March 1, 2023

Mr. Yves Poirier
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Personal Income Tax Division
Finance Canada
90 Elgin Street
Ottawa, Ontario K1A 0G5

Via email: Yves.Poirier@fin.gc.ca

Dear Mr. Poirier:

Re: Department of Finance Study on Registered Retirement Income Funds (RRIFs)

Thank you for inviting the Conference for Advanced Life Underwriting (CALU) to make a submission to the Department of Finance (Finance Canada) relating to Private Member's Motion M-45, introduced by the Hon. Kirsty Duncan, M.P. and adopted by the House of Commons in June 2022.[1]

CALU is Canada's national association for leaders in the life insurance and financial advisory industry. Our members include insurance and financial advisors as well as accounting, tax, legal and actuarial experts. Along with our partner organization, Advocis, we speak for more than 17,000 insurance and financial advisors in every part of Canada to grow and preserve the financial well-being of Canadians and family businesses.

We appreciate that Finance Canada has undertaken a study focused on Registered Retirement Income Funds (RRIFs), including an assessment of the current RRIF structure and rates, and has invited input from stakeholders including CALU. We are pleased to provide the following feedback in relation to this study.

Background

Recent federal governments have taken important steps to improve the retirement income system for all Canadians by introducing the Tax-Free Savings Account (TFSA), modifying the Canada Pension Plan, increasing Old Age Security benefits and introducing new forms of income payout options for certain registered retirement

[1] This motion indicated that it is the opinion of the House of Commons that the government should undertake a study examining population aging, longevity, interest rates, and registered retirement income funds (RRIFs) and report its findings and recommendations to the House within 12 months.

income plans. These improvements have been recognized in the Mercer Global Pension Index, where Canada's overall rating has incrementally improved over the past two years.[2]

It's noteworthy that the Mercer Report includes a section discussing the issues that arise from the global trend away from defined benefit pension plans to defined contribution group and individual retirement plans.[3] The Mercer Report indicates the overall result of this trend is "that many future retirees will no longer be able to rely on significant financial support from their previous employers and/or the government in times of financial stress. Individual responsibility has increased materially." This suggests that in the future "soon-to-be" retirees will need even greater education on retirement income options guided by qualified advice from professional retirement income advisors.

The Mercer Report also makes the following recommendations relating to the Canadian retirement income system:

The overall index value for the Canadian system could be increased by:

- Increasing the coverage of employees in occupational pension schemes through the development of an attractive product for those without an employer-sponsored scheme
- Introducing a minimum access age for all pension products
- Increasing the level of household savings and reducing the level of household debt
- Reducing government debt as a percentage of GDP
- Increasing the labor force participation rate at older ages as life expectancies rise
- Increasing flexibility in the retirement benefits provided

CALU's recommendations are designed to address several of the recommendation in the Mercer Report as they apply to Canadians who are not eligible for employer sponsored pension plans and therefore rely primarily on Registered Retirement Savings Plans (RRSPs) and RRIFs to provide for their retirement income.

RRSPs and RRIFs – Creating Better Supports for Lifetime Retirement Income

Many Canadians are experiencing difficulties saving sufficient funds in their RRSP due to competing needs for their financial resources early in their working lives. They often cannot take advantage of their RRSP contribution room until closer to their retirement and therefore do not fully benefit from the tax-free investing opportunity within an RRSP.

In addition, the requirement to convert an RRSP to a registered annuity or a RRIF by age 71 means that those who may out of necessity continue to work later in life are not able to continue to benefit from tax deductible contributions to an RRSP. Many of those seniors also find themselves adversely impacted by the RRIF minimum

[2] Mercer CFA Institute Global Pension Index (October 2022) (link). Herein referred to the "Mercer Report."
[3] See section 4 of the Mercer Report (pp. 32 – 41).

payout rules that force them to take money out of their RRIF even if there is no financial need to do so. This results in their retirement funds being diminished due to higher taxes payable on the withdrawn funds and loss of tax sheltering within the RRIF. In fact, mandatory RRIF withdrawals can actually push some seniors into a higher tax bracket and result in the loss of government benefits such as the Guaranteed Income Supplement benefit.

CALU shares the view of many seniors that the existing RRSP and RRIF rules do not reflect the fact that Canadians are working longer than ever before, and the length of retirement is generally longer than in the past due to increasing life expectancy. When they cannot fully take advantage of tax-free compounding within an RRSP and are forced to draw down RRIF savings, they risk outliving their funds, and that problem can be further compounded by lower interest rates as well as swings in equity markets that may take place shortly before or after retirement.

CALU's Recommendations

Given these various issues and concerns, CALU is making the following recommendations for the benefit of Canadians who rely primarily on RRSPs/RRIFs for their retirement income:

1. Allow unused RRSP contribution room to be annually indexed to partially compensate for the loss of tax-deferred savings due to the deferral of contributions as a result of other financial priorities.

2. In combination with changes to RRIF rules discussed below, permit RRSP contributions to continue past age 71.

3. Modify the RRIF payout requirements in the following ways:
    a. Reduce the RRIF minimum payout formula to allow more RRIF funds to remain tax-sheltered over a RRIF holder's lifetime.
    b. Similar to the result achieved by purchasing an Advanced Life Deferred Annuity (ALDA)[4], allow RRIF holders to exclude up to $160,000 (indexed) from the application of the RRIF minimum payment formula until the RRIF holder attains age 85.
    c. Defer immediately or over time the requirement to convert an RRSP to a RRIF to age 75.

We also recommend that the factors used to establish the RRIF minimum payment formula be made more transparent to the general public and that there be a regular process for the review of the RRIF minimum payout formula to ensure it continues to meet the income needs of older retirees.

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[4] It is important to note that we are not aware of any life insurance company that has introduced an ALDA product, and depending on the pricing of such a product there may be low uptake by retirees. However, there may be greater interest in purchasing a registered annuity later in life when longevity concerns are heightened, assuming sufficient funds can be retained in a RRIF to make this an effective strategy.

We would also note that we are modelling out the impact of these recommendations on retirement savings and retirement income and would be pleased to share the results with Finance Canada upon your request.

In Summary

We believe that implementation of CALU's recommendations will not only better address the retirement savings needs of Canadians who rely on RRSPs/RRIFs, but also create greater equity with those Canadians who participate in employer sponsored defined benefit plans.

Once again, we appreciate this opportunity to input to the Finance Canada study of RRIFs and would be pleased to engage in further dialogue on this or any other retirement income issues.

Yours truly,

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