INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

11 King Street West, Suite 1600, Toronto ON M5H 4C7
T 416.364.2754 | **F** 416.364.4861

www.iiac.ca

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Catherine Adam
Federal-Provincial Relations and Social Policy Branch
Department of Finance
15th Floor, 90 Elgin St.
Ottawa ON K1A 0G5
E-mail: cpp-consultations-rpc@fin.gc.ca

Delivered via e-mail

Re: Consultations on a Voluntary Supplement to the Canada Pension Plan (the "Consultation Paper")

The Investment Industry Association of Canada (IIAC) is pleased to respond to the Consultation Paper to convey our views and preferred options for improving the retirement savings of Canadians. Earlier this year, we outlined our concerns around the proposed Ontario Retirement Pension Plan (ORPP) in a submission to the Ontario government, focusing on the lack of analysis around potential startup and administrative costs, as well as the unintended negative consequences of an additional mandatory plan for small businesses and investment in the Province. While we applaud the initiative of the federal government in considering various options to improve the retirement savings of Canadians, we urge the government to review and consider our recommendations before moving forward with any new retirement savings initiatives, including a voluntary Canada Pension Plan (CPP) supplement.

Studies on the adequacy of retirement savings among Canadians indicate that an endemic retirement savings gap in Canada does not exist. Statistics Canada and McKinsey reports indicate that almost four-fifths of Canadians have sufficient income at retirement. In a June 2015 report for the C.D. Howe Institute, pension expert Malcolm Hamilton wrote: "Canadians are reasonably well prepared for retirement… Most can retire comfortably on less than the traditional 70 percent replacement target." With this in mind, the IIAC believes that neither a mandatory nor a voluntary supplemental expansion of the CPP is a high priority.

As described in the Consultation Paper, lower income earners have almost full income replacement under the existing system given access to Old Age Security (OAS) and the Guaranteed Income

Supplement (GIS). At the other end of the scale, higher income individuals will also likely have adequate income replacement in retirement. Studies have shown that any retirement savings shortfall will likely affect some middle income individuals without a workplace pension plan and those that have not accumulated adequate savings in a tax-assisted plan, such as an RRSP. Even in this case, it is important to consider the age of the individual and amount of savings held in other assets. For example, younger individuals have time to accumulate retirement savings later in life, once mortgage debt is retired or earnings increase. An assessment of retirement income adequacy should take into account other assets held by individuals, such as real property and non-registered holdings, often supplementing retirement savings. It is likely that the savings "gap" is much more narrow than previously thought, requiring a tailored solution to meet the needs of affected individuals. Continuing – and extending – recently announced changes to improve existing federal tax-assisted savings programs, such as increasing the annual TFSA contribution limits and reducing mandatory RRIF withdrawal rates, will address specific challenges facing Canadians preparing for retirement.

Given the number of savings options already available in Canada, it is not clear whether a voluntary CPP supplement is needed. Moreover, the introduction of a mandatory ORPP will greatly limit the use of a voluntary supplemental CPP by Ontario residents forced to contribute to the ORPP. The examples of voluntary supplementary pension plans in other jurisdictions described in the Consultation Paper all involve contributions made to individual accounts. Introducing a similar plan in Canada will require building costly new infrastructure to administer individual accounts, including monitoring deposits, and potentially withdrawals and transfers. Depending on how this is administered, there could also be additional costs to employers to change current systems and procedures. The costs of creating and administering the voluntary CPP supplement may also prove to be much larger than any savings benefits that could be achieved. While we believe that all voluntary savings plans (including a CPP supplement) should contain flexible provisions around setting contribution levels, contribution holidays, locking-in, and portability across jurisdictions and other savings vehicles, we recognize that additional flexibility comes with increased implementation and ongoing administrative costs.

Finally, the CPP is a poor investment for very low income Canadians. CPP payments are considered to be taxable income. Many low-income retirees encounter extraordinary high effective marginal tax rates as their guaranteed income supplement or the old age security gets clawed back as taxable pension savings (and income in general) rises.

In the IIAC's view, it would be more cost effective for the government to make additional improvements to existing tax-assisted savings plans, as outlined below.

- Currently, Group RRSPs have some tax disadvantages compared to Defined Contribution pension plans and Pooled Registered Pension Plans. Employer contributions to a Group RRSP are treated as earnings and, hence, payroll taxes like CPP and EI are deducted. Additionally, employers must make automatic payroll deductions for employee contributions. This uneven treatment is justified on the spurious grounds that Group RRSPs

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are not really a pension plan as funds can be withdrawn before formal retirement. This discourages both the introduction of Group RRSPs and employer contributions to those plans. Eliminating this longstanding inequity will provide an immediate benefit for two key target constituents – middle-income individuals and small businesses using group RRSPs.

- Canadians who lose their jobs, individuals on maternity or paternity leave, people on sabbaticals, and individuals with highly variable incomes from year-to-year (for example, freelance, seasonal or contract workers) are penalized severely under the current RRSP regime. We recommend correcting for lost RRSP accumulation room because of job loss or income fluctuations by allowing use of an average of preceding working years' income as the basis of RRSP room calculation for years an individual in the work force may not be working, and for the self-employed to be allowed annual RRSP contribution room based on average income with a carry-forward or back into years of leaner earnings.

- With life expectancy steadily increasing and real returns on investments expected to remain low, many Canadian face a significant risk of outliving their savings. Although the recent changes to the annual RRIF withdrawal rates is a step in the right direction, we believe that eliminating the rules mandating minimum yearly drawdowns from RRIFs would allow individuals maximum flexibility to determine how best to use retirement income and avoid the risk of outliving retirement savings. Since the assets in RRIFs are taxable on the death of the account holder (or spouse/partner), eliminating minimum withdrawals from RRIF only means a tax deferral, not a full loss of tax revenue to the government.

- Recent studies indicate RRSP participation and contribution rates are substantially higher among middle-income earning groups, and that participation and contribution rates increase with age (i.e. as individuals earn higher income and/or pay down mortgage debt). In the most recent federal budget, the government increased the annual contribution limit for TFSAs, which is a welcome change that will improve the savings of Canadians, especially those close to retirement age. We would further recommend modest increases in RRSP contribution limits to complement the increased TFSA savings room, providing Canadians with even more scope to build retirement savings. Individuals closer to retirement are most likely maximizing their RRSP contributions and could benefit from increased limits. While budgetary revenue will be lower, it is important to recognize that this is largely a deferral.

RRSPs (including Group RRSPs), and TFSAs are popular voluntary savings programs that allow for a customized portfolio allocation that take into account differing individual circumstances, risk tolerance, and investment/savings objectives. The IIAC believes targeted reforms to existing federal tax-assisted savings programs will have a greater positive impact on the retirement savings gap than a voluntary CPP supplement.

The IIAC appreciates the opportunity to provide our views and would be pleased to provide further input on this matter.