March 20, 2020

Hon. Bill Morneau
Minister of Finance
Department of Finance Canada
90 Elgin Street
Ottawa, ON K1A 0G5

SENT VIA EMAIL: Bill.Morneau@canada.ca

Dear Minister Morneau:

Re: Department of Finance Canada Response to COVID-19 Pandemic
Minimum Withdrawal Rate for Registered Retirement Income Funds

On behalf of Advocis, The Financial Advisors Association of Canada, and CALU, the Conference for Advanced Life Underwriting, we are writing in regards to the Department of Finance Canada's COVID-19 Economic Response Plan. Specifically, we would like to provide our feedback and recommendations to the proposed reduction in the minimum withdrawal rate for Registered Retirement Income Funds (RRIFs).

About Advocis

Advocis is the association of choice for financial advisors and planners. With more than 13,000 members across the country, Advocis is the definitive voice of the profession, advocating for professionalism and consumer protection. Professional financial advisors and planners are critical to the ongoing success of the economy, helping consumers to make sound financial decisions that ultimately lead to greater financial stability and independence both for the consumer and the country. No one spends more time with consumers than advisors and planners, educating them about financial matters and helping them to reach their financial goals. Advocis works with decision-makers and the public, stressing the value of financial advice and striving for an environment in which all Canadians have access to the advice they need.

About CALU

CALU is the only national professional organization dedicated to advanced planning issues related to life underwriting, tax planning and wealth management. CALU's 650 industry leading members include insurance and financial advisors as well as accounting, tax, legal and actuarial experts. We advocate in support of fair and competitive public policies to grow and preserve the financial well-being of Canadians and family businesses.

Our Comments

Minimum Withdrawal Rate for RRIFs

Canada is in the midst of a major health and economic crisis, and we recognize and support the Government of Canada in taking decisive action to mitigate the harm. As part of Canada's COVID-19 Economic Response Plan, the Department of Finance Canada announced on March 18 that it would be reducing the minimum withdrawal rate for RRIFs by 25% for 2020.

While this is a step in the right direction, we strongly urge you to consider enforcing no minimum for RRIF withdrawals in 2020. Markets have fallen about 30% from their peak, in a volatile and swift manner – but for many Canadians, these are still "paper" losses and, if they have remained invested in the market, the losses have not been realized. Historically, most market crashes have been characterized by sharp declines followed by relatively quick recoveries. In almost all cases, if at all possible, it makes sense for investors to stay invested and benefit from the recovery.

Minimum withdrawals for RRIFs force investors to realize losses. Being forced to sell assets now means selling them at their nadir, regardless of whether the investor actually requires the (depressed) proceeds. Selling assets also exacerbates downward pressure on fragile markets, delaying a return to recovery. And critically, the very Canadians who are forced to sell assets in these unfavourable conditions are seniors, who are amongst our most financially vulnerable. We acknowledge and appreciate the Department of Finance Canada's 25% reduction of minimum withdrawals – but this still means that some seniors will need to liquidate up to 15% of their RRIFs at the worst time.

While we are also hopeful for a quick recovery for Canadian and global markets, we fear that the COVID-19 pandemic may have a longer term and perhaps lasting impact on interest rates and equity returns. Should investment returns continue to be suppressed over a number of years then retaining capital in registered retirement funds over the longer term takes on increased importance. Forcing funds out of the tax-sheltered environment of a RRIF in a low interest rate and volatile equity market could leave many Canadians without sufficient income in their later retirement years.

In addition, we believe that many retired Canadians have access to better options to provide short- to medium-term retirement income in this challenging economic environment. For example, they may be able to draw upon savings within non-registered GICs and TFSAs, borrow at low rates against home equity lines of credit and/or obtain short-term financial support from family members. All of these options would be preferable to being forced to sell investments in a down market.

For these reasons, we recommend that the Department of Finance Canada, as a temporary measure, suspend minimum RRIF withdrawals for this tax year. We would note that assuming markets start their recovery in the near future, any deferral of tax arising from the suspension of the minimum RRIF withdrawals would immediately start to be recovered in following taxation years under the RRIF minimum withdrawal formula and ultimately upon the death of the annuitant.

Withdrawals from Other Registered Plans

As part of the Economic Response Plan, the Government is introducing a series of emergency benefits and credits that will help Canadians of all ages access funding in a timely manner; these measures will help offset lost employment income or additional expenses incurred from looking after loved ones. Despite these new measures, Canadians may need access to additional savings to address short-term cash flow needs – including withdrawals from TFSAs or RRSPs.

We urge the Department of Finance Canada to develop strategies that would allow Canadians in need of funds in their TFSAs or RRSPs to withdraw such funds without undue penalties. We also believe consideration should be given in future budgets to accelerating contribution room increases for TFSAs and money purchase registered plans to help offset the twin effects of lower interest rates and depressed equity markets, as well as create a further financial cushion against future shocks to the global markets. We would be pleased to work with you to develop and discuss the viability of various strategies.

In the longer term we also encourage the Department of Finance Canada to take a fresh look at the rules designed to create funding and income equity between various types of registered plans in light of the current economic environment and changes in the longevity of Canadians.

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We look forward to working with the Department of Finance Canada as it establishes new programs and initiatives designed to support Canadians through this unprecedented time of challenge. Should you have any questions, please do not hesitate to contact the undersigned, or James Ryu, Senior Director of Legal and Regulatory Affairs, Advocis at jryu@advocis.ca or Kevin Wark, Tax Advisor, CALU at kwark@calu.com.

Sincerely,

Greg Pollock, M.Ed., LL.M., C.Dir., CFP
President and CEO
Advocis

Abe Toews, CFP, CLU, CH.F.C., CHS, ICD.D
Chair, National Board of Directors
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cc: Hon. Mona Fortier, Minister of Middle Class Prosperity and Associate Minister of Finance
Mr. Paul Rochon, Deputy Minister of Finance