

# Modernizing Canada's Retirement Savings System

Remarks by Terry Campbell

Vice-President, Policy

Canadian Bankers Association

for

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Good afternoon. I would like to thank the Chair and members of the Committee for the opportunity to provide our perspectives on Canada's retirement savings system. With me today is my colleague Marion Wrobel, the CBA's director of market and regulatory developments. We also have for you an additional copy of a report we sent to you last November on this issue, which includes new research we've undertaken on the household savings of Canadians.

The Canadian Bankers Association shares concerns that have been expressed about the adequacy of Canadians' savings in general and retirement savings in particular. As providers of retirement savings vehicles, sponsors of defined benefit pension plans, and providers of advice to Canadians throughout their financial life cycles, our members have been actively exploring ways to strengthen Canada's retirement savings system.

I want to make four key points today: First, how and why Canadian families save has many and varied aspects to it, and these aspects evolve significantly over the course of a family's life-cycle. There is sometimes a tendency to focus exclusively on pension or registered plan participation as the only measures of financial security, whereas in fact there are a range of ways that Canadians prepare for retirement. Our concern is that a "one-size-fits-all" approach may not be effective in addressing the actual savings needs of Canadians. In fact, it could have unintended consequences, for instance, by simply resulting in a shift in existing savings from one pot to another without actually increasing savings.

Second, there are a number of questions that policy-makers will need to consider before embarking on any new public plan. Some have suggested, for instance, creating a supplementary defined contribution plan into which employees would be automatically enrolled (with the possibility to opt-out). So this gives rise to a number of questions: how would Canadians get advice on the investment decisions they'll have to make about contributing to a supplemental plan? Canadians have clear expectations about what they will receive from the Canada Pension Plan (CPP), which is a defined benefit plan with known payouts at retirement – who will address the expectations of Canadian families regarding the unknown future payouts of a new defined contribution plan into which they are automatically enrolled? And, what would a new plan do to the incentives for employers to establish or retain their own pension plans for employees?

Third, we believe that the current retirement savings system is not broken – quite the opposite, it is a strong and well-functioning system, but it is in need of some improvements. If our collective goal is to strengthen Canadians' financial security, it may be far more effective for governments in Canada to work together to improve the private-sector, tax-assisted system that we already have rather than create new public sector plans that duplicate the systems and infrastructure currently in place.

In our report which we've provided you, we make a number of specific recommendations that would make our already good retirement savings system even better. Let me highlight a few. Rules should be amended to allow for new types of pension plans. For example, the law should allow for pension plans that are de-linked from the employment relationship, and allow for multi-sponsor or third party plans open to a wider range of membership. Such plans could offer small businesses effective alternatives to setting up their own plans and be open to self-employed individuals, so more Canadians can participate in pension plans and save.

The rules regarding the tax-assisted private savings system should also be improved, for instance, by increasing the age at which a Registered Retired Savings Plan must be closed out and taxing RRSP

withdrawals at more favourable rates. In addition, creating a lifetime ceiling on tax-free retirement savings, instead of annual limits, would allow workers who have difficulty saving in certain periods of their lives to catch up when they are in a position to save more. We need look no further than the new Tax-Free Savings Account for an example of how a well-designed tax-assisted vehicle can be effective in helping Canadians save.

And, of course, there is also a need for enhanced financial literacy as it relates to savings and retirement planning, and we support the government's efforts through the Financial Literacy Task Force.

Fourth, the adequacy of retirement savings is a national issue, and requires national public policy solutions that will enhance the ability of individual Canadians to save. In financial policy matters generally, and in retirement savings matters specifically, fragmentation across the country will ultimately hurt rather than help Canadians.

I look forward to your questions and to discussing the issues that we have raised here today.

Thank you.