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Québec VPLAs and a History of Decumulation Options

by | Jesse Heath-Rawlings

On December 4, Québec's budget implementation act, Bill 80, received Royal Assent, making Québec the latest province to move forward with supporting legislation for Variable Payment Life Annuities (VPLAs).[1]

VPLAs are a new type of decumulation option permitted under Registered Pension Plans (RPPs) and Pooled Registered Pension Plans (PRPPs) by amendments to the Income Tax Regulations in 2021.[2]

As the name suggests, VPLAs provide a lifetime annuitized stream of payments, the amount of which can vary based on the financial and mortality experience of the plan. Unlike a traditional guaranteed annuity, which is provided by an insurer and backed by capital reserve requirements, the payments may rise or fall over time. In general, the features of the VPLA are expected to offer higher payments for retirees than a traditional annuity.

Many provinces are now at various stages of implementing, or consulting on, supporting legislation and regulations to allow for VPLAs. Not surprisingly, these changes come at a time of increased focus on the "decumulation problem" in Canadian retirement, as well as an increased desire for solutions to address it.

Given the flurry of activity on VPLAs, now is a good time to review the history of decumulation options in Canadian retirement plans.

The Decumulation Problem and Traditional Options

The decumulation problem is a new area of emphasis for Canadian regulation. This is, in part, because the history of pension regulation in Canada is largely one of defined benefit plans, with their own built-in decumulation solutions.

Compared with the United States, the United Kingdom and Australia, Canada has fewer defined contribution (DC) pension plan assets. This, however, does not necessarily count the large number of assets now held in Canadian Group Registered Retirement Savings Plans (RRSPs) (sometimes referred to generally with DC RPPs and other registered savings plans as capital accumulation plans (CAPs)). These are not subject to pension regulation. Many members, now having participated in a CAP for many decades, are turning their minds toward how to effectively decumulate their assets.

The traditional Canadian model for decumulation from a CAP, whether pension or otherwise, is that the member either participates in a self-managed drawdown through a Registered Retirement

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For members of the International Foundation of Employee Benefit Plans

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Income Fund (RRIF) or Life Income Fund (LIF) or, instead, purchases an annuity from an insurance company.

With respect to self-managed drawdowns, the Income Tax Act requires that registered funds begin being drawn down no later than the end of the year that the individual turns age 71. At that point, members may transfer these funds to an RRIF or LIF (the latter in the case of locked-in pension funds) to begin this drawdown. These vehicles require that the member make a minimum withdrawal each year (to prevent indefinite tax deferral). However, the amount of the withdrawal is at the discretion of the member, subject to a minimum and, for a LIF, a maximum amount.

A self-managed drawdown offers significant flexibility. However, the drawback is that it requires the member to appropriately manage both their investments and drawdown rate, running the risk of outliving their assets or drawing down too conservatively (otherwise known as managing their longevity risk).

Alternatively, members may decide to transfer their funds for the purchase of a traditional annuity. A lifetime annuity provides a stable stream of payments for life and can be purchased in various forms, including with different guarantee periods or spousal options. An annuity protects against the longevity risk of outliving available assets and avoids the need for a member to manage their own investments. However, annuities have historically been unpopular, and their predictability comes at a cost. The lack of popularity of annuity products, despite their utility, is sometimes referred to as the *annuity puzzle*.

New Options Emerging

The drawbacks and challenges of traditional options have led to significant interest in new decumulation options.

The first legislative response to decumulation was the introduction of changes permitting *variable benefits* under provincial pension laws. These changes permitted DC pension plans to offer a self-managed drawdown account within the plan, rather than requiring a transfer outside of the plan to a LIF.

There are several advantages to providing variable benefits in a pension plan. They include the potential for continuity of administration, including continued access to fees and services negotiated by the plan administrator (rather than requiring the member to access retail markets), as well as the ability of the plan to structure available investment options in a way that supports effective decumulation. Nevertheless, the take-up of variable benefits among pension plans has been small, likely reflecting, in part, the small number of DC plans with a significant number of members who would benefit from the option.

Another recent development has come from new longevity pooling structures within mutual funds. In 2021, Purpose Investments launched the Longevity Pension Fund. The Longevity Pension Fund functions very similarly to a VPLA, allowing members to buy in to receive a stream of variable income payments that depend on the financial and mortality experience of the fund. As a mutual fund, it is a qualifying investment for registered vehicles, including RRSPs, and can be offered through a DC pension plan. Guardpath Capital LP followed shortly after with the introduction of a number of decumulation funds operating under longevity pooling structures as part of their Guardpath Longevity Solutions. However, these latter funds were terminated in early 2025. Mutual fund structures are not subject to provincial pension minimum standards laws.

As noted, in 2021, the federal government enacted changes to the Income Tax Regulations to permit two new vehicles: the aforementioned VPLA and Advance Life Deferred Annuities (ALDAs).

The function of VPLAs has already been described. They are, however, not a new structure. The University of British Columbia Faculty Pension Plan has successfully offered a VPLA option to its members since the 1960s. This has been an internationally recognized model, inspiring structures in

continued on page 30

VPLAs and Decumulation History
continued from page 25

other jurisdictions, such as QSuper in Australia. Legislation has, however, prohibited the creation of any new VPLAs in Canada until now. As noted, many provinces are currently implementing, or consulting on, legislative and regulatory changes to permit the offering of VPLAs through pension plans.

There is some question as to the expected uptake under VPLA legislation based on the need for enough members to pool risk effectively. Nevertheless, some interest has been expressed in the creation of VPLAs by large plans. Notably, the Saskatchewan Public Employees Pension Plan has announced to members the inclusion of a VPLA option launching in spring 2025.

The Road Ahead

We are currently witnessing the results of a turn toward a focus on the decumulation problem in Canadian retirement that has resulted in new products and structures becoming available that were not options 20 years ago. Nevertheless, the question remains as to the extent to which new offerings are, in themselves, a solution.

Despite their many benefits, most new options discussed still offer some of the same challenges as a traditional annuity—Namely, their benefits may not be immediately apparent to members, who often prefer the comfort of a dollar figure resting in their account.

As different structures and products become more widely available, it is reasonable to expect the conversation to turn toward the question of how to effectively offer these vehicles at scale and with the required uptake to make them viable. In other words, the decumulation problem has not necessarily been solved, but there are more tools available now than ever before to help solve it.

Endnotes

1. An Act respecting the implementation of certain provisions of the Budget Speech of 12 March 2024 and amending other provisions.
2. The amendments are deemed to have come into force on January 1, 2020.