# The Conference for Advanced Life Underwriting
# Key Findings and Recommendations
# Relating to Retirement Income Adequacy of Canadians

## 1. Key Findings/Conclusions

### a) *The Canadian Income Retirement System is in Good Shape*

Most studies undertaken as part of the recent review of the Canadian retirement system support the view that the "three pillars" are doing an adequate job for a large majority of Canadians. As well, several international studies rate the Canadian retirement system as being amongst the best in the world. When non-registered assets are factored into the analysis (the so-called "fourth pillar") it is apparent that most Canadians will enter their retirement years with adequate sources of retirement income.

### b) *Where Should Government Initiatives be Targeted?*

To maximize the impact of government initiatives and minimize costs to the various levels of government, as well as employers and employees, it is important to focus efforts on those employees who are most at risk of not having sufficient savings to maintain their lifestyle into retirement.

Based on the available information, the employee population most "at risk" of having insufficient retirement income would appear to have the following attributes:

- non-unionized;
- self-employed or working for small- to medium-size companies that don't offer an employer-sponsored Registered Pension Plan (RPP);
- earning between $40,000 - $100,000 per year; and
- not making sufficient contributions to Registered Retirement Savings Plans (RRSPs) or taking advantage of other savings and investment programs.

Using data from various reports, approximately ***four million working Canadians*** are potentially within this target group. While The Conference for Advanced Life Underwriting (CALU) does not believe the actual number of "at risk" employees is this large (for the reasons discussed in the enclosed "Backgrounder") there appears to be a significant and potentially growing number of Canadians that need to take more pro-active steps to ensure they can maintain a comfortable lifestyle in retirement.

### c) *Governments Need to Adopt a Flexible Approach*

As discussed in the Backgrounder, there are a number of reasons why small- to medium-size employers have chosen to not implement RPPs. Similarly, employees with these firms may have valid reasons for not contributing the maximum amount allowed to RRSPs.

Given the diversity of employer and employee circumstances, the federal and provincial governments should support a variety of approaches to encourage the target group of employers and employees to implement pension and retirement savings strategies.

In some cases the appropriate solution may be for the employer to establish an RPP or group RRSP/PRPP. In other situations the appropriate policy goal may be to encourage individuals to make increased contributions to a Tax-Free Savings Account (TFSA) and/or RRSPs. There will be other cases where individuals can adequately provide for their retirement income without utilizing formal retirement savings programs.

### *d) Access to Financial Planning and Advice Should be Encouraged*

With the growing number and diversity of retirement benefit programs and investment vehicles, the target group of employers and employees need the support of retirement specialists in these areas. Therefore, any reforms to the Canadian retirement system should ensure that employers and employees continue to have the option of accessing qualified financial advisors. It is also important to recognize that retirement planning is part of the continuum of lifestyle planning and must be integrated with the current and long-term goals and objectives of employees.

## 2. Discussion of Options for Meeting the Needs of the Target Group

### *a) Pooled Registered Pension Plans*

CALU endorses the principals that form the basis for the development of Pooled Registered Pension Plans (PRPPs) and are of the view that this type of plan represents a well-targeted approach to meeting the needs of the identified segment of Canadians who are most "at risk." The federal proposal allows both employers and employees to freely opt-in or opt-out, and imposes no funding obligations on the employer. It also allows for employee contributions to freely move between plans and not be "locked-in," similar to a group RRSP or RRSP. However, we also recognize that details of these plans are still in the developmental stage and will require further consideration once more information becomes available.

At this time we do have the following concerns with these proposals:

- There are discussions that any employer with 20 or more employees should be required to participate in a PRPP. As both employers and employees may have valid reasons for not participating in this type of plan, we don't think there should be any obligation to participate. As well, this could open the door to requiring the employer to not only be a participant, but to provide some level of funding irrespective of their financial situation.
- We are concerned that employees who participate in PRPPs will do so without receiving appropriate guidance and advice from qualified investment and financial advisors. An advisor would guide a possible participant through a review of their current financial situation as well as investment options/alternatives. While it is understood that the PRPP investment fund will permit a "reasonable and prudent person to create an appropriate portfolio," an advisor would help integrate the risk profile of these investments into the participant's overall investment strategy. Our concerns would increase if participants are allowed to transfer current registered savings into a PRPP.
- The provinces should agree on a common framework and approach to implementing these plans in order to avoid the current issues relating to RPPs where employers have to deal with multiple sets of rules and regulations.

### *b) Expand Coverage under the Canada Pension Plan*

We agree that there are potential benefits to expanding the current Canada Pension Plan (CPP) mandatory defined benefit coverage for all employees, such as professional money management, potential efficiencies of scale and the guarantee of benefits for the life of the retiree.

However, we don't feel that current proposals are appropriately targeted to the needs of the "at risk" group of employers and employees. We particularly note the following concerns:

- To the small employer, it will be viewed as an additional tax burden and will reduce the amount of funds they have available to reinvest in their business. Self-employed individuals would be particularly impacted as they will need to fund both the increased employer and employee contribution.
- It changes the balance between mandatory and voluntary savings, and eliminates choices available to employers on how to reward employees, and on employees on how to manage their discretionary savings.
- It impacts all employers and employees irrespective of whether there is already adequate retirement funding programs in place through RPPs, Group RRSPs, RRSPs or other investment programs.

Despite the enumerated issues, CALU believes there is value in continuing to explore options for a second-tier of CPP benefits provided these don't displace retirement and savings programs that are already working effectively for employers and employees. However, there must be some education of the public that such changes only represent a longer-term solution to supporting retirement income needs.

### *c) Increase Financial Literacy and Access to Retirement Advice*

We endorse the report of the Financial Literacy Task Force and support a strategy that would involve individual Canadians and various other stakeholders in working together to develop programs that help expand the financial literacy of all Canadians. We agree that financial literacy must be a lifelong learning process due to the ongoing evolution of financial products and strategies as well as the changing regulatory environment.

We would suggest that as part of the financial literacy project that specific initiatives be undertaken that would target middle income Canadians who are not members of pension plans, to ensure they have appropriate strategies in place relating to saving for retirement. For example, the development of web-based tools that assist in determining the required savings to meet a specified retirement income goal would be of assistance to the "at risk" group.

### *d) Encourage Growth of RPPs through Simplification/Harmonization*

CALU supports the following changes to improve the attractiveness of RPPs to employers that have not implemented such plans:

- Modify or remove fiduciary responsibility for employer-sponsored defined contribution pension plans (this issue may become less important if PRPPs are implemented).
- Enhance harmonization between federal and provincial legislation governing RPPs.
- Reduce the regulatory burden and costs associated with the implementation and ongoing management of an RPP.

- Allow employers to build up greater surpluses to guard against poor fund performance (the federal government has already taken steps in this regard).

We also believe there is value in encouraging the development of new types of pension plans that attempt to incorporate the best features of defined benefit and defined contribution plans such as:

- an element of guaranteed benefits for employees;
- greater funding certainty for employers;
- longevity and inflation protection of benefits;
- required and/or voluntary contributions by employees.

***e) Increase the Utilization of Group Registered Retirement Savings Plans Deferred Profit Sharing Plans among Small- to Medium- Size Employers***

As noted in the Backgrounder, a number of employers have already implemented group RRSPs and Deferred Profit Sharing Plans (DPSPs), and we are of the view that there will continue to be situations where employers and employees would prefer to participate in such plans rather than a RPP or possibly a PPRP. For example, Group RRSPs are only governed by the federal tax system, making them easier to set up and administer. As well, such plans are well-understood by employees and provide full portability of benefits.

The federal government should continue to support the growth of these plans and put them on a more equal footing with RPPs by removing the requirement for employers to remit CPP, employment insurance and other payroll-related taxes where contributions are directly remitted by the employer. As well, we recommend that all provinces be encouraged to extend creditor protection to group RRSPs similar to what is available for savings in RPPs.

***f) Increase the Utilization of RRSPs***

We believe that RRSPs should continue to play an important role in the third pillar of the Canadian retirement system, as these plans offer the greatest level of flexibility for both financial and retirement planning.

The question then turns to how the rules governing these plans might be further enhanced to attract more contributions from the target group of Canadians who are currently not saving enough for retirement. Our suggestions would be as follows:

- Treat some portion of dividend income received by the owner/manager of a private corporation as earned income for purposes of determining RRSP contribution room.
- As is the case for TFSAs, allow individuals to replace funds withdrawn from an RRSP before a certain age (i.e., age 50) on a non-deductible basis to benefit from future tax-deferred growth. For example, if a person withdrew $10,000 for debt repayment at age 40, it could be re-contributed to a plan provided this is done before the person reaches age 50.
- Allow indexing of unused RRSP contributions for individuals who are unable to contribute to an RRSP as a result of being out of the workforce (i.e., due to the loss of a job, disability, maternity or parental leave).
- Alter the current Registered Retirement Income Fund (RRIF) minimum withdrawal requirements to more appropriately reflect lower interest rates and increased longevity.

### g) *Create a New Locked-in RRSP/Group RRSP*

There is concern that RRSPs may in fact offer too much flexibility in terms of allowing individuals access to accumulated capital prior to retirement. Withdrawing funds from an RRSP not only results in the early payment of tax, but the loss of tax-deferred accumulation on the withdrawn capital.

With the introduction of the TFSA and other initiatives relating to financial literacy, it can be anticipated that fewer Canadians in the future will need to make withdrawals from their RRSPs for purposes other than funding retirement income.

However, there may be value in introducing a form of contributory "locked-in" RRSP or Group RRSP. The features of such a plan would include the following:

- It would be subject to the same contribution limits as Defined Contribution RPPs.
- It would be subject to the same qualified investment rules governing a RRSP (with the exceptions noted below).
- Direct employer contributions would be permitted and would not be subject to payroll deductions but would be fully locked-in under the plan.
- There would be no ability to withdraw funds on a tax-free basis to purchase a home, for educational purposes or to invest in shares of a private corporation.
- Before maturity of the plan, employee contributions (but not employer contributions or any accumulated income) can be transferred to a regular RRSP or used to purchase an annuity or RRIF without penalty or locking-in requirements.
- Employee withdrawals or retirement income after turning 60 years of age qualify for pension splitting and the pension income credit similar to an RPP.

This would create a form of "hybrid" registered plan that combines the attributes of an RPP and RRSP while facilitating access to advice in a member's development of a retirement plan and selection of investments.

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