale with the adoption of each policy alternative in BC per year. Zero current and former private pension plan members and beneficiaries are expected to unlock for ‘discretionary’ rationale if the existing unlocking of small monthly pensions is repealed, as this is the only alternative that further restricts unlocking and will, by definition, have the least number of expected individuals to unlock for ‘discretionary’ reasons. Survey results indicate:

- 33.3 per cent of survey respondents that unlocked in status quo jurisdictions (n=21) unlocked for one or more ‘discretionary’ rationale;
- 21.7 per cent of survey respondents that unlocked in jurisdictions that offer financial hardship unlocking (n=60) unlocked for one or more ‘discretionary’ rationale;
- 0.0 per cent of survey respondents that unlocked in jurisdictions offer 25 per cent unconditional unlocking (n=2) unlocked for one or more ‘discretionary’ rationale;
- 25 per cent of survey respondents that unlocked in jurisdictions offer 50 per cent unconditional unlocking (n=16) unlocked for one or more ‘discretionary’ rationale; and

- 50 per cent of survey respondents that unlocked in jurisdictions offer 100 per cent unconditional unlocking (n=8) unlocked for one or more 'discretionary' rationale.

The number expected to unlock for 'discretionary' rationale under the adoption each policy option each year in BC is:

- 597 under the status quo;
- 0 if existing monthly small amounts unlocking were repealed;
- 413 if financial hardship unlocking were introduced.
- 0 if 25 per cent unconditional unlocking were introduced;
- 508 if 50 per cent unconditional unlocking were introduced; and
- 1,188 if 100 per cent unconditional unlocking were introduced.

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Interviews

Name	Title / Organization	Date
<i>Anonymous</i>	Representative from a Canadian financial institution	02/22/08
<i>Alan Black</i>	Manager, Pension and Benefits, Human Resources, Simon Fraser University (SFU)	02/21/08
<i>William Gleberzon</i>	Director Government Relations, Canadian Association for the Fifty Plus (CARP)	01/23/08
<i>Art Kube</i>	Acting President, Council of Senior Citizens Organizations of BC (COSCO).	01/15/08
<i>Doug MacArthur</i>	Professor, Public Policy Program Simon Fraser University and former Deputy Minister to the Premier and Cabinet Secretary, BC	01/18/08
<i>Michael Peters</i>	Executive Director, Pensions, Financial Institutions Commission (FICOM), BC	02/18/08

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