



Certified General
Accountants Association
of Canada

The Certified General Accountants Association of Canada's Submission
to the Department of Finance
Ensuring the Ongoing Strength of Canada's Retirement Income System

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100 – 4200 North Fraser Way, Burnaby, BC V5J 5K7 Telephone: (604) 669-3555
1201 – 350 Sparks Street, Ottawa, ON K1R 7S8 Telephone: (613) 789-7771
www.cga.org/canada

INTRODUCTION

The Certified General Accountants Association of Canada (CGA-Canada) appreciates the opportunity provided by the federal Minister of Finance to comment on Canada's retirement income system. The increasing concern of Canadians' ability to retire comfortably aggravated by the effects of the latest recession on personal finances combined with the effects of the global financial crisis on public finances and the trajectory of an aging population, renders these public consultations very timely.

Founded in 1908, CGA-Canada serves 73,000 Certified General Accountants and students in Canada and in more than 80 countries. Respected accounting and financial management professionals, CGAs work in industry, finance, government and public practice. CGA-Canada establishes the designation's certification requirements and professional standards, offers professional development, conducts research and advocacy, and represents CGAs nationally and internationally.

Our interest in this topic was demonstrated in the work that we produced on the topic of defined benefit pension plans. We initiated this work in 2004 with a report that presented a stark reality – that \$160 billion would be required to fully fund private defined pension plans at the end of 2003. We revisited that number again in 2005 and learned that at the end of the previous year, the deficit had increased to an estimated \$190 billion. We will soon be releasing a new analysis which will show that at the end of 2008, the funding shortfall may more realistically exceed \$350 billion.

The magnitude of the challenge has deepened considerably over the past seven years and a significant number of Canadians could potentially be negatively impacted by this situation. Recent legislation passed by Parliament will address part of the problem however policy makers are pressed into action now to look at the retirement system from a holistic point of view. Canadian legislators have the unique opportunity to design a pension system that can be sustainable in the long term, fair to present and future generations, simple to administer and most importantly cost effective. While a comprehensive overhaul of Canada's registered retirement system may be premature, it is clear that some meaningful fixes, adjustments and regulatory changes will be well received. Moreover, it may be timely to seize the opportunity to broaden

coverage to Canadians through the mandating of employer plans and supplementary tax relief for registered retirement savings plans; particularly for lower wage earners.

It is with this outlook that CGA-Canada undertakes to respond to the questions posed by the federal Finance Minister as part of the Canada-wide consultations. This response supplements testimony provided to the House of Commons Standing Committee on Finance on March 16, 2010, in person participation in the April 19, 2010, London, Ontario meeting hosted by the Minister of Finance as well as our March 16, 2009, submission to the Department of Finance regarding the legislative and regulatory framework for private pension plans. In addition, our report *Gauging the Progress of Canadian Pensions: An Update of the State of Defined Benefit Pension Plans* to be made publicly available on Friday, April 30th will be provided to senior officials in government.

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

Uncertainty is one of the main challenge facing Canadians. CGA-Canada believes this issue is compounded by: a) the funding vulnerability of private defined benefit plans in some cases; b) the lack of employer pension schemes; and, c) the low financial literacy levels that can impede individuals' ability to save for the future.

Over the years, the Canadian pension system has produced pension "haves" and "have-nots". The system is skewed in favour of public sector employees who enjoy the certainty of inflation indexed guaranteed, defined benefit pension plans while private sector employees are frequently dealing with underfunded limited plans. This situation has implications broader than the retirement question and negatively affects the ability of the private sector in some markets to recruit and retain employees.

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

While a certain amount of personal responsibility accompanies the right of citizenship, governments have the overall responsibility of ensuring the health and welfare of its citizens. To date, governments have provided some support to citizens' quests for a comfortable

retirement by providing universal pension benefits and taxation measures that promote savings for retirement. Governments have the responsibility to oversee private pension plans to ensure that private companies do not overstep the boundaries. Moreover, governments and other stakeholders have invested some efforts in improving the financial literacy skills of its citizens which may assist in planning for the future. In the coming years though, the governments' fiscal situation will benefit considerably from tax-assisted private retirement savings as baby boomers begin to tap into their tax sheltered savings. Governments will continue to face the very serious responsibility of equitably redistributing wealth to ensure that the most vulnerable are protected or otherwise empowered.

Finally, governments have the responsibility of ensuring a predictable stable regulatory framework for investments. This comprises as well the obligation to harmonize regulations across jurisdictions.

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

Currently and given the make-up of the Canadian economy, major gaps exist within the retirement income system. Canada has more than 2 million small businesses (0-19 employees); employing 32.4% of the total employed work force. Many of these small businesses are unable for a number of reasons – some financial, some operational and cultural – to offer any form of retirement savings plans or if they are, offer only small contributions to registered savings plans. There are enormous gaps between the public and private pension plans. CGA-Canada believes governments should consider a balanced and competitive approach to retirement savings that includes more private sector options for businesses and employees. CGA-Canada recommends that the tax treatment of all pension plan transactions should be harmonized, including funding and payout, irrespective of their origin and structure.

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

CGA-Canada deems that a complete overhaul is not necessary. Governments, however, have the unique opportunity to make changes today that will significantly improve the retirement

outlook in years ahead. We submit these changes are not costly to implement and would go a long way to close the gap between private and public sector pension schemes.

Some policy and regulatory changes would improve defined contribution pensions and group RRSPs to make them less costly and easier for small and medium-sized businesses to offer.

This could include the following:

- Lock-in employer contributions. Current group RRSPs do not legislatively restrict access to retirement savings. The ability of workers to access their employer contributions makes group RRSPs unattractive to many business owners. It also makes employers hesitant to match employees' contributions.
- Limit portability. While they continue to be employed by the sponsoring employer, employees should not be permitted to transfer their locked-in assets out of the plan. When employees change jobs or retire, they should have the option to transfer their group RRSP to one offered by their new employer, into a DC plan, or into another locked-in savings vehicle.
- Ensure that all forms of retirement savings are on an equal legislative and regulatory footing. This would include the ability of those holding RRSPs to deduct the hidden administrative costs currently levied against plan assets.
- Recognize that the purpose of RRSPs is to defer compensation and strengthen group RRSPs to allow multi-employer plans within the group framework. This would decrease administrative and compliance costs.

5. Should there be more mandatory retirement savings?

See comments below.

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

We will respond to Questions 5 and 6 in tandem. We know that personal circumstances change over time and as do priorities. While young adults may be more inclined to save for a new house, middle-aged parents will be helping their children through university while some older adults may save for a holiday or household renovations. Should governments consider introducing a new pension program, participation in this new program should be mandatory

for all those without an existing pension plan, and give individuals the opportunity to opt out to recognize changing circumstances. However, as outlined above, contributions should be locked in.

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

Yes. See comments above.

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

The current rules prejudice Canadians without employer-sponsored pension plans. There appears to be a growing consensus to provide more tax deferral room for defined contribution plans and RRSP participants. We support the CD Howe Institute's proposal that the contribution limit be raised from 18 percent to 34 percent of earned income and raising the maximum dollar amount from \$22,000 to \$42,000. As well, to recognize that Canadians work longer, we support raising the age at which people lose access to tax-deferred saving from 71 to 73. We submit that these changes should be made incrementally in order to minimize the pressure on the fiscal framework.

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

CGA-Canada represents more than 73,000 members and students. Many of these individuals are self-employed or owners of, and advisors to, small firms and businesses. Our members, their employees, and their clients would benefit from the provision of more flexibility and choice with respect to private savings options.

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

The proposals we have put forward in this brief are essentially of a legislative/regulatory nature and are therefore not costly to government to implement. Equalizing the tax treatment of various pension schemes will largely pay for itself once the baby boomer generation begins paying taxes on deferred compensation. We propose that changes such as raising to the contribution limits of RRSPs be implemented incrementally to minimize impact on the fiscal framework.

CONCLUSION

CGA-Canada is pleased to participate in these deliberations and we look forward to working with the government as it takes steps to strengthen Canada's retirement income system.