

# **CANADIANS SAVING FOR THEIR FUTURE: A SECURE RETIREMENT**

**Final Report  
of  
the Standing Senate Committee on  
Banking, Trade and Commerce**

The Honourable Michael A. Meighen  
*Chair*  
The Honourable Céline Hervieux-Payette, PC  
*Deputy Chair*

**October 2010**

*Ce document est disponible en français.*

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## FOREWORD

I am delighted to present the final report of the Standing Senate Committee on Banking, Trade and Commerce's examination of Tax-Free Savings Accounts (TFSA's) and registered retirement savings plans (RRSP's).

Our Committee issued its interim report on this topic in June of 2010. This interim report was mostly comprised of a summary of the expert testimony and written briefs that the Committee considered in March, April and May of 2010.

Where the Committee's interim report laid out the context and the range of options through which RRSP's and TFSA's might attract greater participation, this final report makes specific proposals to assist the Federal Government in its efforts to help Canadians achieve greater retirement income security in their golden years.

Committee members are indebted to the staff of the Senate Committees Directorate and the Library of Parliament for helping to bring this report to fruition. Their professionalism and commitment to public service is to be commended.

The analytical perspectives and policy options provided by our witnesses and those who submitted written briefs must also be singled out for praise. This input equipped Committee members with a solid foundation and education on the key issues of our study, and I applaud those who furnished it.

Finally, in releasing this report, I want to acknowledge the disciplined efforts of the Senators who participated in this study. The judgment and creativity exhibited by these Senators make this Committee a joy to lead.

*MICHAEL A. MEIGHEN*  
Chair,  
Standing Senate Committee on  
Banking, Trade and Commerce



## ORDER OF REFERENCE

Extract from the *Journals of the Senate*, Wednesday, March 24, 2010:

The Honourable Senator Meighen moved, seconded by the Honourable Senator Eaton:

That the Standing Senate Committee on Banking, Trade and Commerce undertake a study of:

- the extent to which Canadians are saving in Tax-Free Savings Accounts and registered retirement savings plans;
- federal measures that might be taken to increase the use of these savings vehicles as well as the fiscal cost of increased use; and
- ways in which savings in these vehicles might be protected.

That the Committee submit its final report no later than June 30, 2010, and that the Committee retain until September 30, 2010 all powers necessary to publicize its findings.

The question being put on the motion, it was adopted.

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Extract from the *Journals of the Senate*, Tuesday, June 8, 2010:

The Honourable Senator Meighen moved, seconded by the Honourable Senator Cochrane:

That, notwithstanding the Order of the Senate adopted on Wednesday, March 24, 2010, the Standing Senate Committee on Banking, Trade and Commerce, which was authorized to undertake a study of the extent to which Canadians are saving in Tax-Free Savings Accounts and registered retirement savings plans, be empowered to extend the date of presenting its final report from June 30, 2010 to December 31, 2010; and

That the Committee retain until March 31, 2011 all powers necessary to publicize its findings.

The question being put on the motion, it was adopted.

Gary W. O'Brien  
*Clerk of the Senate*



*Please note that this summary of the recommendations should be read in the context of the reasoning presented in the body of the report. For an indication of the appropriate section of the report, please see the page number at the end of the recommendation.*

## **RECOMMENDATIONS**

1. The federal government retain the annual registered retirement savings plan contribution limit of 18 per cent of earned income, to a maximum dollar amount – currently \$22,000 – that is indexed to growth in the average wage. Moreover, the existing ability to carry forward unused registered retirement savings plan contribution room should continue.

As well, the government should take actions to encourage multi-employer pension plans, including registered retirement savings plan arrangements. Such arrangements should facilitate employer contributions on an employee's behalf. Employer contributions should be locked in for retirement purposes until the employee retires. (page 23)

2. The federal government make the necessary legislative amendments to ensure that, while remaining taxable, withdrawals from registered retirement savings plans have no impact on eligibility for, or the amount of, federal income-tested benefits and tax credits. (page 26)

3. The federal government amend the *Income Tax Act* to permit contributions to registered retirement savings plans to be made until age 75, at which time contributions and accumulated returns should be used to purchase annuities or converted to registered retirement income funds. The increase from age 71 to age 75 should be phased in over an eight-year period.

Moreover, the government should annually review the current schedule of minimum withdrawal rates from registered retirement income funds in order to ensure that it is appropriate, and should immediately make any changes that are needed. (page 30)

4. The federal government amend the *Income Tax Act* to establish, in addition to the existing annual contribution room, an amount for lifetime contributions to a Tax-Free Savings Account. The amount of the lifetime contribution room, which should be increased annually in accordance with changes in the Consumer Price Index, should initially be \$100,000.

Moreover, the existing ability to carry forward unused annual Tax-Free Savings Account contribution room should continue.  
(page 42)

5. The federal government, with the provinces and territories as well as relevant stakeholder groups, develop financial education materials that are appropriate for a range of ages and situations as well as available in various formats. These materials should be widely distributed to Canadians.

Moreover, the government should expand the mandate of, and provide appropriate resources to, the Financial Consumer Agency of Canada in order to enable it to monitor and undertake an oversight and public education role in respect of: a) the conduct of investment advisers and managers; b) any real or perceived conflicts of interest by investment advisers and managers; c) the fees charged by those in the investment industry; and d) the relationship between fees and investment performance.

The annual report of the Financial Consumer Agency of Canada should include information on, and relevant findings and recommendations about, the issues noted above. (page 53)

6. The federal government work with the provinces and territories to establish a Canada-wide voluntary plan to encourage adequate retirement saving by Canadians and to enable them to benefit from the lower fees and shared risk that may result from membership in a group.

In developing this plan, the following design principles should be respected:

- the inclusion in the plan of a limited number of professionally managed retirement funds that vary in their investment objectives and consequently their fee structures and the investment vehicles they hold;
  - a commitment to clarity, simplicity, efficiency, cost-effectiveness and low fees;
  - the establishment of a set of criteria, including the proposed fee structure and a commitment to avoidance of real and perceived conflicts of interest, for the selection of fund managers;
  - the development of a competitive process for the selection of fund managers;
  - auto-enrolment of all individuals aged 18 years or older in the plan, with the possibility of opting out;
  - the ability to have contributions to the fund(s) of the individual's choice eligible for consideration as registered retirement savings plan and/or Tax-Free Savings Account contributions, consistent with the limits to those vehicles as they may exist from time to time;
  - the ability of employers to make contributions to the fund(s) of the employee's choice, with these contributions locked in until the employee's retirement;
  - a minimum notification period to be met by individual contributors before they are able to make withdrawals from their fund(s); and
  - impartial and professional guidance about which fund is preferable for individual contributors of varying ages, levels of income, savings goals and other characteristics.
- (page 60)

*Please note that Appendix A lists the names and organizational affiliation, if any, of those who appeared before the Committee during this study. Appendix B lists the names and organizational affiliation of those who submitted a written brief but did not appear.*



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# CANADIANS SAVING FOR THEIR FUTURE: A SECURE RETIREMENT

## PART A: INTRODUCTORY COMMENTS

### CHAPTER 1: INTRODUCTION

On 24 March 2010, the Standing Senate Committee on Banking, Trade and Commerce received authorization from the Senate to study:

- the extent to which Canadians are saving in Tax-Free Savings Accounts and registered retirement savings plans;
- federal measures that might be taken to increase the use of these savings vehicles as well as the fiscal cost of increased use; and
- ways in which savings in these vehicles might be protected.

With this order of reference, over the course of six meetings in March, April and May 2010, the Committee heard from a variety of groups and individuals with an interest in the topic; written briefs were also received. Those who testified, as well as those who provided a written brief, provided us with a broad and interesting range of ideas for changing registered retirement savings plans (RRSPs) and Tax-Free Savings Accounts (TFSA) in order to increase their use by Canadians. We were also presented with their thoughts on a number of other issues related to retirement saving in Canada.

Part B of this final report, like our June 2010 interim report, summarizes the history, design, use and federal tax revenue implications of the two savings vehicles specifically mentioned in the Committee's order of reference – RRSPs and TFSA – and presents the views of our witnesses on these vehicles. Unlike the interim report, this report also contains the Committee's recommendations about these two savings vehicles. In Part C of the report, the views of witnesses on a range of other retirement-related topics are presented, and our vision for a Canada-wide voluntary plan that would, we believe, lead to a more secure retirement for Canadians is outlined. For the most part, the final report's focus is the study authorized by the Senate in March 2010, rather than the

*“Those who testified, as well as those who provided a written brief, provided [the Committee] with an interesting and broad range of ideas for changing registered retirement savings plans (RRSPs) and Tax-Free Savings Accounts (TFSA) in order to increase their use by Canadians.”*

*“... the Committee was mindful that, in many respects and for quite a number of Canadians, the nation’s retirement savings system seems to be working quite well.”*

broader range of retirement issues – including the Canada Pension Plan and multi-employer pension plans – currently being debated by the nation’s finance ministers and others.

The Committee feels that retirement savings vehicles should encourage and facilitate saving, and should have several key attributes, including: *portability*, so that contributions, accumulated investment returns and accrued pension credits – as the case may be – “move” with an individual from one workplace to another and over time; immediate *vesting* of contributions, so that individuals acquire a right to contributions made by them and – importantly – by their employer at the time those contributions are made; and at least some measure of *locking in* – for example, of employer contributions – so that funds are available when an individual retires. Moreover, we believe that individuals should have an adequate number of investment choices that are easy to understand and easily accessible, that are characterized by relatively low fees, and that are professionally managed by individuals who are free of real and perceived conflicts of interest.

In developing our recommendations, the Committee was mindful that, in many respects and for quite a number of Canadians, the nation’s retirement savings system seems to be working quite well. That being said, like virtually all systems, it is not perfect and would benefit from some changes being made, particularly for certain groups.

The Committee received what we consider to be quite compelling testimony indicating that there are some Canadians – particularly those with a low income – for whom contributions to an RRSP are not feasible and perhaps would not be in their best interest given the current design of the tax system. Their retirement income needs can be met through public pension sources with relative consistency between their pre- and post-retirement standard of living, and RRSP withdrawals could compromise their eligibility for income-tested benefits and tax credits. Another consideration is the relatively low rate of taxation, with low tax benefits, that would exist for them when contributions are made.

Moreover, high-income Canadians – including those who may or may not contribute to their RRSPs and TFSAs to the fullest extent, who may or may not belong to an occupational pension plan, and who may or may not engage in non-tax-assisted saving – are, in the Committee’s view, already assisted by the federal government in a manner that is both appropriate and adequate. For that reason, they

are not our principal focus, although we expect that they will benefit from the implementation of our recommendations.

Based on the testimony presented to the Committee and data indicating the extent to which unused RRSP – and perhaps TFSA – contribution room exists for some Canadians, we believe that the current principal focus should be middle-income Canadians, particularly those who do not belong to an occupational pension plan or who belong to a defined contribution rather than a defined benefit plan, self-employed persons who are unable to contribute to an occupational pension plan, and employees of those small and medium-sized employers that may face barriers in sponsoring an occupational pension plan. It is our hope that these groups, in particular, will benefit from the proposed Canada-wide voluntary plan to facilitate retirement saving recommended in our report.

*“... [the Committee believes that] the current principal focus should be middle-income Canadians, ..., self-employed persons ..., and employees of ... small and medium-sized employers ... .”*



## CHAPTER 2: SETTING THE CONTEXT

### A. The Canadian Retirement Income System

A number of the Committee's witnesses commented that, on balance, Canada's retirement savings system seems to be working reasonably well, particularly for those at the two extremes of the income spectrum. In their view, there is no retirement savings crisis.

For example, Mr. Malcolm Hamilton, of Mercer, commented that "[w]e do not now have a pension crisis in Canada but rather a financial crisis. In 2008, almost every asset class around the world plummeted. ... When we have savings invested and all the asset classes plummet, we have a problem ... in Canada and every other country in the world. We have a problem for every type of retirement savings plan: [registered retirement savings plans], registered pension plans, the full gamut. There is no way to make that go away. ... All the proposals now for fixing Canada's retirement income system will not alter that. If Canadians had all saved more, in 2008 Canadians would all have lost more."

Mr. Hamilton also indicated that "[w]e have had reductions in interest rates that are game-changers. They mean there is no affordable, adequate, safe pension anymore. If you want it to be safe and you want it to be adequate, it will cost a lot of money. If you are not prepared to save a lot of money and you still want it to be adequate, you have to take risk. There are many products out there that encourage people to believe that there may be a way to get the high return without really taking the risk, but I think as an operating principle people should understand, if someone is telling you that you are likely to make a higher return, you are probably taking a risk, whether you understand it or not."

Similarly, Mr. Frank Swedlove, of the Canadian Life and Health Insurance Association, supported the current retirement savings system, suggesting that "we have a structure of savings for retirement that is sound and internationally recognized as such. What we need to do is find mechanisms to allow more Canadians to take advantage of what is available. ... [W]e do not need to make major changes in the structure of the system. ... [W]e need to deal with some gaps that exist, generally among the middle-income people, in terms of their access to savings." These views were echoed by Mr. Keith Ambachtsheer, of the Rotman International Centre for Pension Management, who commented that "Canada has a very

*"... [w]e do not now have a pension crisis in Canada but rather a financial crisis. In 2008, almost every asset class around the world plummeted. ... When we have savings invested and all the asset classes plummet, we have a problem ... in Canada and every other country in the world."*

Malcolm Hamilton

***“Canada has a very good retirement income system. However, it also has some ways in which it can get better.”***

Gordon Pape

***“The system does not need a complete overhaul, but rather small changes that will make it easier for every Canadian to save for retirement. ... The challenge from a public policy standpoint is to build on the strengths of the current system and encourage more Canadians to participate.”***

ING DIRECT Canada

***“... in general, Canadians are not saving sufficiently for retirement, and initiatives to facilitate increased retirement savings are appropriate.”***

Doug Andrews

good retirement income system. However, it also has some ways in which it can get better.” Moreover, Mr. Gordon Pape, an author and publisher who appeared on his own behalf, said that Canada has “one of the best retirement planning systems in the world. ... That said, I feel it can be better and can be improved.”

ING DIRECT Canada’s written brief to the Committee expressed a similar viewpoint: “Overall, the individual pension system in Canada is working quite well. It has been recognized internationally and meets the demand of millions of Canadians. The system does not need a complete overhaul, but rather small changes that will make it easier for every Canadian to save for retirement. ... The challenge from a public policy standpoint is to build on the strengths of the current system and encourage more Canadians to participate. The right tools are in place, but human nature remains the biggest barrier to increased saving for retirement.” According to the written brief by Open Access Limited, “Canada is fortunate to have a pension system which is the envy of the world. However, Canadians are still not saving enough or early enough to retire well.”

Mr. Murray Taylor, who is with Investors Group but appeared with the Investment Funds Institute of Canada, shared the results of an Organisation for Economic Co-operation and Development study which found that “Canada has an actual income replacement ratio comparing retirees to workers of 91 per cent, one of the best in the world. Our system has not left behind the poor, as our elderly poverty rate is only 6 per cent, one of the best four countries in the world.”

Other witnesses commented on the extent to which Canadians are saving for retirement. Mr. Doug Andrews, a Chartered Financial Analyst and Fellow of the Canadian Institute of Actuaries who appeared on his own behalf, argued that, “in general, Canadians are not saving sufficiently for retirement, and initiatives to facilitate increased retirement savings are appropriate.” He cited a 2007 Institute report which concluded that “two-thirds of Canadian households expecting to retire in 2030 are not saving at levels required to meet necessary living expenses.” Ms. Tina Di Vito, of BMO Financial Group, reiterated this view, saying that “Canadians are not doing all they can to save for retirement.”

Retirement saving by private-sector employees was a focus for Mr. James Pierlot, a pension lawyer and consultant appearing on his own behalf, who told the Committee that “there is substantial reason to believe that Canadians working in the private sector are not saving enough for retirement in their [registered retirement savings

plans].” He noted that “[f]or the 75 per cent of Canadians working in the private sector who do not participate in a pension plan, [registered retirement savings plans and Tax-Free Savings Accounts] are the only vehicles available for retirement savings ... .” Mr. Pierlot also suggested that, “quite routinely, retirement savings of public sector workers are five to seven times as much as in the private sector,” giving rise to a two-tier system: “We have one [system] in the public sector where 85 per cent of workers belong to a very good pension plan and one [system] in the private sector where 75 per cent of workers do not have a pension plan, cannot join one, and their accumulations are much less.”

Mr. Leo Kolivakis, an independent pension analyst who appeared on his own behalf, urged “Canada and other nations [to take] bold steps to bolster their pension systems.” In his view, “[i]f we do not take action, more workers and pensioners face the dire prospect of pension poverty.”

## **B. The Income Replacement Rate**

In some sense, the extent to which retirement saving should occur – whether through registered retirement savings plans (RRSPs), Tax-Free Savings Accounts (TFSAs) or otherwise – should be related to the standard of living that retirees wish to have. While a 70 per cent income replacement rate is, perhaps, the standard assumption, the Committee’s witnesses provided a variety of views about this and other rates.

Mr. Hamilton, of Mercer, was among those who commented on the replacement rate. He argued that “[t]he amount Canadians need to save is hugely dependent on whether they need to have 50 per cent income replacement at retirement or 70 per cent. I have looked at these statistics for a long time, and for as long as I have looked at them, typical retiring Canadians replace 50 per cent.”

The importance of the desired post-retirement standard of living was echoed by Mr. Jamie Golombek, of CIBC Private Wealth Management, and by BMO Financial Group’s Ms. Di Vito, who said that some clients say that “the income replacement rate they are looking to create is not 50 per cent or 70 per cent. Some [suggest] that it is 100 per cent or 120 per cent because they are planning to spend more. They have raised their kids and paid their mortgage. Retirement is their time.” She also provided a caution: “In the first five or seven years when our health is good, we spend more. Canadians must think about that, because a few years of bad markets or overspending can cause retirement savings to dwindle ... .”

*“... the income replacement rate [that some clients] are looking to create is not 50 per cent or 70 per cent. Some [suggest] that it is 100 per cent or 120 per cent because they are planning to spend more. They have raised their kids and paid their mortgage. Retirement is their time.”*

Tina Di Vito

*“... [i]t may be that the 70 per cent replacement rate is not the right assumption to use. ... Maybe 70 per cent is too high, or too low.”*

Alexandre Laurin

*“Historically, ... 70 per cent was kind of almost what you would need to survive on if you were coming out of a factory job. ... [A]t that point, there was no [Canada Pension Plan], there was no Old Age Security; you were on your own. I think that so-called 70 per cent gold standard is kind of entrenched in a lot of history. I do not think there is a right number.”*

David Dodge

*“... we are doing a good job in protecting those who are at the very low level [of earnings]. Consequently, in terms of retirement savings, we are looking at the middle and upper retirement savings.”*

Doug Andrews

According to Mr. Alexandre Laurin, of the C.D. Howe Institute, “[i]t may be that the 70 per cent replacement rate is not the right assumption to use. ... Maybe 70 per cent is too high, or too low.” In his view, “[f]or high-income individuals, 70 per cent looks pretty high. Perhaps 50 per cent is enough for their retirement, especially as someone ages. Someone with a lower income would probably need 80 per cent to 90 per cent, ... .”

Mr. David Dodge, former Governor of the Bank of Canada who appeared on his own behalf, provided a historical perspective on the replacement rate, suggesting that the rate “that is adequate, like beauty, is a bit in the eye of the beholder. Historically, ... 70 per cent was kind of almost what you would need to survive on if you were coming out of a factory job. ... [A]t that point, there was no [Canada Pension Plan], there was no Old Age Security; you were on your own. I think that so-called 70 per cent gold standard is kind of entrenched in a lot of history. I do not think there is a right number. ... [I]t is a choice about what you want to do when you are retired, whether you want to do the travelling you could not do when you were working because the kids were there, or is it the exact opposite, when you retire you are happy to sit on your porch in a rocking chair. This is an individual choice.”

Similarly, Mr. Baxter Williams, an official with the federal Department of Finance, said that “lower-income individuals ... are able to easily achieve a 70 per cent replacement rate when all sources of retirement income are considered. ... Most individuals in the lower income bands would be able to achieve their retirement savings needs through public pension benefits. ... In a way, you have to look at the RRSP as not being the principal vehicle through which lower-income individuals will address their retirement income needs.” In speaking about higher-income individuals, he noted that “[t]hese individuals would rely principally on private savings in order to satisfy their retirement saving needs” since there are limits on the total amount that can be saved in an RRSP or a registered pension plan.

Likewise, Mr. Andrews, a Chartered Financial Analyst and Fellow of the Canadian Institute of Actuaries, held the view that lower-income earners are well-served, suggesting that “... we are doing a good job in protecting those who are at the very low level [of earnings]. Consequently, in terms of retirement savings, we are looking at the middle and upper retirement savings.” This view was echoed by Mr. Andrew Dunn, of Deloitte, who said that “the category of middle- to upper-income Canadians is the right area of

focus.” Similarly, in the view of Mr. Swedlove, of the Canadian Life and Health Insurance Association, “[t]he gaps in retirement-focused savings remain for middle-income earners and corresponding refinements of our private pension regime and other saving mechanisms to address these shortfalls are needed. ... [F]or the lowest income earners in Canada the replacement rate is fairly high ... .”

This view is consistent with that of Mr. Richard Shillington, of Informetrica Limited. He told the Committee that “the real problem with replacement rates is in that population of private-sector people who are middle- to upper-middle income ... .” Mr. Dodge shared his opinion that “Canadian middle- or upper-middle income earners are not saving enough, on average, to ensure a 50 per cent or 60 per cent replacement rate for their pre-retirement income – and far less than the 70 per cent gold standard.”

Finally, the Canadian Medical Association’s written brief to the Committee highlighted a conclusion reached in the *Summary Report on Retirement Income Adequacy Research*: “... income replacement rates in retirement fall below 60 per cent of after-tax income for about 35 per cent of Canadians in the top income quintile.”

***“Canadian middle- or upper-middle income earners are not saving enough, on average, to ensure a 50 per cent or 60 per cent replacement rate for their pre-retirement income – and far less than the 70 per cent gold standard.”***

David Dodge



## **PART B: REGISTERED RETIREMENT SAVINGS PLANS AND TAX-FREE SAVINGS ACCOUNTS**

### **CHAPTER 3: REGISTERED RETIREMENT SAVINGS PLANS**

#### **A. Design and Use**

According to J. Harvey Perry's *A Fiscal History of Canada – The Postwar Years*, in 1956 a number of professional associations argued that their members were facing discrimination because of their ineligibility to receive a tax deduction in relation to their personal retirement savings, unlike the tax deduction associated with occupational pension plans. They requested that this discrimination be remedied. The 1957 federal budget introduced registered retirement savings plans (RRSPs), with a maximum contribution and tax deduction limit that, at that time, was equal to the lesser of \$2,500 or 10 per cent of personal income.

Information from the Canada Revenue Agency indicates that, for the 2010 taxation year, the annual RRSP contribution limit is 18 per cent of earned income in the previous year to a maximum contribution of \$22,000, an amount that is indexed to average wage growth. Designed to encourage private saving for retirement, RRSPs provide relatively greater contribution room for individuals without an occupational pension plan; the annual RRSP contribution limit is reduced by the net pension adjustment associated with a contributor's occupational pension plan.

Unused RRSP contribution room can be carried forward to future tax years until age 71, when tax filers can no longer contribute to RRSPs. Unlike contributions to Tax-Free Savings Accounts, RRSP contributions are tax-deductible; taxes are paid when funds are withdrawn from the RRSP for retirement. Furthermore, provincial and federal income-tested benefits for seniors, including Old Age Security and Guaranteed Income Supplement payments, are reduced by income from RRSP and registered retirement income fund (RRIF) withdrawals.

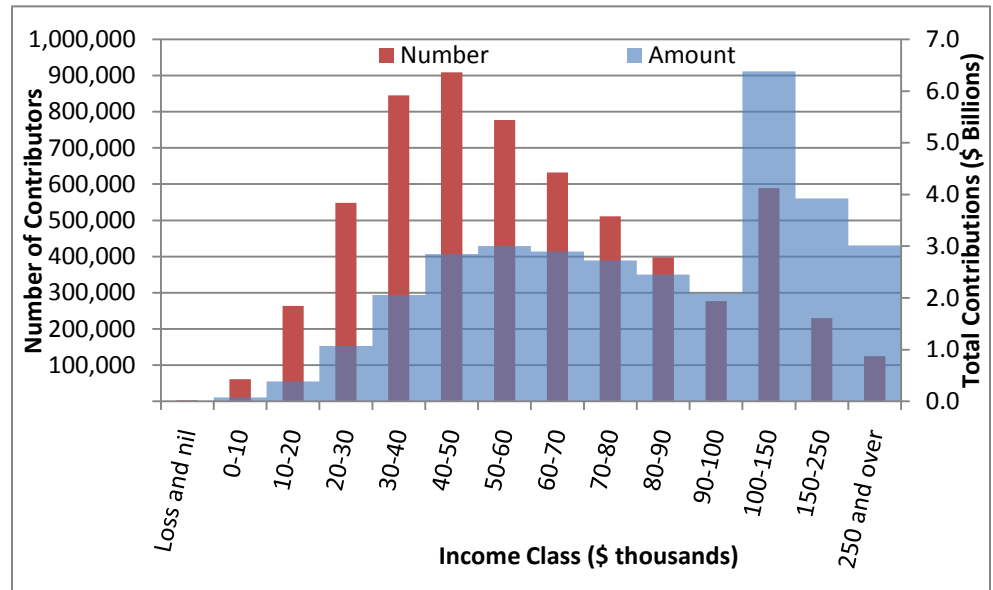
According to the Canada Revenue Agency, in the 2008 taxation year, approximately 6.2 million Canadians, or approximately 25 per cent of tax filers, contributed about \$32.9 billion to their RRSPs. The average RRSP contribution was about \$5,337 and the median contribution was about \$2,700 in that taxation year. At

*“The 1957 federal budget introduced registered retirement savings plans (RRSPs), with a maximum contribution and tax deduction limit that, at that time, was equal to the lesser of \$2,500 or 10 per cent of personal income.”*

*“Designed to encourage private saving for retirement, RRSPs provide relatively greater contribution room for individuals without an occupational pension plan; the annual RRSP contribution limit is reduced by the net pension adjustment associated with a contributor's occupational pension plan.”*

that time, the total value of assets in RRSP accounts was \$631 billion. Figure 1 indicates the number of RRSP contributors and their total contributions in the 2008 taxation year, by income class, while Figure 2 illustrates the average RRSP contribution per contributor in the 2008 taxation year, by income class.

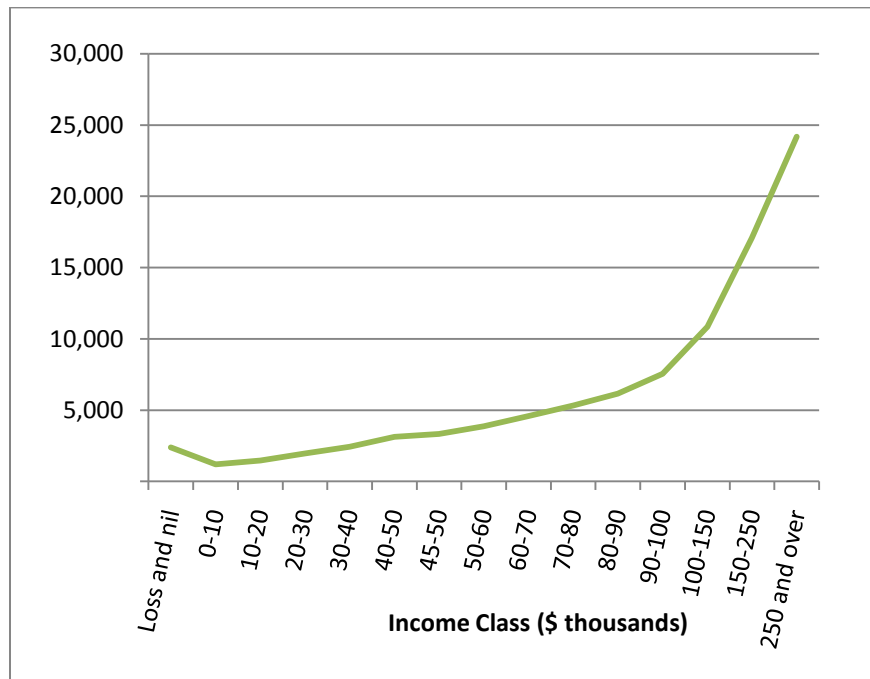
**Figure 1 – Contributors (#) and Total Contributions (\$ billions) to Registered Retirement Savings Plans, by Income Class (\$ thousands), 2008 Taxation Year**



Note: Each income bracket is \$10,000, up to \$100,000. The last three income brackets are larger, which explains the increase in the amount of RRSP contributions and the number of contributors in those classes.

Source: Figure prepared using data from: Canada Revenue Agency, *Income Statistics 2010 - 2008 tax year*, 2010, pp. 1-7, <http://www.cra-arc.gc.ca/gncy/stts/gb08/pst/ntrm/pdf/table2-eng.pdf>.

**Figure 2 – Average Registered Retirement Savings Plan Contribution per Contributor, by Income Class, 2008 Taxation Year (\$ thousands)**

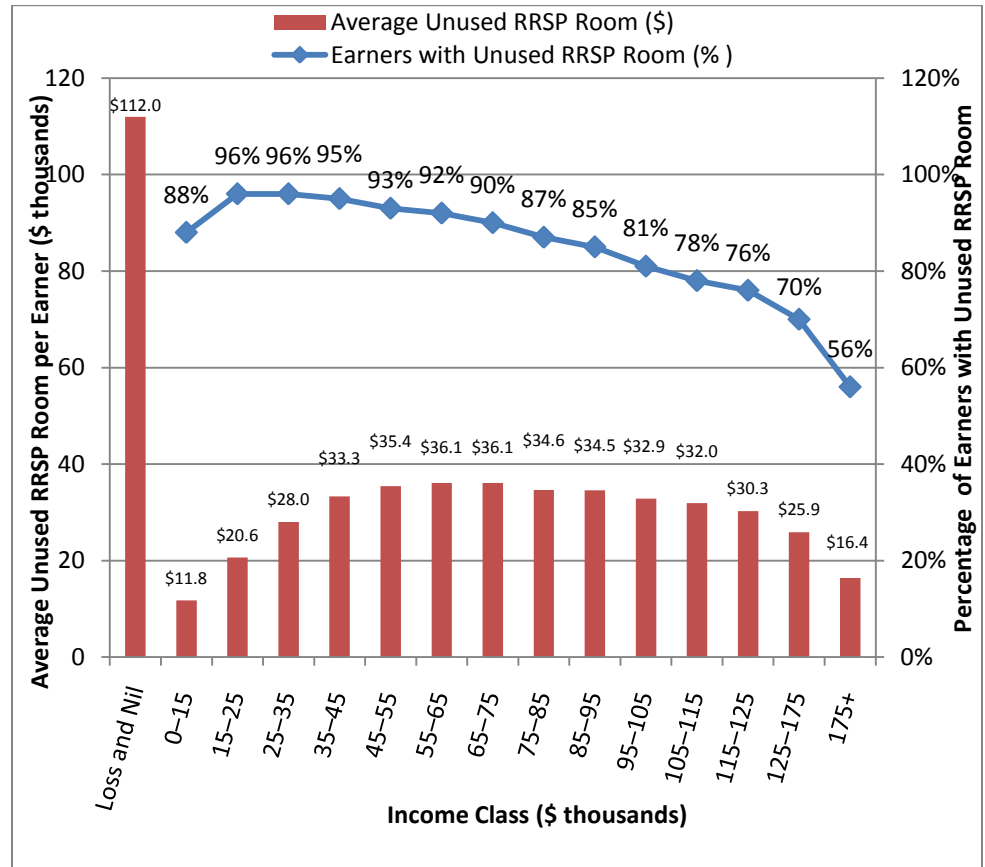


Source: Figure prepared using data from: Canada Revenue Agency, *Income Statistics 2010 - 2008 tax year*, 2010, <http://www.cra-arc.gc.ca/gncy/stts/gb08/pst/ntrm/pdf/table2-eng.pdf>.

Canadians, regardless of income class, use their RRSPs. However, in the 2007 taxation year, nearly 93 per cent of earners had unused RRSP room and, in that year, there was about \$494 billion in unused room. Figure 3 illustrates the average unused RRSP contribution room per earner and the proportion of earners with unused room, by income class, in 2006.

*“Canadians, regardless of income class, use their RRSPs.”*

**Figure 3 – Average Unused Registered Retirement Savings Plan Contribution Room per Earner (\$ thousands) and Earners with Unused Registered Retirement Savings Plan Contribution Room (%), by Income Class, 2006**



Source: Figure prepared using data from: Department of Finance's submission to the Standing Senate Committee on Banking, Trade and Commerce.

The Department of Finance projected that RRSP contributions would involve a loss in federal revenue of \$13.1 billion for the 2009 taxation year. However, it also projected that, for that year, \$4.6 billion in federal revenue would be collected through the withdrawal of funds from RRSPs. According to the Department, the net federal revenue loss associated with RRSPs for the 2009 taxation year would thus be \$8.5 billion. These projections do not consider the net provincial/territorial tax revenue implications of RRSPs.

**B.                   Witness Views and Proposals:  
Contributions and Contribution Limits**

**1.       Adequacy of the Current Contribution Limit**

According to Mr. Malcolm Hamilton, of Mercer, “the only reliable test of saving adequacy is to look at the already retired and the retiring. Whether some 40-year-old is saving enough is simply speculation at this point. You have no idea what will happen in the next 25 years of their life. When their mortgage payments stop and the kids move out, will they save more or spend more? Will interest rates go up or will they stay low? Will the stock market do well or badly?”

A number of the Committee’s witnesses argued that the RRSP contribution limit should be increased, with some commenting in the context of an annual limit and others encouraging the adoption of a lifetime limit. For example, Mr. Andrew Dunn, of Deloitte, expressed the view that “[i]f you look upon RRSPs as the primary tool for Canadians to access a lifetime averaging of earnings or a lifetime earnings approach to their savings pattern, we ... [support] substantially higher contribution limits for RRSPs, while at the same time retaining lifetime carry-forward of unused contributions. ... We would like to see an increase in both the total amount of contribution room and in the percentage rate.”

Similarly, in its written brief to the Committee, the Small Investor Protection Association urged an increase in “[a]nnual contribution limits, ... particularly for those who do not have workplace pension plans ... as well as for those who have fewer years to contribute.” In its view, in respect of the former group, “[t]he increase could be ... equivalent to the average pension contribution.”

Mr. Alexandre Laurin, of the C.D. Howe Institute, linked an increase in the RRSP contribution limit to the contributions that can be made to defined benefit pension plans, and highlighted a paper authored by Mr. Bill Robson, President and Chief Executive Officer of the C.D. Howe Institute. In that paper, Mr. Robson argued for “more tax deferral room for defined contribution plans and RRSP savers, who get less generous tax deferral room than most defined benefit participants ... .” Mr. Laurin also suggested that while this “is not to say that people will actually use that [tax deferral] room, ... it would be good to have that room there if someone wanted to use it.” Similarly, he supported improvements to “the legislative or regulatory environment around RRSP and defined contribution

*“... the only reliable test of saving adequacy is to look at the already retired and the retiring. Whether some 40-year-old is saving enough is simply speculation at this point. You have no idea what will happen in the next 25 years of their life.”*

Malcolm Hamilton

*“... we ... [support] substantially higher contribution limits for RRSPs, while at the same time retaining lifetime carry-forward of unused contributions”*

Andrew Dunn

savings to bring these plans on a level playing field with defined benefit plans.”

Like Mr. Laurin, Mr. James Pierlot – a pension lawyer and consultant appearing on his own behalf – commented on the “significant difference in availability of tax deferral room to people who save in defined contribution plans and RRSPs as opposed to defined benefit pension plans. This is because the method for equalizing savings room between the two vehicles greatly understates the value of participating in a good defined benefit pension plan. ... [T]hroughout a career, the percentage of income that you can defer in a defined benefit pension plan is much greater than the percentage of income that you can defer in an RRSP or a [defined contribution] plan. In some cases, it is twice as much.”

Former Bank of Canada Governor Mr. David Dodge, who appeared on his own behalf, provided a somewhat different view. He suggested that “the RRSP limit of 18 per cent of earnings currently eligible for deferred tax treatment is roughly adequate, or in fact more than adequate, for all those except those in the top 4 per cent or 5 per cent of earned income. ... I think the 18 per cent annual earnings limit, with carry-forward of unused room, ... seems roughly appropriate. ... You do not make [the contribution room] unlimited. It accumulates through time, and it relates to your earnings. It is doing what it is supposed to do. The carry-forward addition to the program was an extraordinarily important and valuable change.” That being said, Mr. Dodge added that “[o]thers ... have argued that the maximum earnings limit [of 18 per cent] should be increased, and I would not necessarily disagree with that.”

ING DIRECT Canada’s written brief to the Committee suggested that “[t]here is no need to raise contribution limits ... . It should not be the government’s objective to have all retirement savings grow tax-free. Those who are at the annual contribution limit should not have their savings further subsidized, but should save and invest outside of the tax-free regime.”

*“... [t]here is no need to raise contribution limits ....”*

ING DIRECT Canada

## **2. Annual and/or Lifetime Limits and Lump-sum Contributions**

While Mr. Doug Andrews, a Chartered Financial Analyst and Fellow of the Canadian Institute of Actuaries who appeared on his own behalf, supported a lifetime RRSP contribution limit of \$500,000 per taxpayer, he also said that, “[a]lternatively, if it is thought desirable to continue to relate the limit to earned income, there might be a contribution limit of \$300,000 plus six per cent of

annual earnings to a maximum annual limit of \$7,000.” In highlighting the situation in the United Kingdom, where a lifetime pension contribution limit exists, Mr. Frank Swedlove, of the Canadian Life and Health Insurance Association, suggested that a lifetime limit would “allow for greater flexibility.” In the view of Mr. Keith Ambachtsheer, of the Rotman International Centre for Pension Management, “[t]he idea of moving to a lifetime concept rather than an annual concept is sound and should be seriously examined.” Moreover, the Small Investor Protection Association, in its written brief to the Committee, argued for “a lifetime maximum contribution so that people near retirement could make larger contributions than those with many years to contribute.”

Mr. Hamilton supported a lifetime limit “so that people who have big investment losses can at least replace them with their own money in a tax-effective way.” Commenting in the context of losses experienced by defined benefit pension plans and RRSPs, he characterized a change to a lifetime limit as “a great leap forward in creating equalization between [the] public and private sectors ... .” Similarly, Mr. Ambachtsheer said that “[t]he reality is that in defined benefit plans, there is this ability to catch up. You run a collective risk-based program. If the risks go against you and you end up with a deficit, then you have time to catch up. Currently, that concept does not exist in the individual pension account world. You have one group of Canadian workers who can benefit from this averaging deferral catch-up process and you have another group that cannot. That is clearly unfair.” Mr. Pierlot noted that when an individual RRSP holder loses money, “the government does too because the money that comes out of the RRSP down the road is reduced. That means the taxes from it are reduced.” He characterized the government as “a partner in saving in an RRSP ... .”

A lifetime contribution limit – irrespective of the kind of plan to which contributions are made, which would include RRSPs, registered pension plans and other measures – was supported by Mr. Pierlot, who suggested that “[a]n amount between \$1 million and \$2 million is appropriate.” In his view, [e]veryone would [then] have the same access to tax-deferred [savings] room.” According to Mr. Pierlot, “[u]nder the current tax rules, if you participate in the most generous defined benefit pension plan that the rules allow, you can accumulate a pension that has a cash value of roughly \$2 million.”

An increase in the maximum RRSP contribution limit was supported by BMO Financial Group’s Ms. Tina Di Vito, although the amount of the increase and whether it should be an annual or a

***“... [t]he idea of moving to a lifetime concept rather than an annual concept is sound and should be seriously examined.”***

Keith Ambachtsheer

***“... [u]nder the current tax rules, if you participate in the most generous defined benefit pension plan that the rules allow, you can accumulate a pension that has a cash value of roughly \$2 million.”***

James Pierlot

***“... how do you determine what the lifetime limit will be? ... Will you have a different lifetime limit for someone earning \$25,000 a year at age 25 and someone earning \$100,000 or \$150,000 a year at age 40?”***

Gordon Pape

***“Annual limits encourage people to contribute each year, even though those limits can be carried forward”***

ING DIRECT Canada

lifetime limit was not indicated. She commented that “[a] lifetime limit for those 55 or older would certainly help with downsizing the home or any other opportunity.”

Not all of the Committee’s witnesses supported a lifetime limit, however. According to Mr. Gordon Pape, an author and publisher who appeared on his own behalf, such a limit “is unrealistic basically because how do you determine what the lifetime limit will be? ... Will you have a different lifetime limit for someone earning \$25,000 a year at age 25 and someone earning \$100,000 or \$150,000 a year at age 40? ... We have a carry-forward [provision] right now for RRSPs that is in many cases putting people in a position where they have lots of RRSP contribution room if they get an inheritance or whatever. [If a lifetime limit is under consideration], perhaps ... the idea of no limit at all [should be considered]. Why are we putting a limit on savings at all?”

ING DIRECT Canada’s written brief to the Committee also argued against a lifetime limit, indicating that movement from an annual to a lifetime limit “could actually reduce participation in [RRSPs]. Annual limits encourage people to contribute each year, even though those limits can be carried forward. Human nature being what it is, the annual deadline is a powerful tool to encourage people to make their contributions.”

In speaking about lifetime limits generally, rather than specifically in the context of either RRSPs or TFSAs, the University of British Columbia’s Mr. Kevin Milligan, who appeared on his own behalf, shared his view that the reason for lifetime limits is unclear in light of the carry-forward mechanism: “The only point in having a lifetime limit would be to allow you to access that room when you are younger, because when you are older you will be able to access your unused room [accumulated] when you were young. ... The point is [that] when people are young they are not in a position to save. ... I wonder if this is just a way for people to try to sneak in an increase in the overall limits. If that is what they want to do, that is fine. Let us advocate for a bigger limit, but let us do it in the system we have, which is the annual limit with carry-forwards, rather than trying to sneak it through the back door of lifetime limits.”

Some witnesses also commented on the need for the RRSP system to permit significant lump-sum contributions in situations where, for example, someone receives severance payments, sells their principal residence or receives an inheritance. In addition to Mr. Andrews, who supported the ability to make tax-free RRSP contributions on such income, Ms. Di Vito urged a review of a 1995

*Income Tax Act* change that removed the ability to roll severance payments into an RRSP on a tax-free basis.

For a number of the Committee's witnesses, the need for a lifetime contribution limit or the ability to make lump-sum contributions was linked to the notion that, according to Mr. Andrews, "most Canadians on an ongoing basis do not have the disposable income and perhaps also the discipline to save on an annual basis. However, I think they may come into times when they have additional amounts of savings available ... . If you had a lifetime limit, it would allow them to save at that time." Similarly, as indicated by Mr. Murray Taylor, who is with Investors Group but appeared with the Investment Funds Institute of Canada, "[b]ecause finances come in different ways at different times for different people, [a lifetime contribution limit] would make it easier for many people to utilize RRSPs, TFSAs or both."

### **3. Unused Contribution Room**

The extent to which unused contribution room exists was also noted by witnesses, including the Department of Finance's Mr. Baxter Williams, who commented that such room is a "measure of the adequacy of the existing system in providing people with an opportunity to save. ... The fact that the 18 per cent of earnings limit provides excess savings room to most Canadians is reflected in the available amount of accumulated unused RRSP room, which was about \$470 billion in 2006." He noted that "[i]t is principally among lower-income individuals where unused retirement savings room is greatest. ... In total, 91 per cent of Canadians have unused RRSP room. This suggests that only 9 per cent are constrained by the current limits to achieve savings within RRSPs and [registered pension plans]. Canadians most constrained are concentrated at higher income levels over \$100,000."

According to Mr. Hamilton, "we have \$500 billion of unused RRSP room: Does that not mean that there is something wrong with the RRSP system? I do not think so. ... I would be more worried if Statistics Canada said that all poor people are saving their 18 per cent. ... When low-income Canadians get to age 65, their incomes jump, even if they save nothing. Many of them will save nothing and should save nothing." In his opinion, "[w]e need to be careful with understanding how the system works and not fixing things that, frankly, are working properly but are widely perceived to be failing. ... It is not clear ... that Canadians save too little."

*"... most Canadians on an ongoing basis do not have the disposable income and perhaps also the discipline to save on an annual basis. However, I think they may come into times when they have additional amounts of savings available ... . If you had a lifetime limit, it would allow them to save at that time."*

Doug Andrews

*"The fact that the 18 per cent of earnings limit provides excess savings room to most Canadians is reflected in the available amount of accumulated unused RRSP room ..."*

Baxter Williams

*"... [w]e need to be careful with understanding how the system works and not fixing things that, frankly, are working properly but are widely perceived to be failing. ... It is not clear ... that Canadians save too little."*

Malcolm Hamilton

In the view of Mr. Milligan, those who do not contribute to an RRSP may have “very sensible reasons for their decision. ... Older Canadians in the bottom quartile of the income distribution already receive public pension benefits that are sufficient to sustain their preretirement lifestyles without RRSPs. Moreover, the effective tax rate on RRSP withdrawals can be extremely high, making RRSPs an unwise choice for low-income seniors.” He also pointed out that “those Canadians who have solid employer-sponsored pension plans might not need additional savings to sustain their lifestyles. For these reasons, we should not expect to see all Canadians participating equally in RRSPs.”

According to Mr. Andrews, “[t]he statistic about the unused RRSP [contribution] room hides that a number of Canadians are already saving the maximum and need to save more. Therefore, ... you need to raise the limits on savings to permit those Canadians to save more, particularly when two-thirds of Canadians outside of the public sector do not have pension plans.”

Mr. Dunn, in speaking about unused RRSP contribution room, acknowledged that “many Canadians have not taken advantage of the opportunity to use all of their contribution room. Having said that, we see bifurcation of that average. We see many Canadians maxing out on their RRSP contributions, whereas others contribute far less.” That being said, he also indicated that “it seems to be an oxymoron to increase [RRSP contribution] limits and rates when there is such a large gap in what is being contributed today, but the average is a mask. ... Increasing RRSP contribution room, whether on a lifetime basis, either rates or a total limit, will increase the savings rate for many individuals. Therefore, more individuals will reach the desired retirement savings amount.” Similarly, Mr. Jamie Golombek, of CIBC Private Wealth Management, spoke about high-income Canadians who, because of the RRSP contribution limit, may be unable to save adequately for retirement.

*“... many Canadians have not taken advantage of the opportunity to use all of their contribution room. Having said that, we see bifurcation of that average. We see many Canadians maxing out on their RRSP contributions, whereas others contribute far less.”*

Andrew Dunn

#### **4. Definition of Income**

Mr. Swedlove commented on the definition of income that is used when determining the maximum RRSP contribution limit. In his view, “[c]ontributions to both RRSPs and pensions should reflect the same income definition, expanding the income base currently used for pensions.” He suggested that the definition could include “royalties, rents and other income from businesses, offices or property and not simply wages. ... Government should consider broadening this base further.” In particular, Mr. Swedlove said that,

“the existing definition of earned income does not work as well for [self-employed people] as it could.”

## **5. Tax Treatment of Contributions**

Ms. Di Vito advocated treating RRSP contributions in the same manner as charitable donations, and suggested that “increasing the marginal rate at which [the deduction for RRSP contributions is given] could potentially increase contributions from [middle-income earners].”

### **C. Committee Views and Recommendations: Contributions and Contribution Limits**

Like a number of our witnesses, the Committee believes that, on balance, Canada’s retirement savings system is working well: relatively small changes – rather than radical reform – may be needed to increase the savings of some Canadians. Furthermore, we feel that there is no single income replacement rate that is suitable for all Canadians: the income replacement rate that is appropriate varies from individual to individual and reflects, at least in part, each individual’s desired post-retirement standard of living. In some sense, the amount that an individual should save for retirement – one component of which may be the contributions made to an RRSP – is linked to his or her retirement income goal.

Moreover, in the Committee’s view, the existence of unused RRSP contribution room should not be interpreted to mean that this savings vehicle is ineffective, since individuals may have very valid reasons for not making contributions. For example, as we noted in the Introduction, RRSPs may not be a feasible or logical retirement savings vehicle for those with low incomes; they may be relatively unable to afford contributions and, if they did contribute, they might find that RRSP withdrawals compromised their eligibility for income-tested benefits and tax credits. Additionally, at any given point in time, individuals may choose to undertake expenditures related to learning, child-rearing, home purchase or for other purposes, rather than to undertake saving for retirement.

As well, the Committee believes that, regardless of the RRSP contribution limit, there will almost certainly be some Canadians who will use all of their contribution room and will desire more. This situation may exist, for example, for some high-income individuals. As indicated in the Introduction, these individuals are not our principal focus at this time. We reiterate our earlier view that these individuals are currently receiving what we consider to be adequate

*“... in the Committee’s view, the existence of unused RRSP contribution room should not be interpreted to mean that this savings vehicle is ineffective, since individuals may have very valid reasons for not making contributions.”*

*“... the Committee believes that, regardless of the RRSP contribution limit, there will almost certainly be some Canadians who will use all of their contribution room and will desire more.”*

and appropriate tax assistance for saving, but that they will likely benefit from the implementation of our recommendations.

As noted earlier in this chapter, a number of the Committee's witnesses commented on the RRSP contribution limit: its adequacy, its link to earnings (however defined), its existence as an annual limit, and its potential as a lifetime limit instead of – or as a supplement to – the annual limit. While we understand the proposals for an increase in the annual contribution limit, an expansion in the definition of earned income and the establishment of a lifetime limit, we believe that the current limit of 18 per cent of earned income as currently defined, to a maximum dollar limit that is indexed to average wage growth, is appropriate, particularly given the lifetime carry-forward provision for unused RRSP contribution room, which we feel should continue.

In Chapter 4, the Committee recommends a change to the Tax-Free Savings Account (TFSA) vehicle that should enable those who receive funds from such sources as severance payments, an inheritance, gains associated with the sale of real estate and other “financial windfalls” to engage in tax-assisted after-tax savings. That recommended change should also facilitate relatively greater tax-assisted saving by various groups, including self-employed Canadians who may find the current definition of “earned income” restrictive for RRSP purposes, those with fewer years left to contribute because they are nearing retirement and who wish to increase their tax-assisted retirement saving, and those who currently contribute the maximum possible amount to their RRSPs and TFSAs.

Although the notion of locking in contributions is not universally supported, the Committee agrees with the suggestion made by witnesses that some employers would be relatively more likely to make RRSP contributions on behalf of their employees if there were some assurance that these contributions would be available to employees when they retire, and not prior to retirement. In particular, we feel that such locking in might induce some small and medium-sized employers to make contributions for the benefit of their employees. Since these employees are among those who are our current principal focus, we support the notion of at least some measure of locking in of such contributions.

From that perspective, the Committee recommends that:

**The federal government retain the annual registered retirement savings plan contribution limit of 18 per cent of earned income, to a maximum dollar amount – currently \$22,000 – that is indexed to growth in the average wage. Moreover, the existing ability to carry forward unused registered retirement savings plan contribution room should continue.**

**As well, the government should take actions to encourage multi-employer pension plans, including registered retirement savings plan arrangements. Such arrangements should facilitate employer contributions on an employee's behalf. Employer contributions should be locked in for retirement purposes until the employee retires.**

Although the Committee does not, in this report, recommend an increase in the annual registered retirement savings plan contribution limit, we believe that the federal government should monitor the adequacy of the annual contribution limit and make changes to it as appropriate. Certainly, RRSP contribution limits are of concern to us, as indicated in our June 2006 report, entitled *The Demographic Time Bomb: Mitigating the Effects of Demographic Change in Canada*.

Finally, the Committee feels that those who do not have an occupational pension plan, as well as some employees in defined contribution plans, may be disadvantaged when compared to defined benefit plan members, many of whom are employed in the public service. We urge the federal government to ensure that all who save for retirement in a tax-assisted manner – whether through private investments, defined benefit or defined contribution occupational pension plans, or deferred profit sharing plans – benefit from the same level of federal tax assistance.

## **D. Witness Views and Proposals: Withdrawals**

### **1. Rate of Taxation**

In characterizing the current regime as one where “all RRSP withdrawals are included in income at the same rate ... regardless of whether the underlying source of growth in the savings is as a result of interest income, dividends or capital gains,” Mr. Dunn supported a change to the regime that would permit “the accumulation of tax

*“[The Committee urges] the federal government to ensure that all who save for retirement in a tax-assisted manner – whether through private investments, defined benefit or defined contribution occupational pension plans, or deferred profit sharing plans – benefit from the same level of federal tax assistance.”*

*“... the Home Buyers’ Plan and the Lifelong Learning Plan within the RRSP regime should be phased out: ‘Although the objective of each of these plans is laudable, the programs divert money from the primary purpose of RRSPs, which is to save for retirement.’ ”*

Gordon Pape

characteristics inside an RRSP [to] be gathered up and allowed to be reflected [upon] withdrawal of the amounts from the RRSP ... [thereby preserving] the underlying characteristics of what caused the income to accumulate. ... The purpose of that is to bias the investor to more often choose to invest in equities than fixed income.”

## **2. Withdrawals for Non-retirement Purposes**

In the view of Mr. Pape, the Home Buyers’ Plan and the Lifelong Learning Plan within the RRSP regime should be phased out: “Although the objective of each of these plans is laudable, the programs divert money from the primary purpose of RRSPs, which is to save for retirement.”

Mr. Pape shared Canada Revenue Agency data requested by him in relation to these two Plans, and observed that “[s]ince the Home Buyers’ Plan was created in 1992, Canadians have withdrawn almost \$24.3 billion from RRSPs for purposes of buying a home. Withdrawals under the Lifelong Learning Plan, which was started in 1999, total almost \$866 million. These numbers include tax information processed to date for 2009 up to the end of [the week of 16 April 2010]. Combined, we are talking about more than \$25 billion that has been taken from retirement savings and used for other purposes. ... According to the [Canada Revenue Agency], more than \$4 billion borrowed under the two plans has already been taken into income and not [been] repaid. About \$4.7 billion has been repaid. That leaves about \$13.6 billion in loans outstanding at this time. Based on the experience to date, about \$4.8 billion of that, or 35 per cent, will not be repaid. That would bring the total loss to retirement savings to almost \$9 billion. But that is only part of the story. We also need to consider the loss of growth within an RRSP as a result of these loans.”

In particular, Mr. Pape commented on the Home Buyers’ Plan, saying that it “was originally supposed to be a temporary measure ... to stimulate a moribund housing market during the recession of the early 1990s. I suggest that it has outlived its usefulness, especially now that people can use their TFSAs to save for a home and for education, if they wish. ... I suggest we get back to the original principle. ... The RRSP was always meant to be for pension purposes.”

From a different perspective, the Canadian Medical Association in its written brief to the Committee supported an expansion in the purposes for which tax-free RRSP withdrawals

could be made. In particular, it argued for a long-term care plan that “would allow tax-free withdrawals from RRSPs to fund long-term care expenses for either the RRSP investor’s own care or a family member’s care.”

### 3. Withdrawals as Income

In the view of Mr. Pape, the federal government should “end ... the practice of treating RRSP withdrawals as income for the purposes of obtaining government benefits, such as the Guaranteed Income Supplement or income-tested tax credits. RRSP withdrawals are not real income any more than a withdrawal from a savings account is income. ... I agree that people should pay tax on the withdrawal because they received a deduction when they contributed, but the financial penalties should not go beyond that.” He also noted that “[w]e recognize the principle in a [TFSA] that any money taken out of the account should not influence your eligibility for income-tested benefits or tax credits or anything else. ... [S]ince we have a tax break [when contributions are made to an RRSP], we need to pay [tax when contributions are withdrawn]. However, why are we penalizing people and taking 50 cents for every dollar off their Guaranteed Income Supplement when they are simply drawing down their own savings? ... [S]uch a system provides a disincentive to low-income people to save in RRSPs.” Mr. Pape argued that the federal government should “tax the RRSP [withdrawals] as income, but [should] not treat [the withdrawals] as income for the purpose of calculating the [Guaranteed Income Supplement payments] or other income-tested tax credits.”

A somewhat different perspective was provided by Mr. Dodge who, in commenting on the issue of RRSP withdrawals as income, indicated that “we are doing exactly the right thing in counting the withdrawals from the RRSP as income. Indeed it does reduce the entitlement for credits at the bottom end. We may want to change that, but at least in principle it is exactly the right thing to be doing. If we start to change it, we really have dramatically changed the entire old-age system.”

### 4. Pension Income-splitting

Mr. Golombek – and, by extension, the Investment Funds Institute of Canada – supported changes to the *Income Tax Act* in order to “reduce the minimum pension income splitting age with a spouse or partner from the age of 65 to 55 for RRSPs consistent with the rules governing pension plans.” In his view, such a change would eliminate a discriminatory and inequitable situation.

*“... people should pay tax on the withdrawal because they received a deduction when they contributed, but the financial penalties should not go beyond that.”*

Gordon Pape

*“... we are doing exactly the right thing in counting the withdrawals from the RRSP as income. Indeed it does reduce the entitlement for credits at the bottom end. We may want to change that, but at least in principle it is exactly the right thing to be doing.”*

David Dodge

## **E. Committee Views and Recommendations: Withdrawals**

As noted in Chapter 1, the Committee's current focus is middle-income Canadians, self-employed persons, and employees of small and medium-sized employers. That being said, we were particularly struck by the negative implications, for low-income Canadians, of RRSP withdrawals being treated as income for purposes of obtaining government benefits. While we agree that withdrawals from RRSPs should be treated as taxable income, we believe that such withdrawals should have no impact on eligibility for, or the amount of, such government programs as Guaranteed Income Supplement benefits or income-tested tax credits.

In the Committee's view, an end to the practice whereby RRSP withdrawals compromise eligibility for, or the amount of, government benefits would make RRSP contributions a more attractive option for low-income Canadians, thereby perhaps enhancing their standard of living in retirement. It would also remedy what we consider to be somewhat discriminatory treatment, since withdrawals from Tax-Free Savings Accounts do not have a negative effect on such government benefits.

From this perspective, the Committee recommends that:

**The federal government make the necessary legislative amendments to ensure that, while remaining taxable, withdrawals from registered retirement savings plans have no impact on eligibility for, or the amount of, federal income-tested benefits and tax credits.**

## **F. Witness Views and Proposals: Age of Conversion, Withdrawal Requirements and Other Issues**

### **1. Age of Conversion**

Witnesses provided a range of suggestions about the age at which RRSP contributions should end and RRSP funds should be used to purchase annuities or converted to registered retirement income funds (RRIFs): the status quo, complete elimination of a mandated conversion age, an increase from the current age of 71 years, and no firm view.

Mr. Williams was among those who did not advocate a change to the age of conversion from RRSPs to RRIFs. He did, however, suggest that “when you compare [the age 71 RRIF conversion requirement] to the average retirement age of the population, which ... is around 62 years, there is already a fairly substantial margin built into that. You would expect that by age 71, the large majority of the population would have entered into retirement.”

Elimination of the current conversion requirement at age 71 was supported by Ms. Di Vito, who suggested that “[a]s Canadians live longer and work longer, it makes sense [that] you should be able to save longer instead of [being forced] to stop saving at age 71 and begin withdrawing from the plan.” That being said, she also indicated that “[age] 75 would be a significant improvement.”

Mr. Hamilton disagreed with complete elimination of the age conversion requirement, arguing that “you need a limit ... if you want retirement savings plans to be about retirement instead of about estate building, you need to compel people to take the money out at some reasonable age.” He did not see small increases as problematic, however, and said: “I am happy having [the conversion age increased to] 75 years and am not concerned about ... setting it at 71 [as is currently the case] or [increasing it to] 73 years.”

In the view of Mr. Ambachtsheer, “[i]n a world of free choice, you would not have any limit at all. Why do we have one? It has to do with recouping all that tax deferral and starting to collect the taxes on those deferred wages back into the system. The reality is that there are a number of factors that come into play in the economics, including public finance, as to where you set that level. To me, it is not one of the major issues, whether it is 71 or 72.”

Mr. Laurin described the suggestion in Mr. Robson’s C.D. Howe Institute study that “the age at which people should convert their RRSP to a RRIF or Life Income Fund ... [should be raised] from 71 to 73.” A similar age was advocated by Mr. Swedlove, who argued that this higher age “would allow those still working to continue to build up their retirement savings.” Ms. Joanne De Laurentiis, of the Investment Funds Institute of Canada, indicated that “age 73 is a reasonable age to [which to] move [the age of conversion] ... . That would provide room for individuals who do not retire at the age of 65 or even the age of 70 and do not need to draw from those funds. It is a forced draw that does not appear to make sense.” In its written brief to the Committee, the Small Investor Protection Association proposed that

*“... [a]s Canadians live longer and work longer, it makes sense [that] you should be able to save longer instead of [being forced] to stop saving at age 71 and begin withdrawing from the plan.”*

Tina Di Vito

*“... if you want retirement savings plans to be about retirement instead of about estate building, you need to compel people to take the money out at some reasonable age.”*

Malcolm Hamilton

*“... the principle underlying the creation of RRIFs was ‘[a life] annuity that would [last] through your lifetime with some sort of spousal benefit after you died. ... In that context, having an age at which you begin to [draw down] the RRIF makes absolute sense.’ ”*

David Dodge

*“... people [should] draw down their savings as they need them, not on a timetable designed to allow the government earlier access to tax revenue.”*

Gordon Pape

the age be increased, but did not make a specific recommendation in this regard.

Mr. Richard Shillington, of Informetrica Limited, advocated the existence of some age limit for conversion of an RRSP, but said that “[w]hether the right age limit is 69, 70 or 71 years, I will leave to the actuaries.” In his view, “we allow the tax sheltering for the purposes of saving for retirement. In the absence of an age limit, people might accumulate a large amount of money and then be able to roll it over through their estate and avoid taxation on the principal.”

Finally, Mr. Dodge said, “I cannot tell you whether [age 71] is the appropriate age but conceptually it is the right thing to do.” According to him, the principle underlying the creation of RRIFs was “[a life] annuity that would [last] through your lifetime with some sort of spousal benefit after you died. ... In that context, having an age at which you begin to [draw down] the RRIF makes absolute sense.”

## **2. Withdrawal Requirements**

Ms. Di Vito supported “reducing the taxes on the withdrawals from the RRIF,” and specifically mentioned the types of taxes that would have been paid had that income been generated outside of the RRIF. She also advocated “reducing the prescribed rate at which RRIF withdrawals must be made ... to permit the account to last longer.” Similarly, in noting that the current RRIF minimum withdrawal rates were last adjusted in 1992, Mr. Golombek – and, by extension, the Investment Funds Institute of Canada – suggested that these minimum withdrawal rates should be reduced in order to “reflect an older population, longer lifespans and today’s low interest rate environment.” The Small Investor Protection Association’s written brief to the Committee also supported a reduction in the minimum withdrawal rates.

Mr. Pape went further, and supported an end to forced withdrawals from retirement plans. In his opinion, “people [should] draw down their savings as they need them, not on a timetable designed to allow the government earlier access to tax revenue.” Mr. Leo Kolivakis, an independent pension analyst, urged an end to automatic withdrawals at age 71, and suggested that “self-employed workers who are currently working past the age of 71 should be allowed to contribute back into their RRIFs immediately.”

## **3. Other RRIF Issues**

Witnesses also questioned whether RRIFs should be eliminated entirely, and commented on income-splitting in relation to RRIFs. According to Mr. Pape, the federal government should “do away entirely with the concept of ... RRIFs, and allow people to keep their RRSPs for life and make taxable withdrawals when they choose to do so. Eventually, all of the money will be taxed anyway when the last surviving spouse dies.”

Mr. Laurin, in citing the study authored by Mr. Robson, argued that RRIF holders should have the same spousal income-splitting opportunities as recipients of annuities from other pension plans.

#### **G. Committee Views and Recommendations: Age of Conversion and Withdrawal Requirements**

Like some of our witnesses, the Committee believes that there should be an age at which contributions to RRSPs cease and the purchase of annuities or conversion to RRIFs occurs. Similarly, we – like a number of our witnesses – feel that minimum withdrawal requirements from an RRIF should exist. After all, retirement savings plans are designed, in our view, to help Canadians meet their income needs in retirement; their objective is not to help Canadians accumulate wealth for the benefit of their estate. Moreover, it must be remembered that taxes have been deferred in respect of RRSP contributions and accumulated returns; it is rational to expect that, at some reasonable age and rate, the federal government will be able to collect tax revenue on RRSP funds.

In the Committee’s view, the age at which RRSP contributions and accumulated returns should be used to purchase annuities, or converted to RRIFs, should be increased from 71 years to 75 years over an eight-year period. While we recognize that contributions to a Tax-Free Savings Account can continue throughout life and that the average age of retirement for Canadians is currently 62 years, we also know that many Canadians are working beyond that age and are living longer, with a consequential need for their retirement saving to be perhaps higher and last longer. The change we recommend would enable Canadians – including middle-income Canadians, self-employed persons, and employees of those small and medium-sized employers that may face barriers in sponsoring an occupational pension plan – to accumulate more retirement savings.

*“... the Committee believes that there should be an age at which contributions to RRSPs cease and the purchase of annuities or conversion to RRIFs occurs. Similarly, we – like a number of our witnesses – feel that minimum withdrawal requirements from an RRIF should exist.”*

*“... [the Committee believes] that the current withdrawal rates should be examined by the federal government to ensure that they are appropriate, particularly given the demographic changes that have occurred since these rates were last adjusted.”*

While witnesses commented on the existing minimum withdrawal requirements that exist for RRIFs, the Committee feels that the testimony on this issue was not sufficiently comprehensive to enable us to make any recommendation. However, we believe that the current withdrawal rates should be regularly examined by the federal government to ensure that they are appropriate, particularly given the demographic changes that have occurred since these rates were last adjusted.

Consequently, and recognizing the current federal budgetary constraints, the Committee recommends that:

**The federal government amend the *Income Tax Act* to permit contributions to registered retirement savings plans to be made until age 75, at which time contributions and accumulated returns should be used to purchase annuities or converted to registered retirement income funds. The increase from age 71 to age 75 should be phased in over an eight-year period.**

**Moreover, the government should annually review the current schedule of minimum withdrawal rates from registered retirement income funds in order to ensure that it is appropriate, and should immediately make any changes that are needed.**

Finally, the Committee wishes to stress that withdrawals from RRSPs can compromise retirement savings goals and can reduce retirees' standard of living. That being said, we recognize the re-contributions that are made by some RRSP holders who take advantage of the Home Buyers' Plan and/or the Lifelong Learning Plan.

## **H. Witness Views and Proposals: Other Issues**

### **1. Low-income Earners**

Some of the Committee's witnesses spoke about whether it is feasible or logical for low-income earners to make contributions to an RRSP given the manner in which the tax system is currently designed. For example, Mr. Laurin indicated that “about one-third of lower-income earners can expect government payments from [Old Age Security, Canada Pension Plan, Guaranteed Income Supplement] and other programs – provincial benefits and [Goods and Services Tax] benefits, for example – to replace at least 70 per cent of their gross earnings once they retire. The need for them to save in an RRSP is much less.” In his view, the focus should be the remaining 60 per cent of earners “for whom private retirement

savings will be necessary to maintain their standard of living in retirement. Of that 60 per cent, about half are contributing to their RRSPs,” which he believed is a low proportion. Mr. Laurin also argued that “[s]ome low-income people will be in a better situation when the time comes to retire. Perhaps because they do not pay any tax at all. Or they receive a number of payments from the government ... .” In noting that contributions to registered pension plans and other pension plans are also important, however, he suggested that there are “about 18 per cent of earners who should be saving privately for their retirement but do not. That totals about 3 million Canadians.”

Mr. Williams commented that withdrawals from an RRSP “could reduce ... eligibility for Guaranteed Income Supplement benefits or reduce the value of the tax credit available to seniors based on age.” He contrasted this situation with that which exists with TFSAs, where “income earned within a TFSA and withdrawals from it are not taken into account when calculating federal income-tested benefits or tax credits.”

Moreover, Mr. Shillington characterized RRSPs as “a terrible investment for Canadians who, later in life, receive the Guaranteed Income Supplement (GIS). ... RRSPs for GIS recipients are like a mutual fund with a 50 per cent backend load ... but still taxable on the full amount before the load.” He noted that while “taking money out of an RRSP will affect your GIS benefit ... taking money out of a non-registered bank account will not affect your GIS benefit. As well, converting your house into an annuity will not affect your GIS benefit.”

## **2. Immigrants**

According to Mr. Dunn, while the RRSP system is fundamentally sound, it could be made “more effective, more attractive to immigrants to Canada ... .” He argued for a higher contribution rate from current earnings for immigrants in order to “use the RRSP regime to catch up on any retirement savings” and for “new Canadians [to] be given a first-year initial transitional RRSP contribution room ... regardless of their underlying income in that prior year [so that they can] begin planning and saving for retirement while a Canadian resident.”

In noting that “[a] foreign pension plan is subject to a different [pension adjustment] calculation than a Canadian pension plan,” Mr. Dunn shared his view that “a foreign pension plan [should] have the same right to calculate an exact pension

*“... [s]ome low-income people will be in a better situation when the time comes to retire. Perhaps because they do not pay any tax at all. Or they receive a number of payments from the government ... .”*

Alexandre Laurin

*“RRSPs for GIS recipients are like a mutual fund with a 50 per cent backend load ... but still taxable on the full amount before the load.”*

Richard Shillington

adjustment, using the same methodology as for a Canadian pension plan.” Another change in relation to foreign pension plans was also urged by him. He told the Committee that, at present, new immigrants “are entitled to avoid current taxation on a foreign pension plan for the first three years they are in Canada. After that, there is a series of anti-avoidance rules called the ‘salary deferral arrangement rules’ that sometimes cause the current taxation of foreign pension plan savings ... .” Mr. Dunn advocated extension of the three-year exemption period or, alternatively, clarification of “the salary deferral arrangements ... to make it clear that foreign pension plans would not be caught by these rules that cause current taxation of pension plan savings.”

### 3. Non-working Spouses

Mr. Dunn supported changes that would benefit non-working spouses, and supported higher accumulation of RRSP room from the years in which they are earning income in order to “make up for that [gap] ... .” Since, at present, working spouses can contribute either to their own RRSP or to their spouse’s RRSP, with their contribution room being unaffected by the decision, he argued for “additional contribution room [for contributions to be made in respect of] non-working spouses. Alternatively, the system ... could be changed to be based on a broader assortment of taxable income.”

### 4. Young Adults

In its written brief to the Committee, ING DIRECT Canada advocated the creation of a tax-free retirement savings grant for Canadians aged 18 to 25 years as a means of encouraging their participation in RRSPs. Conceptually similar to the Canada Education Savings Grant, this annual grant could match 50 per cent of the RRSP contribution, up to a maximum of \$1,250 for a \$2,500 contribution, and should be lost if the funds were withdrawn prior to retirement. ING DIRECT Canada estimated the cost of the proposed measure to be \$838 million.

According to Mr. Hamilton, there is a simple reason why young people do not save: “They do not have money. ... The pattern for the Canadian family is they live well until they have children. Then they have to buy a house, so they have the house [and] the children ... . Their standard of living at that point in time plummets. Typical Canadians will self-impovertish to buy the best house they can get. They will stretch. ... They will go through 15 to 20 lean years. ... [T]hey have three big things they have to do during their working lives to deal with life. They have to buy their house and pay

*“[T]hey have three big things they have to do during their working lives to deal with life. They have to buy their house and pay for it, raise their children and save enough to retire. ... [A]sk what the natural order is, because they cannot do them all at the same time. What is the deferrable one?”*

Malcolm Hamilton

for it, raise their children and save enough to retire. ... [A]sk what the natural order is, because they cannot do them all at the same time. What is the deferrable one? You cannot defer the children until late in life. It makes no sense to buy the house after you have raised the children and they are moving out, so the children and the house have to come early. It crowds out their retirement saving. ... [M]any of the people being called irresponsible are just struggling through life, trying to raise families and pay off their house, and then they can get on to their retirement savings.”



## **CHAPTER 4:**

### **TAX-FREE SAVINGS ACCOUNTS**

#### **A. Design and Use**

Tax-Free Savings Accounts (TFSAs) allow Canadians to earn investment income on a tax-free basis. The 2008 federal budget introduced the TFSA, which allows tax filers to make annual TFSA contributions of up to \$5,000 on which – unlike RRSP contributions – taxes have already been paid. The annual contribution limit is indexed to inflation and is rounded to the nearest multiple of \$500. Like RRSPs, unused TFSA contribution room can be carried forward to future years. In the year after an individual turns 18 years old, or becomes a Canadian resident and is at least 18 years old, he or she is eligible to contribute to a TFSA and/or to accumulate TFSA contribution room. The full value of any withdrawals from a TFSA can be re-contributed in subsequent years, in addition to any contribution room accumulated since those funds were withdrawn.

Funds withdrawn from a TFSA are tax-exempt. Furthermore, income-tested benefits, such as the Goods and Services Tax/Harmonized Sales Tax Credit, the Age Credit, and Old Age Security and Guaranteed Income Supplement benefits, are unaffected by TFSA withdrawals. The TFSA is not designed exclusively to encourage savings for retirement; funds can be withdrawn from a TFSA for any purpose.

Because TFSAs were introduced in the 2008 budget and the first contributions to a TFSA could be made in January 2009, limited data are available about the rate of use, either in aggregate or by income class, the extent to which funds are being withdrawn from TFSAs, whether for retirement or to make purchases, and/or the tax revenue implications, either federal or provincial.

That being said, according to the results of an RBC survey in October 2009, ten months after it was first possible to contribute to TFSAs, 71 per cent of surveyed Canadians were aware of the existence of the savings vehicle, and 24 per cent of surveyed Canadians had opened a TFSA.

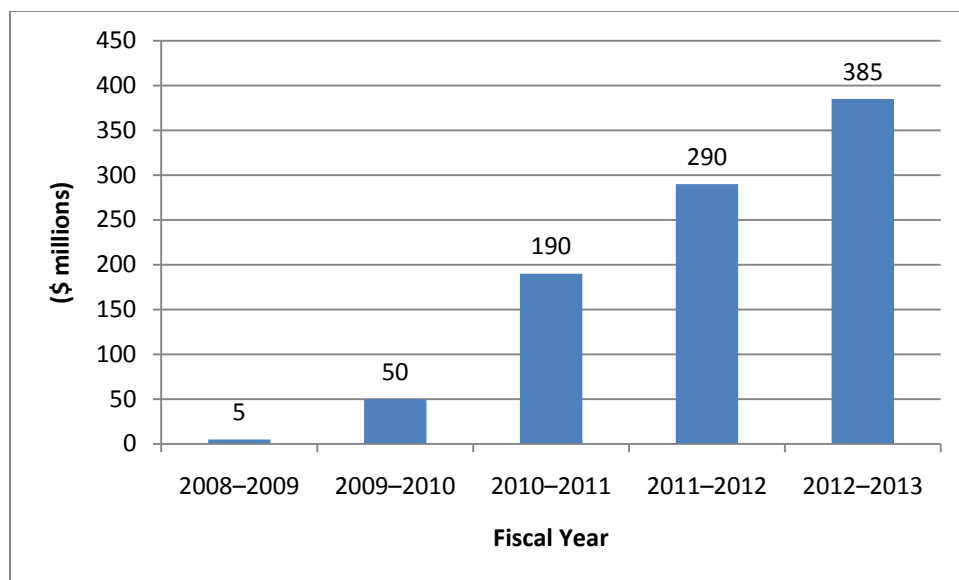
Although there is no federal revenue loss associated with contributions to TFSAs, revenue is lost when investment income is withdrawn from the account, because that income is tax-exempt. For the 2009 taxation year, the Department of Finance projected that TFSAs would involve a loss in federal tax revenue of \$45 million. No projections are available regarding the impact of TFSAs on

***“The full value of any withdrawals from a TFSA can be re-contributed in subsequent years, in addition to any contribution room accumulated since those funds were withdrawn.”***

***“... income-tested benefits, such as the Goods and Services Tax/Harmonized Sales Tax Credit, the Age Credit, and Old Age Security and Guaranteed Income Supplement benefits, are unaffected by TFSA withdrawals.”***

provincial/territorial tax revenue. Figure 4 illustrates, for the 2008-2009 to 2012-2013 period, the expected losses in federal tax revenue associated with TFSAs.

**Figure 4 – Expected Federal Tax Revenue Loss associated with Tax-Free Savings Accounts, 2008-2009 – 2012-2013 (\$ millions)**



Source: Figure prepared using data from: Department of Finance, *The Budget Plan 2008*, 26 February 2008, p. 82, <http://www.budget.gc.ca/2008/pdf/plan-eng.pdf>.

## B. Witness Views and Proposals: Current and Projected Use

Recognizing that TFSAs are a relatively new savings vehicle, witnesses shared their initial thoughts about the degree of use and the extent to which this vehicle may be preferred to such other savings vehicles as RRSPs. For example, Mr. Andrew Dunn, of Deloitte, said that “the ... TFSA ... rules are generally more generous than those affecting RRSPs, at least for every dollar of investment. That is true the longer that the savings are allowed to accumulate.” That being said, his view is that some targeted changes to the RRSP regime would mean that not many changes to TFSAs would be required. He stated that “[i]n fact, you [could] question whether you need [TFSAs].”

Ms. Tina Di Vito, of BMO Financial Group, indicated that – based on the experience of her organization to date – “TFSA contributors tend to be older and more affluent, and ... contributions are higher than ... [expected]. ... [C]ontributions tend to be around the \$4,000 range. ... [M]ost of the assets held in the TFSA tend to be very conservative – deposit accounts, term deposits and [Guaranteed

*“[M]ost of the assets held in the TFSA tend to be very conservative – deposit accounts, term deposits and [Guaranteed Investment Certificates]. Many savers are unaware that they can invest those contributions in other assets such as stocks or bonds.”*

Tina Di Vito

Investment Certificates]. Many savers are unaware that they can invest those contributions in other assets such as stocks or bonds.” In her view, “TFSAs have a lot of potential from a financial planning perspective, and not just for older and affluent people. For example, younger people may want to defer making RRSP contributions specifically because of their tax rate. A lower tax rate means a lower impact on making an RRSP contribution. They are tending to make TFSA contributions first and RRSP contributions later, when they have a higher marginal tax rate. ... For more affluent Canadians, we suggest that once they use all of their existing RRSP room, ... they can use the TFSA to supplement their savings. As Canadians get older and reach age 71, ... they now continue to save through the TFSA and continue to invest for their future.”

According to Mr. Jamie Golombek, of CIBC Private Wealth Management, “while awareness among Canadians is high, statistics have shown that only one in three Canadians have opened a TFSA. Additionally, much of the money invested in [TFSAs] is sitting in low-interest savings vehicles as opposed to being invested for the long term.” In commenting on the reasons for these investment choices, he speculated that “the average Canadian may still be unaware of the fact that a [TFSA], similar to [an] RRSP, can hold numerous investment vehicles, including stocks, bonds and mutual funds, and not merely act as a savings account.”

Mr. Baxter Williams, an official with the federal Department of Finance, spoke about a report from Investor Economics and provided Ipsos Reid survey data indicating that “Canadians opened four million TFSAs by the end of December 2009. The value of Canadians’ TFSA assets amounted to approximately \$16 billion. ... A separate survey undertaken by Leger Marketing for the Bank of Montreal found that one-third of people over 65 years of age and one-quarter of those aged 55 to 64 had opened a TFSA by February 2009.”

According to Mr. James Pierlot, a pension lawyer and consultant who appeared on his own behalf, “[a]t the end of 2009, there was about \$16 billion held in TFSAs contributed by about 4.7 million Canadians, resulting in an average account balance after the first year of operation of the TFSA of about \$3,400 per contributor. This fast rate of growth indicates that the TFSA has been quite well received by Canadians but this rate of growth cannot be expected to continue. Much of the capital contributed to TFSAs in the first year of its availability is not new savings but transfers of existing non-sheltered savings to TFSA accounts.” He expressed support for this savings vehicle, arguing that its creation has

***“... [the creation of TFSAs has] provided an overall increase in savings room for retirement and offered a new opportunity to develop a savings strategy using RRSPs and TFSAs to reduce taxable income in retirement and clawback of income-tested benefits ...”***

James Pierlot

***“... over the years there will be an increasing use of TFSAs.”***

***“... for most low-income and middle-income people, is it more beneficial to invest in a TFSA than an RRSP.”***

Alexandre Laurin

“provided an overall increase in savings room for retirement and offered a new opportunity to develop a savings strategy using RRSPs and TFSAs to reduce taxable income in retirement and clawback of income-tested benefits such as the Guaranteed Income Supplement and the [Old Age Security]. ... TFSAs can and should be an important component of retirement planning.”

Mr. Alexandre Laurin, of the C.D. Howe Institute, speculated that “over the years there will be an increasing use of TFSAs.” In his opinion, “[t]heir gain in popularity will come at least in part to the detriment of RRSPs. That is because, if one assumes no significant future change in taxes – that is, tax rates and clawbacks on government benefits remain the same and [there are] no real [changes] to the tax/transfer system ... – the overall tax burden will likely be higher on RRSP income withdrawals at retirement than it was on the RRSP contributions when savings were made. There will be a higher tax burden in retirement on withdrawals from RRSPs than the effective tax rate that was faced at the time of the RRSP contributions.” Mr. Laurin also argued that “for most low-income and middle-income people, it is more beneficial to invest in a TFSA than an RRSP.”

Mr. Williams agreed with this assessment, and said that “the TFSA improves incentives for low- and modest-income earners who may face higher effective marginal tax rates in retirement than they do during their working years.” Similarly, ING DIRECT Canada’s written brief to the Committee indicated that TFSAs are “particularly advantageous for low-income Canadians, who will not receive a benefit from RRSP tax breaks.” It also suggested that TFSAs are advantageous for “those getting close to retirement, who do not want to lose income-tested benefits ... .”

According to Mr. Leo Kolivakis, an independent pension analyst who appeared on his own behalf, while “[t]he introduction of TFSAs is a step in the right direction, ... it will have a negligible effect for the great majority of Canadians already struggling to [maximize their RRSP contributions], if they contribute at all. High-income earners with a lot more discretionary income will easily invest in TFSAs, but low- and middle-income households will find it tough to save. Even if they manage to save, they will have to invest wisely or be great speculators to make these vehicles worthwhile.”

Mr. Richard Shillington, of Informetrica Limited, argued that “TFSAs could potentially benefit two populations that could not be more different. ... For Canadians who recognize that they will be low income at retirement, TFSAs will be a way to save for retirement

while avoiding the [Guaranteed Income Supplement] clawback. ... For Canadians with extraordinary wealth, TFSAs are a way of passing assets to their children over a lifetime that could accumulate to extraordinary pools of funds of \$1 million, and yet leave them still eligible for [Guaranteed Income Supplement benefits] at retirement because the TFSA is exempt for [Guaranteed Income Supplement] eligibility.” Regarding this latter situation, he said that “we are creating a financial tax-free loophole that, in the long run, could accumulate funds to make the system lose credibility when someone is able to collect [these benefits] while sitting on \$1 million in assets.” He also expressed concern that lower-income Canadians are not receiving the financial advice they need in order to use TFSAs, including to help them choose between RRSPs and TFSAs. In his view, “[f]or lower-income Canadians, TFSAs provide an option and RRSPs are toxic.”

Although most witnesses did not comment on how TFSA funds should – or can – be spent, Mr. Doug Andrews, a Chartered Financial Analyst and Fellow of the Canadian Institute of Actuaries who appeared on his own behalf, speculated that “with an aging population, Canadians will be asked to pay for more of their own [health care] expenses than they are today, and the TFSA is an ideal vehicle to use for saving for such future expenses.” Similarly, the Canadian Medical Association’s written brief to the Committee noted that TFSAs can be used “to support Canadians’ continuing care needs.”

Mr. Frank Swedlove, of the Canadian Life and Health Insurance Association, told the Committee that “[a]lthough [TFSAs] do not specifically target retirement savings, consumer surveys suggest [that] retirement savings is a primary focus for [those who contribute to] TFSAs.”

Finally, while he characterized TFSAs as “an interesting innovation [that] offers the potential for many more Canadians to save in a tax-advantaged form,” the University of British Columbia’s Mr. Kevin Milligan, who appeared on his own behalf, voiced a concern about the long-run impact of TFSAs on the tax system as the TFSA system matures. In his view, “[i]n the first year, only \$5,000 of contribution room was available to each Canadian. However, as the system matures over the next generation, the impact will grow to be much more substantial. ... This means that for all but the very wealthiest Canadians, there will be no taxation of capital income at all. This might be desirable for the economy, but we really need to consider the long-run implications of the TFSA on the tax system.”

*“TFSAs could potentially benefit two populations that could not be more different. ... For Canadians who recognize that they will be low income at retirement, TFSAs will be a way to save for retirement while avoiding the [Guaranteed Income Supplement] clawback. ... For Canadians with extraordinary wealth, TFSAs are a way of passing assets to their children over a lifetime that could accumulate to extraordinary pools of funds of \$1 million ...”*

Richard Shillington

### C. Witness Views and Proposals: Contribution Limits

Mr. Dunn, who questioned the need for TFSAs in the event that targeted changes are made to RRSPs, commented that “[i]f there is a desire to keep the TFSA system and not make radical changes to the RRSP rules, we would suggest considering a more dramatic increase to the amount of savings that can be set aside for [TFSAs] for older Canadians. For example, Canadians 55 and older, close to retirement, would be eligible to set aside a much larger amount than the \$5,000 per year accumulation. Set that number at \$100,000 currently and allow it to catch up over time.” An increase in the contribution limit was also suggested by Mr. Andrews, who argued for “a limit of \$50,000 for TFSAs rather than requiring Canadians to transition to this limit over a period of years.”

Moreover, Mr. Shillington advocated a lifetime contribution limit, suggesting that “a lifetime limit ... of \$100,000 would satisfy most [people].” In the opinion of ING DIRECT Canada, as indicated in its written brief to the Committee, “[t]he current limit of \$5,000 per year per individual is simply not substantial enough for many people to use the TFSA as part of their retirement strategy.” In its view, “[t]he individual limit could be immediately increased to \$50,000 across the board, but with no change until 2018, at which time the limit would resume its \$5,000 annual increase.”

Reflecting the views of BMO Financial Group clients, Ms. Di Vito said, “I have heard from Canadians that \$5,000 is not a high enough limit.” She did not, however, comment on whether the limit should be increased. Mr. Golombek – and, by extension, the Investment Funds Institute of Canada – supported an increase in the “annual TFSA contribution limit beyond the current legislated indexing, as budget expenditures permit ... .” Mr. Gordon Pape, an author and publisher who appeared on his own behalf, urged reconsideration of the \$5,000 limit for those over 50 years of age, arguing that TFSAs “benefit younger people potentially much more than they benefit older people.”

*“[TFSAs] ‘benefit younger people potentially much more than they benefit older people.’ ”*

Gordon Pape

*“[I]n terms of providing older Canadians, the baby boom generation, greater opportunity for retirement savings instead of having an annual limit on TFSA accumulations, a lifetime limit might make more sense in terms of providing equal opportunity to TFSA savings room.”*

James Pierlot

Similarly, Mr. Pierlot noted that “[c]ontributions are subject to an index limit that carries forward. This is quite punitive to older Canadians in terms of fairness of access to TFSA savings, whose TFSA accumulation opportunity is significantly less than for younger Canadians.” In this context, he argued for a lifetime limit: “[I]n terms of providing older Canadians, the baby boom generation, [with] greater opportunity for retirement savings, instead of having an annual limit on TFSA accumulations a lifetime limit might make more sense in terms of providing equal opportunity to TFSA savings room.” In supporting TFSAs as a “great vehicle,” particularly for

lower-income people who will not lose their entitlement to income-tested benefits and tax credits when withdrawals are made, Mr. Pierlot said that “because [TFSAs involve] an absolute loss of tax revenue, it also argues in favour of a lifetime limit to limit the advantage of that vehicle to very high-income people.”

In the same way that witnesses advocated a change to the RRSP regime in order to permit significant lump-sum contributions to be made in certain circumstances, Mr. Andrews was among the Committee’s witnesses who believed that such contributions should also be permitted to TFSAs.

#### **D. Witness Views and Proposals: Investment Vehicle Options**

Mr. Swedlove argued that “non-commutable annuities should be permitted as both qualified arrangements and qualified investments for TFSA purposes, [which] would parallel existing rules for [registered retirement income funds] and provide consumers with a potentially valuable means of maximizing retirement income.” In the view of Mr. Golombek, “allowing an annuity investment would be another good option for Canadians.”

#### **E. Committee Views and Recommendations: Tax-Free Savings Accounts**

Consistent with the view held by a number of our witnesses, the Committee believes that the Tax-Free Savings Account vehicle is useful in helping Canadians to save, including for retirement. Like others, we also feel that this tax-assisted savings vehicle has particular advantages for some, such as those with low incomes, since saving in an RRSP may not be realistic or appropriate for them. In our opinion, it is too early to assess the adequacy of the current annual contribution room to TFSAs. Consequently, our focus instead is on the creation of lifetime contribution room to a maximum amount, which would exist in addition to the current annual contribution room.

Bearing in mind the relative unavailability of data on the extent to which contributions to TFSAs are being made, the Committee feels that the federal government should establish lifetime, inflation-adjusted TFSA contribution room in the amount of \$100,000 per individual; this room would exist in addition to the current annual, inflation-adjusted contribution room. Such a change could have several benefits. The lifetime contribution room could be used by individuals who experience a “financial windfall,” including

those we identified earlier as being our principal focus: middle-income Canadians, self-employed persons, and the employees of those small and medium-sized employers that may face barriers in sponsoring an occupational pension plan. Lifetime contribution room could also benefit those who are close to retirement and have had relatively less time to make TFSA contributions and to accumulate unused TFSA contribution room. Like the current annual amount, the lifetime contribution amount should be indexed to changes in the Consumer Price Index.

According to information provided to the Committee by the Department of Finance, the immediate introduction of lifetime TFSA contribution room of \$100,000 for individuals aged 18 and older, in addition to the inflation-adjusted annual contribution room of \$5,000, would have an initial federal cost of approximately \$600 million; this amount would gradually rise to reach about \$1.2 billion annually should everyone take full advantage of the proposed measure. These estimates consider both lower income tax revenues and higher income-tested benefits that would result from the transfer of otherwise taxable investment income into a TFSA. They are also subject to a variety of assumptions and limitations; for example, it is assumed that only this measure would be implemented, with no consideration given to interactions with other measures, and little is currently known about the interaction between RRSPs and TFSAs, which is important in developing cost estimates. While we recognize the federal budgetary constraint that currently exists, we believe that the benefits of lifetime TFSA contribution room of \$100,000 per individual, as adjusted for inflation – such as reduced public pension costs as well as higher levels of saving – would outweigh the cost.

For these reasons, and bearing in mind the current federal budgetary situation, the Committee recommends that:

**The federal government amend the *Income Tax Act* to establish, in addition to the existing annual contribution room, an amount for lifetime contributions to a Tax-Free Savings Account. The amount of the lifetime contribution room, which should be increased annually in accordance with changes in the Consumer Price Index, should initially be \$100,000.**

**Moreover, the existing ability to carry forward unused annual Tax-Free Savings Account contribution room should continue.**

In Chapter 3, the Committee commented on withdrawals from RRSPs, noting that such withdrawals could compromise a retiree's standard of living. Similarly, while we recognize that withdrawals from a TFSA can occur for any reason, we urge TFSA holders to consider using this vehicle as an important means by which tax-assisted savings can accumulate for retirement.

Finally, the Committee believes that certain elements of TFSAs are not necessarily well understood by Canadians, and feels that the federal government should develop and distribute promotional materials designed to provide information about the vehicle, its advantages and disadvantages, and the range of investment vehicles that can be held in a TFSA. In our view, a TFSA is more than the ordinary type of savings account an individual may have at his or her financial institution, and should be recognized as such.

*“... [the Committee] considers that the federal government should develop and distribute promotional materials designed to provide information about the vehicle, its advantages and disadvantages, and the range of investment vehicles that can be held in a TFSA.”*



## PART C: OTHER RETIREMENT-RELATED ISSUES

### CHAPTER 5: OTHER CONCERNS

#### A. Witness Views and Proposals: Investment Vehicles and Fees

##### 1. Vehicles

Witnesses provided the Committee with a variety of views about the range of investment options available to Canadians. For example, Mr. Doug Andrews, a Chartered Financial Analyst and Fellow of the Canadian Institute of Actuaries who appeared on his own behalf, argued that “the marketplace provides Canadians with a sufficiently large range of ... investment options, but generally the fees charged are excessive ... . Greater scrutiny of fees charged on RRSPs and [TFSA], especially management expense ratios, is recommended. One might reasonably wonder whether the public is well-served when [such] ratios exceed one per cent – and most do.”

In the view of Mr. David Dodge, former Governor of the Bank of Canada who appeared on his own behalf, “[a]rguably, the most serious problem with our current RRSP system is that there is a dearth of easily accessible and efficient investment vehicles for individuals and, even worse, a lack of efficient or low-cost annuity vehicles for individuals.” In his opinion, “it is important that people have access to investment vehicles that provide reasonable risk-adjusted net returns on their savings during their working years ... but also access to appropriate annuity or other vehicles that provide a lifetime stream of income post-retirement. ... I think in many ways our bigger problems lie not in the accumulation process but in the vehicles people have to draw down [those accumulations]. Outside of employer-sponsored defined benefit, or hybrid, plans, there do not exist efficient ways for individuals to deal with the risk of retiring at the wrong time, i.e., when asset prices are depressed or interest rates [are] well below their long-term trend. ... Practically speaking, the main option open to those with RRSPs, or in fact in most [defined contribution] pension plans, when they hit a period when returns are very low or asset prices are depressed, is simply to delay retirement and wait for interest rates and asset prices to recover.”

The Small Investor Protection Association’s written brief to the Committee also addressed the issue of investment vehicles, with a focus on seniors. It argued that “[i]nnovative and complex structured products as well as products receiving exemptive relief

*“... [a]rguably, the most serious problem with our current RRSP system is that there is a dearth of easily accessible and efficient investment vehicles for individuals and, even worse, a lack of efficient or low-cost annuity vehicles for individuals.”*

David Dodge

***“... [i]nnovative and complex structured products as well as products receiving exemptive relief should be prohibited. Risk levels must be better defined and limitations placed on the amount of risk acceptable for seniors. Records show that seniors are exposed to unacceptable and unnecessary risk.”***

Small Investor Protection  
Association

***“... [w]e need to be sure to compare apples to apples.”***

Rick Rausch

should be prohibited. Risk levels must be better defined and limitations placed on the amount of risk acceptable for seniors. Records show that seniors are exposed to unacceptable and unnecessary risk.”

## **2. Fees**

In characterizing high cost as a problem facing individual investors, Mr. Gordon Pape, an author and publisher who appeared on his own behalf, spoke about mutual fund management expense ratios, which he said “are significantly higher [in Canada] than they are in the United States. ... They significantly erode the returns that investors receive within their RRSPs.” He compared the cost of exchange-traded funds, which may range from 0.2 to 0.55 per cent, to the cost of mutual funds, which are in the 2.5 per cent range, on average, for an equity fund: “[G]enerally speaking, you are probably looking at a factor of maybe four to five times the annual cost on a retail equity mutual fund as opposed to a broadly based indexed [exchange-traded fund].” That being said, he also indicated that “[exchange-traded funds] are not broadly based anymore. Some ... have become more specialized. The more specialized the [fund], the more complex it is for the individual investor and the higher the [management expense ratios] tend to be. Some of these specialized exchange-traded funds [have] management expense ratios of over 1 per cent.”

Mr. Rick Rausch, who is with the Great-West Life Assurance Company but appeared with the Canadian Life and Health Insurance Association, addressed the issue of fees in Canada relative to the United States. He said that “[w]e need to be sure to compare apples to apples. [In the U.S.], advisory services [are charged] outside the cost of the actual investment. In Canada, most of the cost for the advisory service – the individual adviser who is providing advice and personal recommendations to the client – is included in the expense component ... .” He commented on the Canadian situation by saying that “there certainly is a higher cost for an individual, but that is normally what we experience in anything where we get personalized special services where we have to pay for advice. Everyone is a specific individual and in separate circumstances with their own financial planning. That is where a personal financial adviser can help them understand what their circumstances are relative to their financial wealth, what their objectives are, what they are trying to accomplish, how you set that up, and what should be put aside personally for your future income requirements.” In his view, “normally, with an individual who might be in a balanced

portfolio or a Canadian equity, [the fee] would probably be in the 2.5 per cent range.”

Some witnesses spoke about the relationship between fees and the size of pension assets. For example, Mr. Jamie Golombek, of CIBC Private Wealth Management, said that “[t]here is no doubt that the cost of managing mass-institutionally-managed money, whether pension funds or other, on a massive scale is certainly lower than it would be on a retail level.”

Mr. Keith Ambachtsheer, of the Rotman International Centre for Pension Management, shared his personal experiences: “I work largely with large-scaled pension plans. Their average operating cost is approximately 0.4 per cent per annum, all in – that is the investment side and the administration side. At the other extreme, if they, as many Canadians do, turn to the retail mutual fund industry to look after their RRSP needs, they will pay 2 per cent plus an annual fee. The difference between 0.4 per cent on the one hand and the 2 per cent on the other hand is a differential of 1.6 per cent per annum. That turns into an additional cost for them of 30 per cent more retirement savings that they have to contribute to get the same pension as the worker who has the benefit that a large-scale, expertly managed pension plan has.”

In speaking about the relative costs of individual and group measures as well as the benefits of a national RRSP program, Mr. Dodge said that “[t]he fundamental issue is that the individual buying the investment management services, the annuity services, or the disposition services at [the] retail [level] faces an enormous cost. The individual must put aside much more than would be the case if he or she were in a group arrangement ... .” In his view, being part of a group helps to keep the costs of management during accumulation low and allows risk-sharing across the group.

According to Mr. Leo Kolivakis, an independent pension analyst who appeared on his own behalf, the management expense ratios in Canada are “obscenely high,” “scandalous” and “among the highest in the world.” ING DIRECT Canada, in its written brief to the Committee, indicated that “unfair and high mutual fund fees can quietly erode the hard-earned investments that Canadians have put away for future years.” It cited a 2007 study which found that “mutual fund fees in Canada were substantially higher than any other country. ... [T]he asset-weighted average expense ratio for equity funds in Canada was 2.56 per cent of total assets, compared to the international average of 1.29 per cent.” ING DIRECT Canada commented that “[t]he key driver of high mutual fund expenses is

*“... [t]here is no doubt that the cost of managing mass-institutionally-managed money, whether pension funds or other, on a massive scale is certainly lower than it would be on a retail level.”*

Jamie Golombek

*“... being part of a group helps to keep the costs of management during accumulation low and allows risk-sharing across the group.”*

David Dodge

***“Every investor should be told at least once per year how much of their own money went to pay management fees.”***

ING DIRECT Canada

***“... [m]utual funds in Canada are required by regulation to publish their cost structure as part of the [management expense ratio] in a more complete and transparent fashion than most other financial products and mutual funds in other countries.”***

Murray Taylor

the lack of transparency surrounding fee disclosure,” and advocated disclosure of the total fees paid, “in both dollars and percentage of assets in every [mutual] fund’s annual statement. Every investor should be told at least once per year how much of their own money went to pay management fees. ... As well, disclosing fund performance versus appropriate index in the annual statement [would] allow Canadians to see if their high fund fees are worth improved performance, and also encourage funds to compete on cost.”

Mr. Murray Taylor, who is with Investors Group but appeared with the Investment Funds Institute of Canada, told the Committee that “[m]utual funds in Canada are required by regulation to publish their cost structure as part of the [management expense ratio] in a more complete and transparent fashion than most other financial products and mutual funds in other countries. ... [T]he average [management expense ratio] in Canada where advice is present is 2.31 per cent. ... [Typically,] 1 per cent is ... the cost of advice. ... [I]n 2009, the average return net of fees for Canadian mutual fund holders was 17.1 per cent ... .” He also said that “[o]ther countries do not have value-added tax on mutual funds,” and noted that while “Canadian [management expense ratios] are frequently cited as being much higher than the published expense ratios for U.S. mutual funds, [t]his comparison generally does not include the advice charge paid by investors in the U.S. ... When taking these charges into account, the mutual fund costs in Canada are not materially different than those in the U.S. ... On an apples and apples basis, there is really no difference if you are comparing similar service.”

A cost comparison between defined benefit pension plans and mutual funds was also provided by Mr. Taylor, who remarked that “[t]hough mutual fund returns are reported net of all fees, expenses on [defined benefit] plans are not fully included in published returns and there is no industry standard to report such fees.” He also identified the existence of “a continuum of costs across a spectrum of pension and RRSP alternatives.” Moreover, Mr. Taylor commented that for 2009 “the asset-weighted return of all currently published returns for Canada’s largest public [defined benefit] funds was only 10.6 per cent, compared to the average return for all mutual funds net of fees in Canada of 17.1 per cent or 19.8 per cent if you exclude money market funds.” Finally, he shared his view that “[t]here is no free lunch – low cost often means little or no advice, little or low money management and poorer savings outcomes.”

According to Mr. Charles Guay, who is with National Bank Securities Inc. but appeared with the Investment Funds Institute of Canada, “[w]ith some [investment] products, there are no fees at all.” Similarly, Ms. Tina Di Vito, of BMO Financial Group, and Mr. Golombek provided examples of low- or no-cost investment vehicles with which they are familiar, while the University of British Columbia’s Mr. Kevin Milligan – who appeared on his own behalf – expressed the view that “there are low-cost investment options available ... but people do not seem to always choose them, perhaps because they are getting bad advice. It is interesting that it is not that the options are not available but rather that people are not using them.”

## **B. Witness Views and Proposals: Investment Advice, Education and Financial Literacy**

### **1. Advice**

In sharing his personal experiences, Mr. Pape said that “the majority of people with RRSPs have little or no investment knowledge. We have provided them with some very lucrative tax incentives to encourage them to contribute to these plans, and then we have left them to their own devices to manage the money intelligently.” He linked education to professional advice and potential conflicts of interest, commenting that “many people seek the help of professional advisers in managing their RRSPs and, at times but not always, they receive proper guidance. Advisers who sell products are in a potential conflict of interest situation, which might work to the detriment of the client. ... I would like to believe that most advisers understand that the interest of the client should be paramount, but they have no legal responsibility to do that.”

Conflicts of interest were also discussed in the Small Investor Protection Association’s written brief to the Committee, which argued for “legislation that states unequivocally that the clients’ interests come first. The financial services industry should have a legislated fiduciary responsibility and be held accountable by the regulators if [advisers] do not place the clients’ interests first.” Moreover, in its view, “[t]he [financial services] industry has been taking advantage of ordinary investors and will continue to do so unless legislation is introduced and enforced to stop current widespread practices of selling inappropriate investments to trusting Canadians. ... As well, fraud and wrongdoing are commonplace in the regulated investment industry.” That being said, Mr. Taylor observed that “self-regulatory organizations ... – the Mutual Fund Dealers Association and ... the Investment Regulatory Organization

*“... there are low-cost investment options available ... but people do not seem to always choose them, perhaps because they are getting bad advice. It is interesting that it is not that the options are not available but rather that people are not using them.”*

Kevin Milligan

*“... the majority of people with RRSPs have little or no investment knowledge. We have provided them with some very lucrative tax incentives to encourage them to contribute to these plans, and then we have left them to their own devices to manage the money intelligently.”*

Gordon Pape

***“... [t]he rate of return on ... saving will be higher with high-quality, independent discretionary investment management, where the investment manager acts as a fiduciary solely in the best interests of the plan member. [As well,] Canadians will retire better the lower the administration costs of their retirement plans ... .”***

Open Access Limited

***“... people saving for retirement in RRSPs are effectively left on their own. ... They risk saving the wrong amounts, paying too much in investment fees, and taking on too much risk or the wrong kind of risk.”***

Alexandre Laurin

of Canada – ... hold ... advisers ... to a high standard in terms of their conduct.”

Financial advice was also mentioned in the written brief by Open Access Limited, which stated that “[t]he rate of return on ... saving will be higher with high-quality, independent discretionary investment management, where the investment manager acts as a fiduciary solely in the best interests of the plan member. [As well,] Canadians will retire better the lower the administration costs of their retirement plans ... .”

According to Mr. Taylor, “Canadians are using RRSPs, TFSA’s and other non-registered investments in large measure because of their reliance on financial advisers in Canada.” Based on Ipsos Reid’s *Canadian Financial Monitor*, he indicated that advised households “have substantially higher investment assets than non-advised households in each income range and age group ...; ... have approximately double the participation in tax-advantaged solutions such as RRSPs [70 per cent vs. 30 per cent], [registered retirement income funds], [registered education savings plans] and TFSA’s [27 per cent vs. 14 per cent] ...; ... are more confident they will have enough money to retire comfortably ... [74 per cent confident with advisers vs. 52 per cent without advisers]; and ... have portfolios that were more optimally designed for future performance ... .”

Mr. Taylor also highlighted the role of financial advisers in advancing financial literacy, with “91 per cent of investors [considering] their [adviser] to be among the top sources of information guiding their investment decisions and 72 per cent of investors with children under 18 years [citing] the financial adviser as the most important source of information to teach their children about personal finances or investing.” He also said that “advisers .... will spend about 15 hours with a new client in the first month. They will go through a complete financial plan with the client. The adviser will then spend about eight hours per year with that client into the future to address changing needs, investments, et cetera.”

## **2. Literacy and Education**

According to Mr. Alexandre Laurin, of the C.D. Howe Institute, “people saving for retirement in RRSPs are effectively left on their own. ... They risk saving the wrong amounts, paying too much in investment fees, and taking on too much risk or the wrong kind of risk.” In his view, “[o]ne way to increase the security of private retirement savings would be to provide some guidance to investors and encourage the development of new forms of

occupational pension plans that are more robust than RRSPs to individual investment and longevity risks and that will not collapse when the economy turns sour.”

In the view of Mr. Andrews, who linked expertise and fees, “[f]ew Canadians have the investment expertise and discipline to generate significant investment returns over time. Even fewer Canadians have sufficient funds and knowledge to negotiate lower [investment] fees. The fees charged represent a substantial portion of the expected investment return.” He also highlighted the requirement to “educate Canadians that they need to save more for retirement,” as did Deloitte’s Mr. Andrew Dunn, who said that “[e]ducation can play a role. There is no single bullet with a legislative amendment. A combination of nudges is needed to make a difference.” In the opinion of Mr. Frank Swedlove, of the Canadian Life and Health Insurance Association, “we need to better communicate the importance of saving for retirement, particularly to younger Canadians. ... Governments can play a strong educational role.” Mr. Frank Laferrière, who is with Manulife Securities Insurance Inc. but appeared with the Canadian Life and Health Insurance Association, said, “I believe that the real issue is the ability of Canadians to get qualified advice coupled with financial literacy and learning.”

Ms. Di Vito supported educating Canadians and shared one way in which, using a timeline, she explains the importance of saving for retirement: “You spend the first 25 or 30 years going to school, growing up. You spend the next 25 to 30 years working – maybe it is a little longer – saving and building up a net worth. Then you spend the last 25 to 35 years living off the savings you have generated and made during the middle third.” She also highlighted the results of a January 2010 BMO Financial Group study: “only 34 per cent of Canadians have a financial plan, [which] was an improvement over 2008, when only 27 per cent reported having a financial plan. We believe that having a financial plan will help identify savings gaps and create strategies to reduce those gaps.”

A particular educational need in relation to TFSAs was identified by Mr. Golombek: “For Canadians to use them effectively as part of their retirement plans, they need to be better educated about the [TFSA] investment options, ... .” He supported investment in “broad-based education plans to ensure that all Canadians are aware of their TFSA investment options.”

As well, Informetrica Limited’s Mr. Richard Shillington argued that there is “a lack of financial advice for the retail investor

*“... [f]ew Canadians have the investment expertise and discipline to generate significant investment returns over time. Even fewer Canadians have sufficient funds and knowledge to negotiate lower [investment] fees.”*

Doug Andrews

*“You spend the first 25 or 30 years going to school, growing up. You spend the next 25 to 30 years working – maybe it is a little longer – saving and building up a net worth. Then you spend the last 25 to 35 years living off the savings you have generated and made during the middle third.”*

Tina Di Vito

[about TFSAs].” He commented on the possible creation of a non-market neutral agency that would have the mandate to provide relevant information, and noted that “[n]o agency has the responsibility to ensure that the combined effect of all those programs makes sense.” In his view, people should receive “reasonable, easy-to-understand financial advice that they can trust is not coming from a marketer” and the system should be simplified so that “people can make intelligent, reasonable decisions and be treated fairly.”

The Small Investor Protection Association’s written brief to the Committee suggested that “any firm that manages a TFSA should [be required] to provide a brief outline, .... prepared by [the federal] government, ... that makes it clear that Canada [Savings] Bonds and other approved investment vehicles can be placed in these accounts as well as simple, low-interest-bearing deposits.” It believed that this information should be given before a TFSA is opened.

In the view of Mr. Ambachtsheer, “we must not overestimate the potential of the financial education campaign. It is nice to put some money into that; it cannot hurt. However, behavioural finance research tells us it will not make a huge difference for most people.”

ING DIRECT Canada, in its written brief to the Committee, expressed the opinion that “Canadians would become better informed of their situation through the creation of an annual personalized ‘check-up’ letter indicating the current status of their retirement savings from all sources.” It believed that such a letter, which would be similar to the Statement of Contributions letter created by the Canada Pension Plan, should be sent to all Canadian tax filers, and should indicate projected retirement income based on current Canada/Quebec Pension Plan and Old Age Security entitlements as well as holdings in registered pension plans, RRSPs and TFSAs.

According to the Small Investor Protection Association’s written brief to the Committee, “[t]he [federal government] needs to work with educators and [non-governmental organizations] to ensure that Canadians are made aware of the benefits of [RRSPs] in simple terms, and the impact on their future retirement.”

*“... we must not overestimate the potential of the financial education campaign. It is nice to put some money into that; it cannot hurt. However, behavioural finance research tells us it will not make a huge difference for most people.”*

Keith Ambachtsheer

**C. Committee Views and Recommendations: Advice, Literacy and Education**

In the view of the Committee, investors – whether they are saving for retirement or for other reasons – should be assured that those who provide them with investment advice and who manage their investments are free of both real and perceived conflicts of interest. This issue was of interest to us during the study that resulted in our June 2003 report, entitled *Navigating through “The Perfect Storm”: Safeguards To Restore Investor Confidence*. We also examined the issue of conflicts of interest during the study that led to our June 2006 report, entitled *Consumer Protection in the Financial Services Sector: The Unfinished Agenda*. It continues to be a topic of interest to us. Like a number of our witnesses, we are not entirely convinced that, in all cases, conflicts of interest do not exist.

Moreover, the Committee believes that investors will be better able to assess the quality of the investment advice and management they receive if they are themselves financially literate. As we have said in other reports, we feel that there is a need for greater financial literacy and education among the Canadian population, beginning at an early age and continuing throughout life. As well, in our view, there is an ongoing need for appropriate financial information; such information should be appropriate for various ages and situations, available in a variety of formats, and developed following consultation with relevant stakeholder groups. Certainly the Financial Consumer Agency of Canada already plays a role in educating Canadians about financial issues. Moreover, while such self-regulatory organizations as the Mutual Fund Dealers Association and the Investment Regulatory Organization of Canada play a role in informing investors, we are mindful that some investors may perceive the information provided by members of these organizations as biased and therefore less credible than that provided by a government agency.

Therefore, the Committee recommends that:

**The federal government, with the provinces and territories as well as relevant stakeholder groups, develop financial education materials that are appropriate for a range of ages and situations as well as available in various formats. These materials should be widely distributed to Canadians.**

**Moreover, the government should expand the mandate of, and provide appropriate resources to, the Financial Consumer Agency of Canada in order to enable it to**

*“In the view of the Committee, investors – whether they are saving for retirement or for other reasons – should be assured that those who provide them with investment advice and who manage their investments are free of both real and perceived conflicts of interest.”*

*“... the Committee believes that investors will be better able to assess the quality of the investment advice and management they receive if they are themselves financially literate.”*

**monitor and undertake an oversight and public education role in respect of: a) the conduct of investment advisers and managers; b) any real or perceived conflicts of interest by investment advisers and managers; c) the fees charged by those in the investment industry; and d) the relationship between fees and investment performance.**

**The annual report of the Financial Consumer Agency of Canada should include information on, and relevant findings and recommendations about, the issues noted above.**

Finally, the Committee realizes that there are a great many Canadians who are financially literate; however, there are also a great many who are not, and who require more – and clearer – information to assist them in making the wisest possible investment choices given their particular circumstances at a specific point in time. We believe that, in general, more information – particularly if it is clearly written in plain language – is preferable to less.

**D. Witness Views and Proposals: Multi-Employer Pension Plans, Self-Employed Persons and Group Registered Retirement Savings Plans**

A number of the Committee's witnesses supported multi-employer pension plans and argued for the removal of impediments to their establishment. Mr. Swedlove proposed the mandatory establishment of defined contribution multi-employer pension plans, whether in the form of a group RRSP, a conventional defined contribution plan or some similar arrangement, at every workplace with 20 or more employees. In his view, the result would be expanded "access to cost-effective savings plans to about 80 per cent of all Canadian workers." He envisioned automatic enrolment with the right to opt out, and automatic escalation of employee contributions.

In Mr. Swedlove's opinion, "[w]ith multi-employer plans, ... you can reduce to essentially a payroll deduction the cost of providing a pension opportunity ... . If you take away the administrative costs, you allow a multi-employer plan to be run by a financial institution, which would essentially deal with the administrative side, the legal liability aspects, et cetera, then you can significantly reduce the burden associated with operating a pension plan. Then businesses could ... [join] a multi-employer plan at low or no cost."

*"...[w]ith multi-employer plans, ... you can reduce to essentially a payroll deduction the cost of providing a pension opportunity ... ."*

Frank Swedlove

Multi-employer pension plans were also mentioned by Mr. James Pierlot, a pension lawyer and consultant who appeared on his own behalf. He noted that “80 per cent of workers work for small businesses or are self-employed. Those organizations have no ... or insufficient resources to set up pension plans. The solution could be a supplementary Canada Pension Plan [ – with defined contribution or RRSP-style accounts in addition to the Canada Pension Plan – ] or changing the tax rules which are fundamentally what control how pension plans can be established, to allow multi-employer plans those people could join on a subscription basis. ... [Since the] set-up of a supplementary [Canada Pension Plan] could take quite a bit of time and has significant expenses, ... I would like to see some attempt to change the tax rules to facilitate large multi-employer pension plans that would operate in the private sector on a competitive basis with each other. ... If that does not work, then we could go to a supplementary Canada Pension Plan arrangement.”

Finally, like Mr. Pierlot, the Canadian Medical Association – in its written brief to the Committee – also mentioned self-employed persons, arguing that tax-assisted savings vehicles for them, as well as for those who earn a high income, “need government attention ... .” It supported the exploration of “... measures that would allow organizations to sponsor [registered pension plans] and [s]upplementary [e]mployee [r]etirement [p]lans on behalf of the self-employed.”

Mr. Swedlove characterized group RRSPs as an efficient alternative to pension plans for many employers, and suggested that “[e]mployers are more likely to contribute if those contributions are locked in to ensure they are meeting the objectives of providing retirement savings.” He supported legislative change to assure such locking in and said that, at present, “[t]here is a lot of leakage with respect to RRSPs. ... [T]hat money is not ending up being used for retirement. People sometimes use it for other purposes.”

Mr. Rausch spoke about the portable nature of contributions to group RRSPs. He commented that such vehicles “operate no differently than a defined contribution pension plan today, where the ownership of that money belongs to the individual and they take that portability with a locked-in RRSP with them, have it invested and it becomes an individual plan where they can get advice on what they should be doing. They can move to another employer and be part of another pension program or group RRSP and have another account set up.” He noted that employer bankruptcy is not a concern with these arrangements, as it is with defined benefit plans, since “the

*“... 80 per cent of workers work for small businesses or are self-employed. Those organizations have no ... or insufficient resources to set up pension plans.”*

James Pierlot

*“... [e]mployers are more likely to contribute if those contributions are locked in to ensure they are meeting the objectives of providing retirement savings.”*

Frank Swedlove

individual becomes the owner of that money. It is in their account, essentially. It is just being administered on a group basis.”

A C.D. Howe Institute study authored by Mr. Bill Robson was mentioned by Mr. Laurin, who said that group RRSPs should be treated the same as defined benefit and defined contribution plans in the sense that plan “sponsors and/or participants [should be able to] deduct some administrative expenses currently levied against plan assets from outside income and ... payroll levies [should be removed] from employer contributions.”

#### **E. Witness Views and Proposals: Canada Pension Plan, the Old Age Security Program, the Canada Supplementary Pension Plan and Suggestions for Other Plans**

Mr. Ambachtsheer spoke about a paper he had authored for the C.D. Howe Institute in which he proposed the creation of a framework, called the Canada Supplementary Pension Plan, for the 5 million Canadian workers who do not belong to an occupational pension plan and who, as a consequence, are left “on their own more often than not to figure out how much they should save and what vehicles they should use for those savings.” In his opinion, the framework would enable these workers “to be able to save on an ongoing basis using their contribution room – whether it is in a TFSA or an RRSP does not matter as they are all retirement savings – and basically have a mechanism that pools those retirement savings, manages them in an expert manner at low cost so that they can turn those retirement savings into pensions at a reasonable transformation cost.” He commented that while some of the 5 million workers could benefit from higher contribution limits, “[t]he major issue is to get more workers to use the tax deferral room they already have and to use that room sensibly and cost-effectively so that they can turn their retirement savings into pensions.”

The notion of automatic enrolment, with the right to opt out, was supported by Mr. Ambachtsheer, who shared the view that “you can guide people toward better outcomes without forcing them to do it. ... [D]esign something that people automatically get enrolled into, that automatically sets a default contribution rate that makes sense and automatically sets an age-based investment policy that makes sense, and you say to people: Congratulations, you are enrolled in a system that is going to get you way down the road to a level of retirement savings that will allow you to live reasonably well when you stop working. Now, if you do not want this, you can get out.” He noted U.S. research indicating that when 401K plans have automatic

*“... [t]he major issue is to get more workers to use the tax deferral room they already have and to use that room sensibly and cost-effectively so that they can turn their retirement savings into pensions.”*

Keith Ambachtsheer

*“... you can guide people toward better outcomes without forcing them to do it.”*

Keith Ambachtsheer

enrolment, enrolment rises from 50 or 60 per cent to more than 90 per cent.

Although he did not comment on automatic enrolment in relation to any particular savings regime, Mr. Dodge said that “if you put people into something ... where you are automatically re-enrolled rather than having to re-enroll ourselves, then it has a tremendous impact on people’s behaviour. There is a lot of evidence that nudging does increase the participation rates. Whether that is good or bad is a matter for debate.” That being said, he described himself as a “voluntarist” and argued that “you should really sign up so you know what you are signing up to in the first place.”

In noting that proposals for enhanced retirement saving have included expansion of the Canada Pension Plan (CPP), either on a mandatory or voluntary basis, Mr. Andrews expressed a lack of support for either approach. According to him, “the private sector currently provides a wide range of savings vehicles offering adequate investment choice that are capably administered to those who have funds available for retirement.” In his view, if mandatory expansion of a social insurance program were desired, he would prefer that the Old Age Security program be expanded.

In drawing a parallel with Canada’s public health care system and its delivery of service at a relatively low cost, Mr. Kolivakis urged the creation of a mandatory universal pension plan, which he viewed as “[t]he only real long-term solution to addressing the pension crisis ... .” He also indicated that “[t]he current defined benefit plans which cover teachers, police officers, fire fighters and public sector workers should be extended.” He said that “[p]erhaps it is time we consider scrapping private pension plans altogether, replacing them with public defined benefit plans. ... [W]e should set up new defined benefit plans spread throughout the country ... which incorporate world-leading pension governance standards.” Mr. Kolivakis felt that the solution lies with the public sector, since “[p]rivate-sector solutions to pensions have been an abysmal failure. ... [T]hey cannot compete with the large public-sector defined benefit [pension plans] in delivering cost-effective plans. That is because large defined benefit plans are able to pool enormous sums of money, and they carry much more weight in terms of lowering the external management fees.” That being said, Mr. Kolivakis indicated that he is “highly critical of the governance of large public-sector defined benefit plans,” and advocated improved transparency and accountability. Finally, with the universal plan advocated by him, “RRSPs and [TFSA]s kind of become irrelevant.”

*“... if you put people into something ... where you are automatically re-enrolled rather than having to re-enroll ourselves, then it has a tremendous impact on people’s behaviour.”*

David Dodge

In the view of Mr. Shillington, “the only remedy out of the [current] situation ... is an increased role for some type of a mandatory expanded role of something like [the Canada Pension Plan] ... . We could have opt-out provisions for people whom we are not worried about, but there should be a significant nudge towards participating in an expanded CPP. ... [T]his is a remedy for the population that is now aged 30 or 40. It is not a remedy for the population that is aged 50 to 65.”

In its written brief to the Committee, ING DIRECT Canada suggested that every Canadian employee “not currently enrolled in a registered pension plan should have a portion of [his or her] paycheck automatically deducted and deposited in a registered account in his or her name at an institution of his or her choosing,” with the right to opt out. In its view, “[t]he RRSP should be in the individual’s name, be fully portable between institutions and jobs, and involve as little paperwork as possible.”

Open Access Limited’s written brief advocated the creation of a private-sector-based group defined contribution plan available to all employers and all employees, including the self-employed. According to this proposal, all employers would be required to have such a plan, which would be managed by a fiduciary contracted to act solely in the best interest of each plan member; the fiduciary’s only source of income would be the fees received from sponsors and plan members. All permanent and part-time employees would be automatically enrolled, with the right to opt out. The mandatory, equal contribution rate of 5 per cent for each of employees and employers would be scalable in 1 per cent increments annually, and a national regulatory body would license all fiduciary investment managers and record keepers in order to ensure that Canada-wide standards were met and enforced.

Mr. Pape argued for “the creation of a professionally managed national RRSP fund, which any individual Canadian [could] choose to opt into and which group RRSPs [could] use as well.” In his view, the creation of such a fund would solve a number of current problems and deficiencies, since it would “provide top-quality money management to those who want it, ... remove any potential conflict of interest [in respect of financial advisers, and] reduce the [investment] costs significantly.”

Moreover, Mr. Pape suggested that “[a] national RRSP plan would cost governments nothing, since the expenses would be paid for by the fund in the same way that mutual fund expenses are paid for now. We already have a prototype for this national RRSP fund in

Canada in the form of the Canada Pension Plan Investment Board. The RRSP fund could be run by a division of the [Investment Board] or by a new agency, but the principles would be the same: No government interference and the freedom to invest anywhere in the world.”

In the fund envisioned by Mr. Pape, “[p]articipation ... would be optional. There would be no compulsion. If people want to continue to use their own advisers or manage the money themselves, they should be free to do so.”

## **F. Committee Views and Recommendations: A New Plan**

In the Committee’s view, the retirement savings vehicles that are appropriate vary across Canadians and over time for any given person, depending on age, family and marital status, financial and other characteristics. Moreover, in our opinion, the larger the group participating in any given plan, the greater the extent to which administrative, investment and management expertise can be secured and the costs of that expertise can be shared.

The Committee believes that Canadians – including middle-income individuals, self-employed persons, and the employees of those small and medium-sized employers that may face barriers to sponsoring an occupational pension plan that are our current principal focus – would be best assisted in reaching their retirement savings goals through participation in a Canada-wide voluntary plan that would facilitate such saving. This plan could include a number of professionally managed funds – perhaps five – that would vary in their investment objectives. We envision a range of fee structures corresponding to the varying investment objectives and, consequently, investment vehicles held in each fund. We are mindful of the comments made by witnesses, as outlined earlier, about investment vehicles and fees.

Recognizing that individuals vary in their saving and investment objectives, and that those objectives may change over time for any particular individual, the Committee feels that individuals should be permitted to choose the fund or funds in which they wish to invest. That being said, since some minimum tenure in a fund is desirable in order to facilitate planning by fund managers, individuals should be required to provide appropriate notice prior to withdrawing their contributions and accumulated returns from the fund or funds. Moreover, in our view – and consistent with the belief

*“In the Committee’s view, the retirement savings vehicles that are appropriate vary across Canadians and over time for any given person, depending on age, family and marital status, financial and other characteristics.”*

*“The Committee believes that Canadians – including middle-income individuals, self-employed persons, and the employees of those small and medium-sized employers that may face barriers to sponsoring an occupational pension plan that are our current principal focus – would be assisted best in reaching their retirement savings goals through participation in a Canada-wide voluntary plan that would facilitate such saving.”*

of some of our witnesses – if the objective is to increase the extent to which Canadians save for their retirement, then the system should involve automatic enrolment in the proposed plan, with the right to opt out.

In the Committee's opinion, the fund managers should be selected through a competitive process, with ongoing competition among them leading – ideally – to excellent advice, low fees and reasonable investment returns.

From this perspective, the Committee recommends that:

**The federal government work with the provinces and territories to establish a Canada-wide voluntary plan to encourage adequate retirement saving by Canadians and to enable them to benefit from the lower fees and shared risk that may result from membership in a group.**

**In developing this plan, the following design principles should be respected:**

- **the inclusion in the plan of a limited number of professionally managed retirement funds that vary in their investment objectives and, consequently, their fee structures and the investment vehicles they hold;**
- **a commitment to clarity, simplicity, efficiency, cost-effectiveness and low fees;**
- **the establishment of a set of criteria, including the proposed fee structure and a commitment to avoidance of real and perceived conflicts of interest, for the selection of fund managers;**
- **the development of a competitive process for the selection of fund managers;**
- **auto-enrolment of all individuals aged 18 years or older in the plan, with the possibility of opting out;**
- **the ability to have contributions to the fund(s) of the individual's choice eligible for consideration as registered retirement savings plan and/or Tax-Free Savings Account contributions, consistent with the limits to those vehicles as they may exist from time to time;**
- **the ability of employers to make contributions to the fund(s) of their employee's choice, with these contributions locked in until the employee's retirement;**

- a minimum notification period to be met by individual contributors before they are able to make withdrawals from their fund(s); and
- impartial and professional guidance about which fund is preferable for individual contributors of varying ages, levels of income, savings goals and other characteristics.

The Committee believes that this plan would help to bridge the gap that we perceive exists between those without and those with an occupational pension plan, that we believe sometimes exists between defined benefit and defined contribution pension plan members and that we think almost always exists between public-sector and private-sector pension plan members. Moreover, we feel that it would increase retirement saving among those who are our principal focus: middle-income Canadians, self-employed persons, and employees of those small and medium-sized employers that may face barriers in sponsoring an occupational pension plan.

#### **G. Witness Views and Proposals: Flexibility**

Some witnesses argued for greater flexibility for contributions to RRSPs and TFSAs. Mr. Laurin expressed the view that taxpayers should be allowed “more freedom in allocating their tax-recognized saving room between their RRSPs and TFSAs. There is a lot of unused room in RRSPs, so why not find a way ... [to] allocate some of the room you do not use in RRSPs into TFSAs and vice versa, or marginally more savings room for TFSAs ... .” Mr. Swedlove supported the crediting of unused RRSP contribution room to defined contribution pension plans.

Flexibility was also desired in respect of tax-free rollovers. In the opinion of Ms. Di Vito, the opportunities for tax-free rollovers should be broadened when the holder of an RRSP or a registered retirement income fund dies. In particular, she believed that such rollovers should be allowed from the RRSP or the registered retirement income fund to an RRSP held by the deceased’s child(ren).

Moreover, greater flexibility regarding defined contribution plans was sought, with Mr. Laurin suggesting that annuities should be allowed within defined contribution pension plans, particularly as a plan member nears retirement age.

*“There is a lot of unused room in RRSPs ...”*

Alexandre Laurin

Finally, in its written brief to the Committee, the Small Investor Protection Association argued that RRSPs should have the same flexibility as TFSAs: people should be permitted to re-contribute amounts that are withdrawn.

#### **H. Witness Views and Proposals: Existing and Proposed Federal Credits**

In the view of Mr. Robson of the C.D. Howe Institute, as presented by Mr. Laurin, “the [federal] pension credit [should be] available to people receiving income in their [registered retirement income fund] or [Life Income Fund] regardless of age, as it is to recipients of annuities from other pension plans.”

Mr. Golombek – and, by extension, the Investment Funds Institute of Canada – also spoke about the pension credit, arguing that the “\$2,000 pension income amount should be available to [registered retirement income fund] recipients at an earlier retirement age, such as 55, as opposed to the current age of 65, to put RRSP and, ultimately, [registered retirement income fund] holders on an equal footing as recipients of annuities from registered pension plans who, if they chose early retirement before 65, can begin collecting [the] pension income credit immediately.” He also commented on the need for increases in the value of the credit to reflect inflation.

The University of British Columbia’s Mr. Kevin Milligan, who appeared on his own behalf, proposed the creation of a tax credit to encourage saving, arguing that there are two flaws in the current system of tax-assisted saving: “First, there are subtle non-economic psychic barriers to participation. Many Canadians are intimidated by the complexity of the tax system, by filling in complicated forms and by talking to a banker about investments. ... Second, many of the tax benefits are distant in the future and not salient to someone considering opening a new account now.” In his view, “a new Canada savings credit” would “mobilize new participants.”

Under Mr. Milligan’s proposal, the proposed credit would be paid when a new TFSA or RRSP account is opened, and would be conceptually similar to the Canada Learning Bond that is part of the registered education savings plan program. Receipt of the credit could depend on the account’s being low-fee and on the financial institution’s delivering publicly designed and neutral financial education. Mr. Milligan argued that the proposed credit would have three advantages: “the timing of the tax credit [would be aligned] with the incurrence of the psychic costs of opening an account;” the

proposed credit could be “targeted on income so that it targets Canadians and income groups that might need a push to get into the system and open an account;” and “it is much less fiscally expensive to give a one-time benefit than to give an ongoing annual subsidy to savings.”

## **I. Witness Views and Proposals: Pension Governance and Regulation**

In commenting on pension regulation, Mr. Ambachtsheer focused on the situation in the Netherlands earlier this decade: “After the financial crisis of 2000, 2001, 2002, when the Dutch pension plans went into deficit and there were questions about sustainability in some cases, the regulator asked ...: Why are we regulating pension plans differently from the way we regulate banks and insurance companies? The rule for banks and insurance companies is simple. When you make a promise, you have to keep it. The way you keep it is that you have enough assets on the balance sheet to secure the promise. ... [Defined benefit] plans are allowed to run deficits. ... There are significant security issues with the way we are currently running these defined benefit plans, especially in the private sector. ... Deal with solvency problems with respect to pension promises by starting to regulate defined benefit plans the same way we do banks and insurance companies. Is it a radical idea? Yes, but it is a simple idea.”

Mr. Kolivakis said that he could not “over-emphasize the need to focus on pension governance,” while Mr. James Pierlot – a pension lawyer and consultant appearing on his own behalf – suggested that “[i]t comes down to an alignment of interests of agents and principals, and governance of the plans. ... It is about how [the plan] is governed and what the incentive structure is for people who are managing the plan.”

## **J. Witness Views and Proposals: Home Ownership**

Mr. Baxter Williams, an official with the Department of Finance, was among the witnesses who mentioned home ownership as one of the assets used by Canadians to meet their retirement savings needs. Similarly, Mr. Andrews said that “the most significant component of many Canadians’ retirement savings is the family home, and solutions need to be found to release the equity in the home over the retirement period ... .” He cited a 2007 report by the Canadian Institute of Actuaries, which “quoted a Statistics Canada survey that stated that 69.2 per cent of Canadians aged 65 and older in 2005 owned a home; and that 88 per cent of those

*“... [i]t comes down to an alignment of interests of agents and principals, and governance of the plans. ... It is about how [the plan] is governed and what the incentive structure is for people who are managing the plan.”*

James Pierlot

*“... the most significant component of many Canadians’ retirement savings is the family home ...”*

Doug Andrews

homeowners did not have a mortgage. The median value of the principal residence for homeowners was \$163,800. As such, a significant part of the retirement savings of many Canadians is their home.”

According to Mr. Andrews, “a body such as the Canada Pension Plan Investment Board ..., in combination with Canada Mortgage and Housing Corporation, [should] develop an investment product that securitizes residential reverse mortgages and other real estate into an investment that would appeal to pension plans. ... There might be a provision similar to the lifelong learning plan [that would permit] those 60 years or older to take a reverse mortgage on their principal residence in an amount up to \$100,000 from their RRSP. If the home were sold before age 71, then the mortgage would have to be repaid. However, if the home were sold after age 71, the mortgage need not be repaid. The reverse mortgage would be permitted to be written at a zero per cent interest rate.”

## PART D: CONCLUDING COMMENTS

### CHAPTER 6: CONCLUSION

The Committee believes that Canadians should be able to live with dignity in their retirement years. Certainly, the ability to do so depends, in part, on having adequate retirement income. In our view, existing federal measures that provide incentives to save, including for retirement, are important. While these measures – including registered retirement savings plans (RRSPs) and Tax-Free Savings Accounts (TFSAs) – are not perfect, we feel that they are effective in promoting increased savings by some Canadians, but should be modified in the ways we recommend in order to induce greater saving by more Canadians. In our view, implementation of our recommended changes would result in increased retirement savings, particularly by middle-income Canadians, self-employed persons, and employees of those small and medium-sized employers that may face barriers in sponsoring an occupational pension plans. In particular, we think that implementation of our recommendation for a Canada-wide voluntary plan is critically important and would lead to a more secure retirement for Canadians.

The Committee recognizes that RRSPs and TFSAs, which were the primary focus of our study, are two sources of retirement income. Canadians may be able to receive retirement income from the Canada/Quebec Pension Plan, an occupational pension plan, the Old Age Security program and/or private savings that have occurred in a non-tax-assisted manner. We are also aware that the nation's finance ministers, businesses, organized labour groups, academics, public policy institutes and others are debating changes to the full range of sources of retirement income.

In that context, the Committee feels that it is timely to examine all elements of our retirement income system to ensure that the retirement needs of current and future seniors are met, and that the elements are having the intended effects and are working together as they should. Moreover, when contemplating changes, we feel that the key attributes identified by us in the Introduction – portability, vesting and locking in – should be uppermost in the minds of policy makers.

As noted in the Committee's June 2006 report, *The Demographic Time Bomb: Mitigating the Effects of Demographic Change in Canada*, the ageing of our population will influence many

*The Committee believes that Canadians should be able to live with dignity in their retirement years. Certainly, the ability to do so depends, in part, on having adequate retirement income.*

*...the Committee feels that it is timely to examine all elements of our retirement income system to ensure that the retirement needs of current and future seniors are met, and that the elements are having the intended effects and are working together as they should.*

*[The Committee believes that], for fiscal reasons, among others, appropriate incentives are needed to promote retirement saving, since greater retirement income from private savings, occupational pension plans and the Canada/Quebec Pension Plan will mean lower expenditures on Old Age Security and Guaranteed Income Supplement benefits.*

areas of federal spending, and certain expenditures are particularly sensitive to the demographic change that lies ahead. For example, the growing elderly population is expected to increase the demand for certain types of public pension benefits and healthcare services. Consequently, for fiscal reasons, among others, appropriate incentives are needed to promote retirement saving, since greater retirement income from private savings, occupational pension plans and the Canada/Quebec Pension Plan will mean lower expenditures on Old Age Security and Guaranteed Income Supplement benefits. We urge the federal government to review the recommendations we made in June 2006 with a view to implementing those that will lead to a higher standard of living and a better quality of life for those who are currently seniors and for those who will become so.

Demographic change is continuing to occur. The Canadian population is ageing. The time for needed changes to the retirement income system is at hand.

**APPENDIX A:  
WITNESSES**

<b>Date appeared</b>	<b>Name of organization</b>	<b>Name of presenter(s)</b>
March 31, 2010	Department of Finance	Baxter Williams
March 31, 2010	C.D. Howe Institute	Alexandre Laurin
April 14, 2010	Deloitte	Andrew Dunn
April 14, 2010	As an individual	Doug Andrews
April 14, 2010	BMO Financial Group	Tina Di Vito
April 14, 2010	Mercer	Malcolm Hamilton
April 15, 2010	CIBC Private Wealth Management	Jamie Golombek
April 15, 2010	Canadian Life and Health Insurance Association	Frank Swedlove Rick Rausch (Great-West Life Assurance Company) Frank Laferrière (Manulife Securities Insurance Inc.) Kevin Strain (Sun Life Financial)
April 15, 2010	Rotman International Centre for Pension Management	Keith Ambachtsheer
April 21, 2010	As an individual	Gordon Pape
April 21, 2010	As an individual	David Dodge
April 22, 2010	As an individual	Leo Kolivakis
April 22, 2010	As an individual	James Pierlot
April 22, 2010	As an individual	Kevin Milligan
April 22, 2010	Informetrica Limited	Richard Shillington
May 12, 2010	Investment Funds Institute of Canada	Joanne De Laurentiis Charles Guay (National Bank Securities Inc.) Murray Taylor (Investors Group Inc.) Gaetan Ruest (Investors Group Inc.)



**APPENDIX B:**  
**BRIEFS WITHOUT THE AUTHOR'S APPEARANCE**

<b>Name of organization</b>	<b>Name</b>	<b>Date brief was received and distributed to members</b>
Canadian Medical Association	Anne Doig	April 2010
ING DIRECT Canada	Peter Aceto	May 2010
Open Access Limited	Warren Laing	May 2010
Small Investor Protection Association	Stan I. Buell	May 2010