

ENSURING THE ONGOING STRENGTH OF CANADA'S RETIREMENT INCOME SYSTEM

A Submission to the Federal-Provincial
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Department of Finance

Canadian Institute of Chartered Accountants

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Ensuring the Ongoing Strength of Canada's Retirement Income System

On behalf of the Canadian Institute of Chartered Accountants (CICA), we are pleased to provide input on the issues discussed in the government's consultation paper on strengthening Canada's retirement income system. Our submission builds on the CICA's participation in the April 19, 2010 stakeholder roundtable in London, as well as the recent Calgary Summit on Retirement Income. It is also informed by input sought from CICA members through a recent survey on some of the issues raised in the consultation document. Survey highlights are attached in Appendix A.

INTRODUCTION

Canada's retirement income system—built on three distinct pillars—is recognized as one of the best in the world. There are powerful incentives built into the system in the form of tax assisted savings opportunities.

The system's success in providing Canadians with an adequate standard of living upon retirement is reflected in the 2009 OECD report cited in the consultation paper which highlights the relatively low poverty rate among seniors in Canada as compared to those in other OECD countries. It is also evident in the data cited in the paper with respect to the high levels of replacement income available to Canadian seniors in retirement. Amid challenging economic circumstances however, it is prudent for federal and provincial governments to more closely examine the existing system to ensure that it provides Canadians with all of the tools necessary to serve them well in the future and into retirement.

OBSERVATIONS AND RECOMMENDATIONS

While we believe that the three pillars of our retirement system taken together provide a relatively strong retirement income system for Canadians, there are pressures inherent in the system. They include:

- People are living and working longer;
- Investment returns have been hard hit by the economic downturn;
- The security of the pension promise has come into question with insolvencies and reductions in pension benefits by many companies;

- The transition from defined benefit to defined contribution plans in the workplace raises further questions about the potential amount of future pension benefits; and
- Retirement options are becoming more complex and complicated to understand.

Concerns have been raised recently about the adequacy of retirement income, particularly given the effects of the global economic downturn. In particular, there are questions as to why some modest and middle-income Canadians are not saving enough for their retirement and the reasons why. This issue was identified in the report by Professor Jack Mintz put forward at the December 2009 meeting in Whitehorse of federal, provincial and territorial Ministers of Finance and Ministers responsible for pensions. The reasons are likely varied, and must take into account setbacks that have resulted from the economic downturn, as distinct from actions that are within an individual's control.

As such, we believe it is important to further examine the issue of retirement savings before specific reforms are undertaken. In particular, research into behaviours and incentives—particularly as they relate to younger Canadians—is required to determine whether a lack of adequate saving stems from the system itself, or if it relates more to a human tendency to ignore or delay consideration of the need to plan for one's retirement. Research is also needed in order to assess the degree to which components of household net worth that fall outside of pension assets—such as home equity and other financial and non-financial assets—can and are contributing to savings rates in order to boost the adequacy of retirement income.

The responsibility to save for retirement (beyond the benefits provided under the two public pillars of the retirement income system) is a personal one. Attitudes and knowledge about financial issues vary widely across various segments of the Canadian population. This underscores the need to ensure that Canadians across the board have the financial skills, knowledge and confidence to make the best choices in planning for their retirement. As such, the CICA supports the efforts of the Task Force on Financial Literacy to advance financial literacy in Canada.

We believe that a broad national strategy is needed to leverage existing initiatives, many of which are fragmented, poorly funded and reach only a small percentage of those who need this information, knowledge and skills.

Should it be determined that despite current incentives in the retirement income system some Canadians are failing to save enough for their retirement, Canada's Chartered Accountants believe that opportunities to improve the system can be found through a review of existing regulations and additional tax incentives in order to determine those that would best encourage Canadians to accumulate additional savings for retirement.

The following reforms to the personal income tax system merit consideration in this regard, as they would provide an incentive for savings and would make the tax system more efficient, effective and competitive:

- Reducing or eliminating the income tax on personal savings; increasing the contribution limits for Tax Free Savings Accounts (TFSA) and Registered Retirement Savings Plans (RRSPs) would be a step in this direction;
- Modifying RRSP and Registered Retirement Income Fund (RRIF) rules to allow greater tax deferrals on retirement savings:
 - a. Increasing the age limits for commencing withdrawals from a Registered Pension Plan (RPP) and converting an RRSP to an RRIF
 - b. Reducing the RRIF minimum withdrawal requirements; and
- Developing saving incentives, perhaps through enhanced credits, to encourage younger Canadians to start saving earlier.

We also believe the government should review the regulatory framework governing pension plans to ensure it does not unnecessarily inhibit innovation in the private sector market. Changes that allow for more risk pooling, decreased costs of administration or facilitated participation by both employers and employees could be beneficial. Examples include treating contributions to group RRSPs on the same basis as contribution to a registered pension

plan for payroll withholding purposes or facilitating Defined Contribution Multi Employer Plans. These changes could be particularly beneficial for the self-employed and Canada's small businesses.

The development of any new, government-sponsored voluntary schemes is not supported by the CICA. We believe that such initiatives would require the inclusion of significant incentives — costing deficit-laden governments scarce funds — and would further complicate the system. If there is a demand for new voluntary programs, the changes noted above to the personal income tax system and the regulatory framework would allow the private sector to address this need.

One option that has arisen in the public consultation so far is to increase the CPP/QPP — either through an increase in the 25% income replacement target, or the Year's Maximum Pensionable Earnings. Should the government decide that:

- the level of retirement savings in Canada is too low;
- incentives to encourage Canadians to increase saving on a voluntary basis will not be effective; and,
- the benefits offered by a defined benefit plan should be made available to more Canadians;

then some form of increase in CPP/QPP could be considered. However, changing the CPP/QPP raises a number of significant policy issues that would need to be fully researched and debated. These include:

- intergenerational considerations;
- the mandatory element of any change;
- maintaining an appropriate balance between public and private retirement plans; and,
- understanding the net impact on total retirement benefits for retirees after factoring in OAS/GIS entitlements.

Hence increasing the CPP/QPP would need significantly more research and debate before being further considered. Having said this, one change that could be made would be to allow non-working (as in outside the home) spouses to contribute to the CPP/QPP.

CONCLUSION

Canada's Chartered Accountants are pleased to provide input on the issues discussed in the government's consultation paper on strengthening Canada's retirement income system. The government plays a crucial role in ensuring that Canadians are adequately supported in achieving an adequate income in retirement. The effects of the economic downturn have had a profound effect on the ability of many Canadians to reach this goal. The complexity that is inherent in the system further illustrates the need to ensure individuals have sufficient investment knowledge to allow them to make the decisions right for them, and best utilize the tools available to them. It is equally important to understand which segments of the population may not be saving adequately for their retirement, the reasons why, and how proposed changes would best address these issues.

Appendix A – CICA Member Survey

In April 2010, the CICA conducted a survey of members to assess views on Canada's retirement income system. The survey asked members for their opinions on issues facing Canadians with respect to saving for retirement and the role of the government in helping Canadians to achieve adequate retirement income. The survey also asked members whether they supported proposed changes to Canada's retirement income system. The survey was sent to a random sample of 1,978 members working in industry and 601 responded for a 30% response rate. Highlights of the survey findings are included below:

Issues Facing Canadians with Respect to Saving for Retirement

There is widespread agreement among members that the following issues are facing Canadians with respect to saving for retirement:

- Canadians are not starting to invest in retirement at an early enough age. (90%)
- The trend away from defined benefit programs is shifting more risk to individuals. (88%)
- It is difficult for individuals to manage investment risks such as market volatility, interest rates, and investment terms. (89%)
- The increase in the number of investment options and retirement savings methods has made retirement planning more complex for Canadians. (81%)
- Canadians lack sufficient investment knowledge to make the right retirement planning decisions. (82%)
- There is a lack of widespread access to defined benefit plans beyond the Canada/Quebec Pension Plan (CPP/QPP) for many Canadians. (80%)

Although agreement was not as widespread, a majority of members agreed that the following issues are also facing Canadians with respect to saving for retirement:

- Canadians are not considering the effect of inflation in their retirement planning. (73%)
- Many Canadians have inadequate disposable income to permit saving for retirement. (71%)
- There is a lack of impartial advice for individuals. (69%)

Role of the Government in Supporting the Retirement Income System

There is wide agreement among members that the following are appropriate roles for the government in supporting Canadians to achieve adequate retirement income:

- To provide a minimum level of basic retirement income for all Canadians. (77%)
- To ensure an appropriate regulatory framework to protect the savings of Canadians. (93%)
- To provide basic taxation incentives to motivate Canadians to become and remain retirement savers at an early age. (95%)
- To promote the importance of retirement planning and educate Canadians on their roles and responsibilities. (89%)

Support for Change to the Canadian Retirement Income System

The survey found that a majority (63%) of members believe changes should be made to the Canadian retirement income system. The changes most widely supported by members include adding tax incentives to encourage young Canadians to start saving for retirement earlier (85%), allowing non-working spouses to contribute to the CPP/QPP (79%) and raising or removing RRSP contribution limits (75%). Raising or removing limits on eligible pension benefits from a registered pension plan (64%) is also widely supported.

Retirement Planning Among Chartered Accountants

The majority of Chartered Accountants are doing the right things with respect to planning for their own retirement. 89% either have a completed retirement plan or have started one and 83% expect to have sufficient income available to them at retirement to meet their retirement needs.