



Submission to the Department of Finance

Canada's Retirement Income System

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Overview and Context

Government is well-advised to be proactive considering the change in demographics, markets and practices of individual Canadians to consider the adequacy of future retirement incomes, and the system that exists in Canada. The recent financial market downturn, longer life expectancy for much of the population and a move away from private pension plan coverage precipitates a need for this discussion, and for action.

It is notable that the Department's consultation document stated that "the scope of the proposals [for changes to the retirement income system] ranges from minor refinements of pension rules and regulations to creating new broad-based pension plans." The position of the Board is closer to the former rather than the latter, as to open up wholesale changes to the system might exacerbate any real or perceived gaps between top earners and individuals with lower incomes. This situation is one to be avoided.

General Policy Considerations

The Board of Trade shares the Department of Finance's view that the country's retirement income system be based on:

- long-term sustainability
- balanced mix of mandatory and voluntary pillars, and
- shared public and private responsibilities.

The Board agrees with the Department's assertion that "care should be taken not to weaken or compromise the effectiveness of the current Canadian retirement income system". Further, the Board agrees that the overarching principles for the system be:

- affordable for individuals and businesses;
- costs incurred by governments are appropriate, affordable and sustainable;
- costs are not transferred from one generation to another;
- balance between individual and government responsibility for retirement savings, while including individual choice; and
- accessible to all Canadians.

Answers to Questions Posed

1. What are the main issues/challenges that Canadians face in saving for retirement?

- Complacency – no sense of urgency until it's too late
- Low interest and dividend rates incent immediate consumption, not saving
- 'Living to means' – a high proportion of people will live at the limit of their incomes, leaving little left for retirement funds
- Confusion – the number of private and public retirement income products available can be overwhelming to a non-expert investor and may discourage some people (particularly younger Canadians who would gain the most from early investing) from getting engaged in their retirement planning
- Lack of education on the need for retirement savings and role modeling may also discourage individuals from prioritizing retirement planning.

2. What is the appropriate role of governments in supporting Canadians to achieve adequate retirement income?

Governments must focus on early education and financial incentives up-front to prevent crisis situations rather than reactively provide more costly bailouts. Governments must be facilitators, not lenders in or guarantors of, for the retirement income system. Education would have to be partnership-based; business associations and labour organizations should be priority partners to reach large numbers of working Canadians. Incentives would have to be tax-based and may involve partnerships with provincial/territorial levels of government. The upfront cost of this approach would largely outweigh the costs of



inaction and social support type programs for those that do not adequately save for retirement.

3. Does the retirement income system currently have the appropriate mix of public and private support?

The Board would not support an increase in public direct pensions. Rather, it would support enhancing the incentives to save. We believe the onus to save should be primarily on the individual, with government's role simply to provide incentive and education. Government mandating of retirement savings or funding of public retirement programs is a less than ideal scenario that should be discouraged, without completely abdicating responsibility to help Canadians in their retirements. While this may need to be achieved over time, individuals should be primarily responsible for their retirements so that the need for public support is diminished.

4. Are changes needed to further strengthen Canada's retirement income system?

Changes are needed from an education and incentive perspective to ensure more Canadians make retirement savings a priority from day one of their careers. This could include higher incentives for early savings compared to later in life savings.

5. Should there be more mandatory retirement savings.

Each individual Canadian will need to be, and should be, responsible for his/her retirement, and this requires sufficient funds. The Board of Trade's position is not that individuals should be forced into a large number of mandatory programs, or that individuals should be forced to pay more into the system than is reasonable. The Board recognizes that, practically, Canadians have significant amounts of bills to pay; some mandatory retirement savings can ensure that some measures have been taken to plan for the future. Spending usually grows to match (and in some cases exceed) income; if the money is first diverted to mandatory retirement programs, the individual does not become accustomed to disposable increases in income that might be better diverted to retirement savings.

That said, the Board would strongly support education and incentives as inducements before advocating for mandated retirement savings. Inducements are a preferable path to regulations, but we recognize that this may not be practically possible, particularly in the short term.

6. Should individuals be auto-enrolled in any new voluntary savings program?

Voluntary savings programs should be voluntary. There should probably be more opportunity for auto-enrollment in retirement savings programs, but any program set up to be voluntary should be implemented in that manner. That said, auto-enrollment itself is something that the Board supports in principle as a means to ensure that individual Canadians' retirements are both enhanced and protected.

Creative thought was used to create and implement TFSA; this same type of thinking should be applied across the retirement income system to help Canadians save for retirement in a voluntary and flexible way, according to their means and retirement goals.

7. Should increased savings, whether mandatory or voluntary, be locked-in for retirement purposes only?

In principle, savings should be locked-in for retirement purposes only because the point of saving for retirement is not to save for a few years out but to save for retirement. There has to be some level of discretion in the system but the Board would encourage



exemptions or exceptions to be highly limited, such as in the case of catastrophic health issues. Non-retirement use of retirement savings should be limited only to essential health and safety matters.

Specifically, the Board does not support the use of savings as a means to support programs which are driven primarily by political measures rather than sound public policy (i.e. first-time home buyers, etc.).

8. Should there be more flexibility and choice with respect to private savings options.

The Board doesn't believe that individuals are asking for more choice as the top priority for their private saving options. While more choice would be a welcome, secondary, initiative of government and business, the top choice would be with respect to helping people simply save more and have their money go further. If a person is significantly limited to saving just a small percentage of their income to put into their retirement fund, they are not going to want or need more flexibility or choice. They simply want to increase the amount of money available to save. This is supported by the fact that many Canadians are in debt; these individuals are not prioritizing flexibility and choice, they are looking for ways to increase income or decrease expenses. The top priority of the retirement income system should reflect this reality. Offering more flexibility and choice is very much a secondary concern.

That said, flexibility can make private savings more attractive, but the Board would strongly encourage the retention of a minimum Canadian content for Canadian investors.

9. How would the approaches described in this paper impact you personally and/or your business?

The Board represents a wide range of businesses in St. John's; our membership is comprised of businesses with one employee and organizations with thousands. Smaller businesses may not be able to provide enhanced private coverage, such as matching of employee contributions, or be able to take on additional administration that would result from significant changes to flexibility in the system. Larger companies may not have such challenges and could, in fact, use this to a competitive advantage. The Board is against having one group benefit at the expense of another; government will have to be creative in tweaking a system to meet the needs of different sized businesses and not to diminish the ability of any single group to compete.

On an individual level, the Board believes that more people would save (and save more money in aggregate) if they had better incentives.

10. How should any changes to the retirement income system be financed?

Financing depends on the changes proposed. Government, for instance, should stick to education and incentives rather than direct intervention to support the system. This will result in direct and indirect costs being shared by the government/taxpayer; government will provide support in the larger sense while individuals will be responsible for their own actions to build a retirement income. Done well, these shared responsibilities (and costs) should be minimal in comparison to the long term return, which will be lower social support costs for retired individuals.

Other Issues

Regarding the discussion on proposals to create a new government-sponsored, voluntary defined contribution pension plan, the Board would make note of one specific issue: employer flexibility. The consultation document notes "employers would also be able to contribute, for example, matching amounts. In some variants of the proposal, employers



would be required to make contributions if their employees participate.” Providing individual employers with the flexibility to make such financial decisions is an important principle for the private sector and should not be mandated. The Board fully believes that market forces, such as labour shortages, will ensure that businesses make the decisions that support competitiveness and this would encourage employers to consider offering benefits (such as pension contributions) to attract and retain skilled staff. Government-induced action would add to existing costly regulatory compliance and can also have unintended negative cost consequences for businesses.

The Board supports further examination and advancing of proposals to amend tax rules and pension standards regulations to provide more flexibility to the private sector to create broader-based defined contribution pension arrangements. Allowing private sector providers to operate defined contribution pension arrangements that do not require an employment relationship (such as enabling the participation of self-employed individuals and employees, independent of the participation of their employer, in a single pension arrangement) is responsive to labour market trends.

Final Thoughts

The Board would be pleased to speak to officials from Finance Canada to elaborate on its submission or work toward implementation of solutions that will support individual Canadians as they work towards a prosperous retirement. The Board would welcome Ottawa-based or regional Finance Canada officials to meet with its Federal and Provincial Affairs Committee to discuss these matters at the convenience of Government.

Such inquiries may be directed to:

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