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

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MINISTER OF FINANCE
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May 5, 2010

The Honourable Colin Hansen
Minister of Finance
PO Box 9048
STN PROV GOVT
Victoria BC
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Dear Minister Hansen:

The Investment Industry Association of Canada (IIAC) is pleased to provide our comments and recommendations for improving the effectiveness and adequacy of the retirement income system in Canada.

The enclosed written comments present the official position of the Canadian securities industry on this matter and supplement the remarks made by the IIAC at the roundtable meeting held by the federal Department of Finance on April 7, 2010 in St. John's, Newfoundland and Labrador.

Yours sincerely,

Encl.

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INVESTMENT INDUSTRY ASSOCIATION OF CANADA
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Ensuring the Ongoing Strength of Canada's Retirement Income System – May 2010

The Investment Industry Association of Canada (IIAC) appreciates the opportunity to comment on the retirement income system in Canada, and to provide our recommendations for improving the effectiveness and adequacy of the savings-investment process. We applaud the federal government initiative to engage in cross-country consultations on this subject to obtain input from stakeholders on policy ideas that can improve the effectiveness of our retirement income system. These written comments supplement and reinforce our remarks made at the Roundtable in St. John's on April 7, 2010.

Who we are

The IIAC represents over 200 investment dealers across Canada, who play a vital role in building prosperity and investment security for Canadian investors and business. Our members include full service, retail, institutional and discount firms, and employ over 40,000 Canadians.

Canadians hold over $900 billion with investment dealers, including over $200 billion in registered retirement savings plans (RRSPs) and over $50 billion in registered retirement income funds (RRIFs). Our members provide valuable financial advice to Canadians to help them build savings and facilitate investment and retirement decisions.

Retirement Income in Canada: A System That Works

Retirement income strategies have become the key investment focus of the "baby boom" generation. This emphasis has sparked renewed interest in the adequacy of government policies and programs to meet the retirement income needs of low income Canadians, and to support the retirement objectives of other Canadians through tax incentives and other measures.

This policy focus intensified a year ago, mainly in response to the financial crisis in 2008. In retrospect, we have seen stability return to global and domestic markets and significant recovery in financial asset values; however, there are still questions that remain unanswered about the adequacy of the retirement income system for all Canadians in the future.

Low poverty rates among elderly Canadians. We agree with the findings of the Federal-Provincial Working Group on Retirement Income Adequacy (the "Mintz Report")[1] and the report of the Organization for Economic Co-operation and Development (OECD)[2], that on balance, the "three pillar" system is performing well, and providing working Canadians with adequate replacement income upon retirement. In particular, the "first pillar" of public pension programs[3] has ensured that Canada has one of the lowest poverty rates among elders among OECD countries (4.4% vs. an OECD average of 13.3%).[4]

Adequate replacement of income upon retirement. Recent studies completed for the Federal-Provincial Working Group suggest that 60-70% replacement levels of pre-tax incomes are adequate to maintain expenditures upon retirement.[5] These studies have also estimated that almost 70% of Canadian households will achieve 100% and about 78% will achieve 90% of replacement consumption at retirement, based on current levels of saving.[6] These numbers indicate that, on average, most Canadians will be able to meet their income needs upon retirement.

More study is required. These results are based on an average of currently available data, and extrapolated using a statistical model. There is no certainty that middle-income Canadians now at middle-age will achieve adequate replacement income when they retire. Further study and analysis must be undertaken to determine (i) the appropriate levels of income replacement upon retirement across family types and income levels, and (ii) whether or not these levels of income replacement can be achieved, taking into account all forms of savings, including housing equity and other assets outside of the retirement income system. As the C.D. Howe Institute has stated, "we know too little about how much people of different ages, income levels, and family situations actually do, or should, save."[7] Federal and provincial governments should participate in this analytical work to ascertain the appropriate public policy solutions to assist Canadians in meeting their objectives.

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[1] Mintz, J. "*Summary Report on Retirement Income Adequacy Research*" (Research Working Group on Retirement Income Adequacy of Federal-Provincial-Territorial Ministers of Finance, December 18, 2009) ("*Mintz*").

[2] Whitehouse, E. "*Canada's retirement income provision: an international perspective*" (OECD, 2009) ("*OECD*").

[3] Old Age Security (OAS) and the Guaranteed Income Supplement (GIS).

[4] Mintz, pp. 5 and 26; OECD, Figure 4.

[5] Mintz, p. 8 (citing Baker, M. and Milligan, K. "*Government and Retirement Incomes in Canada*" (Research Working Group on Retirement Income Adequacy of Federal-Provincial-Territorial Ministers of Finance, 2009), p. 23).

[6] Mintz, p. 11 (citing Horner, K. "*Retirement Saving by Canadian Households*" Research Working Group on Retirement Income Adequacy of Federal-Provincial-Territorial Ministers of Finance, 2009) (*Horner*), p. 2).

[7] Robson, W. "*Cutting Through Pension Complexity: Easy Steps Forward for the 2010 Federal Budget*", (C.D. Howe Institute, February 2010) (*Robson*) p. 3.

Recommendation One: ***Maintain social programs and improve regulatory efficiency.***

The adequacy of retirement income for Canadians is premised on continued access to affordable health care in Canada. The social safety net must remain in place for retiring Canadians in the future. The federal government should also improve regulatory efficiencies in the Canadian capital markets; in this regard, federal and provincial governments must continue efforts to build a single securities regulator in Canada.

Expanded Canada Pension Plan: Unproven benefits, unmeasured costs

There is no evidence that an expansion of the Canada/Quebec Pension Plans (CPP/QPP) through increased voluntary or mandatory contributions would yield significant benefits for older Canadians or that related payroll taxes levied on businesses and individual Canadians would not seriously impair spending, employment and economic growth.

No detailed proposals have been made to avoid the potential inequities in terms of benefits of an expanded CPP/QPP accruing to older Canadians (who have not yet made increased contributions) and younger Canadians (who will make increased contributions over a lifetime). If an expansion of CPP/QPP benefits is considered a valid option for reform, this inequity will need to be thoroughly analyzed and addressed in the proposal. However, even if CPP/QPP premiums are doubled, as suggested by some, Canadians currently near retirement age would not receive the perceived benefit of these increases. Further, the adverse impact of increased payroll taxes from an expanded CPP/QPP needs to be included in the analysis.

Provincial Supplementary Pension Plans: Increased Risk, Loss of Flexibility

There is no demonstrated evidence that the proposed large supplementary pension plans (such as the “ABC” plan proposed by the British Columbia and Alberta governments) will achieve more competitive administration costs from economies of scale than private sector arrangements, especially where the proposed plans are administered on a voluntary or “opt-in” basis.

It is also not clear that the proposed standardized returns for these plans will outperform the customized retirement portfolios of investors already working with private sector advisors. There are no clear estimates of the costs to implement these plans, including the impact on business and individuals. Furthermore, the potential of liability for the governments involved is not clear, an issue that requires comprehensive legal analysis.

Private Sector Options: Building Upon Strengths

Governments should build on strengths that already exist in the private sector, rather than focus predominantly on expanding public options. These strengths lie in providing financial services and advice to Canadians throughout the savings and investment life-cycle.

A broad selection of products and advice is available to Canadians. The Canadian capital markets and private-sector wealth management businesses catering to individual Canadians are highly competitive. Competition has stimulated the creation of a wide variety of investment products that include the full range of stocks, bonds, exchange-traded funds, mutual funds, segregated funds, wrap products and other structural and derivative investments, offered at competitive prices. There is a wide array of professional financial advice to serve individual Canadians, and a spectrum of different investment mechanisms, ranging from traditional advisory brokerage, discretionary money management to discount or "do it yourself" brokerage.

The Canadian securities industry has nearly 13,000 registered investment advisors to meet the retirement objectives of individual Canadians. These investment dealer registrants in the securities industry are complemented in the wealth management marketplace by registered mutual fund dealers, including those at the subsidiaries of banks and independent firms, many independent registered investment counsels and portfolio managers offering discretionary management services, and the chartered banks and insurance companies that offer insurance products, annuities and segregated funds.

Understanding the savings-investment needs of Canadians. Unlike large, homogeneous plans, the Canadian investment industry provides clients with customized plans based on the correct balance of portfolio return and risk tolerance. Canadians continue to seek good performance from their investments, but have grown more cautious in recent years, and are concerned about preservation of capital, especially with respect to retirement savings. The role of the advisor is to work with clients to meet these needs, while also providing other services, such as financial, tax or estate planning.

Registered advisors meet high standards of proficiency and care. Advisors are responsive to the demands of Canadians for more frequent and understandable communications. Regulations also impose a high standard of proficiency and duty of care upon advisors, who must deal honestly and fairly with clients, and who use "know-your-client" and suitability information to assist investors. Canadian investors should deal with an Investment Industry Regulatory Organization of Canada (IIROC) registered firm and registered investment advisors to ensure compliance with these standards.

Financial literacy is critically important. Canadians require sufficient knowledge to understand the importance of seeking advice, to understand the advice that is offered, and to recognize fraudulent investment schemes. Improving the financial literacy of Canadians is integral to improving and increasing the adequacy of their income upon retirement. We commend the efforts of Canada's Task Force on Financial Literacy and support its mandate to provide recommendations for a national strategy.

Recommendation Two: ***Develop a national strategy for financial literacy.***

The federal government should continue efforts to increase financial literacy among Canadians, by partnering with the private sector to increase financial literacy education among both younger and older Canadians. The national Task Force is an important first step on the road to a more financially literate population in Canada. The securities industry looks forward to participating in initiatives suggested by the Task Force.

Providing Incentives for Investment

The federal government should support the three-pillared approach to retirement savings reform (OAS/GIS, CPP/QPP and private pensions and savings) that balance public and private responsibility. Research completed for the Mintz Report found that the introduction of tax-assisted savings plans has been shown to increase net private savings by approximately 30%.[8] Even where savings are not increased, the removal of tax on investment returns will result in a faster accumulation of wealth for retirement.

Recommendation Three: ***Reform RRSP contribution limits.***

The government should assist middle income Canadians accumulate greater retirement savings by reforming RRSP limits. We agree with the proposals made by the C.D. Howe Institute recommending increases to RRSP contribution limits and allowing “top ups” to RRSP accounts in the event of losses, to bolster retirement savings and to achieve greater equity with defined-benefit (DB) pension plans.[9]

Recommendation Four: ***Increase limits or allow retroactive deposits to TFSAs.***

TFSAs have proven to be a very popular savings option for many Canadians, and recent studies have predicted that TFSAs may also be more advantageous for middle income Canadians, achieving a “higher level of after-tax retirement income with the same level of saving as for registered pension plans or RRSPs”.[1] “Retroactive” application of TFSA deposits could provide older Canadians who are close to retirement with additional tax-free retirement investment room. Additionally, TFSA contributions would be cost-effective for the government as any retroactive contributions would be made from investors’ after-tax income.

Recommendation Five: ***Increase flexibility for retired Canadians to manage their RRIFs.***

Canadians over the age of 71 are mandated to withdraw annual amounts from their RRIF accounts, even if they have no need for the money. Last year, the federal government reduced the minimum withdrawal to prevent Canadians from unnecessarily cashing out their investments at the bottom of the market cycle. Older Canadians should have the

[8] Mintz, p. 23.
[9] Robson, p. 2.

discretion to choose the timing of withdrawal from their RRIFs and not be subjected to defined minimums.

Conclusion

Canada's retirement income system is not in crisis and compares favourably with systems in other countries. But no system is perfect. The focus for improvements to the retirement income system in Canada should be on tax-assisted retirement savings programs. The IIAC and our members are eager to assist Canadian governments in making these measured, incremental improvements and will continue to work with Canadians to meet their savings and investment goals over the course of a lifetime.