

Enhancing Canadians' Savings Options

Strengthening the Third Pillar in Canada

April 2010

Introduction

The Canadian Bankers Association is pleased to again share our views on the adequacy of Canadians' savings in general and saving for retirement in particular. As we noted in our November 2009 paper, "Modernizing Canada's Retirement Savings System", we believe that policy makers in Canada need to view this matter more broadly than the narrow focus on savings through formal pension plans and RRSPs, and need to consider the financial security of families through all stages of their life cycle. Families are not likely to be in a sound financial position in retirement if they have not taken care of their finances during their working years. Since saving for retirement requires families to defer a portion of their consumption until well into the future, it is important that during their working years, families are able to efficiently manage their income, assets and liabilities to maintain the desired amount of immediate consumption, short-term savings and real asset accumulation. In our view, public policy in Canada should focus on ensuring that Canadian families have the tools and skills necessary to manage their financial security throughout their life cycle and into retirement. At the same time, policy makers need to take great care to ensure that their decisions do not have unintended (and negative) consequences, such as impairing the ability of families to allocate their resources in line with their individual needs or creating disincentives for employers to create or retain retirement plans for their employees.

The Canadian retirement system comprises three distinct pillars, each of which has a different objective and target constituency. Pillar 1 comprises the federal government's universal social security system and is designed to ensure that Canadian retirees achieve a basic minimum standard of living. Pillar 2 is the mandatory government-sponsored occupational pension plan (CPP/QPP) for workers that replaces as much as a quarter of employment income for lower and middle income workers. The third pillar comprises private sector retirement savings either through employer sponsored pension plans or through individual, discretionary, tax sheltered contributions into RRSPs – we believe the new tax free savings accounts should also be considered part of Pillar 3. This pillar is meant to complement the first two pillars and top up retirement income for middle and upper income earners. It is generally believed that, at these income levels, the issue of adequacy of retirement savings is best left to the private sector with the government providing favourable tax treatment for some limited amounts of savings. Our commentary below focuses on the third pillar.

In this second paper, we provide the following:

- Further commentary on the question of whether Canadians have adequate savings and retirement income, elaborating on points made in our November 2009 paper and drawing upon subsequently-published research undertaken for the federal/provincial/territorial finance ministers;
- A set of principles that we think would be helpful in guiding public policy discussions on the issue of retirement savings; and
- In line with these principles, a suggestion for changes to private sector pension rules to provide for more flexibility and broader coverage through a new private sector structured pension plan, building on our suggestions in "Modernizing Canada's Retirement Savings System" for improving the third pillar of

Canada's retirement savings system. Such an approach would introduce more competition into the system, offer consumers more choice, and better align with the range of financial advice that families need.

Savings Adequacy and Retirement Income Adequacy

In our November 2009 paper, we made the point that, far from being broken, the pension and retirement system in Canada is strong and well-functioning, and in general that Canadians are following strategies based on their own circumstances to manage their financial security. These views have been confirmed by subsequent research:

- **Canadian retirement system is functioning well** – According to the research summary by Professor Jack Mintz, the retirement savings system is doing a good job of alleviating poverty amongst seniors. “The Canadian poverty rate in the mid 2000s among seniors was, at 4.4 percent, one of the lowest in the OECD, compared to an OECD average of 13.3 percent (the poverty rate is defined as 50 percent of median income in a country)”¹ The Canadian poverty rate, at one-third the OECD average, is a success story. In addition, Professor Mintz cites OECD statistics that show that Canadians over the age of 65 years have a disposable income that is 90% of that of Canadians in general. This ratio is better than in the United States and much better than in the United Kingdom (where it stands at 73%) or Australia (70%). Not only is poverty not a serious problem amongst the elderly, they seem to enjoy a strong standard of living compared to working Canadians. While clearly there are families that are not adequately prepared for retirement as well as issues with some employer plans where a sponsoring firm has entered bankruptcy at a time when the plans were significantly under-funded, in our view it does not appear that these are systemic issues.
- **Canadians are saving** – Although it is often asserted that Canadians' saving rates have declined (thereby putting future retirement income in question), the evidence² suggests that the issue is both more complex and more positive than has been asserted. While it is true that on a National Accounts³ basis there has been a long-term trend to lower savings rates, that trend is now reversing. Even before the recent reversal of the trend, it is not at all clear that it reflected a substantial drop in real savings. The high savings rate years of the 1970s and 1980s represented years of high inflation. Rising prices were eroding the purchasing power of savings so families needed to save large amounts in nominal terms just to stay even in real terms. By contrast, we have been for several years in a period of historically low inflation, which preserves the purchasing power of savings.

An examination of household balance sheets⁴ puts the issue in a broader perspective and illustrates how these savings are put to work for Canadian families. For example, while savings rates can vary

¹ Jack M. Mintz, Summary Report on Retirement Income Adequacy Research, December 18, 2009.

² The data cited in this subsection all come from Mintz (2009).

³ The system of National Accounts is a measure of aggregate economic activity over a period of time. Savings is defined as total income minus total expenditure.

⁴ A balance sheet approach measures savings as a positive increase in net worth. Savings occur in this approach either because households spend less than they earn or because the net value of assets increases over time. Dissaving takes place in such an approach when households spend more than they earn or when the net value of assets declines.

substantially from year to year, they rarely fall below 10% and average closer to 15% per year. Unlike the National Accounts view of savings, this balance sheet approach is the way in which households evaluate their individual financial position and is what drives their decision making. Also, Canadian households' net worth (the sum of financial and non-financial assets minus total liabilities) has been on an increasing path over the past five decades. Expressed as a percentage of earnings, household net worth today (at six times earnings) is 50% higher than it was 30 to 35 years ago (when it was four times earnings). While net worth over the past decade has been subject to market volatility, there is no indication that this long-term trend to growing net worth has been reversed. While there may be a convincing argument that Canadians would be better off if their savings rates were higher, the data do not suggest anything akin to a savings crisis.

- **Savings take many forms and evolve over time** – It is important to look at the broader picture of how Canadians save, rather than focus exclusively on savings in pensions and registered plans, to be able to assess the adequacy of their preparations for retirement. In fact, Professor Mintz cites research that shows that those without incomes from Employer Pension Plans tend to have higher total incomes than those with incomes from Employer Pension Plans. It seems that there are two reasons for this. Those without Employer Pension Plans are more likely to be working after age 65. But even in the absence of labour income, the investment income of those without Employer Pension Plans more than offsets Employer Pension Plan related income.

The CBA believes it is important to consider the financial security of families at all stages of their lifecycle, and to recognize that families within each stage are not homogeneous, and in doing so to consider the assets and liabilities that are important to them at those stages. While it is a common theme that individuals should save consistently and start saving early for retirement, we should recognize that the priorities of families are not the same at each stage. In the early stages of family formation, they may have relatively high levels of student debt. They then start saving for a down payment on a house, acquire mortgage debt and soon after start saving for the education of children. Their ability to save large amounts for retirement may not occur until well into their working lives.

Notwithstanding the current state of retirement income and retirees' standard of living, there remains the question of whether the system will continue to perform as well as it has in the past and whether future generations of Canadians will have sufficient savings for retirement. There have been a number of recent studies⁵ on the issue of whether Canadians are saving sufficient amounts to achieve the income replacement rates that are commonly thought to be the appropriate goals. While a number of questions remain unsettled (e.g., the impact of individuals choosing to continue to work after 65, the impacts of non-pension/non-RRSP assets on income replacement rates in retirement, impacts of different life style choices on targeted replacement rates, etc.), a common conclusion seems to be that (aside from those in the lower income brackets) Canadians may need to save more to achieve expected retirement income levels.

The CBA recognizes the importance of savings at both the individual and national levels and believe that measures to encourage greater savings would be beneficial. The question for policy makers to consider is

⁵ For example, David A. Dodge et al. "The Piggy Bank Index: Matching Canadians' Savings Rates to the Retirement Dreams", March 18, 2010; Kevin D. Moore, "LifePaths" prepared for the Toronto Association for Business and Economics, February 2010.

how best to achieve this goal. Our view is that, while we have a strong third pillar in Canada, there are a number of improvements that could be made to rules affecting pension and retirement savings plans that would enhance their attractiveness to both employers and employees and thereby strengthen savings in Canada. Building on our suggestions in “Modernizing Canada’s Retirement Savings System” (pages 5-8) for improving the third pillar of Canada’s retirement savings system, in this paper we are proposing (a) a set of principles to guide policy makers as they further consider this issue, and (b) specific changes to private sector pension rules to provide for more flexibility and broader coverage through an effective multi-employer pension plan system. These are set out below.

Basic Principles for Reform

Based on our review of the extensive literature on savings and retirement, and based on our experiences in the financial services marketplace, the CBA is suggesting the following as key principles to guide future reform:

- First, the CBA believes that the basic principle that should guide any reform of the retirement income system is that **individuals are best suited to make their own financial decisions**, in the context of a well-regulated, well-managed, competitive financial marketplace that provides open and accessible choice in products and services to Canadians, and in the context of a public system that provides a basic level of support. While we agree that more can be done to strengthen financial literacy – and banks in Canada applaud the government for its efforts in this area (including the creation of the Financial Literacy Task Force) and will continue their own extensive efforts in this area – a cornerstone of public policy in this country must be that individuals are primarily responsible for their own financial planning.
- Second, any **new public policy directions in this area must not distort the workings of labour markets** and should not change the nature and structure of employee compensation. Employers should maintain the right to choose how to compensate employees and should not be obliged to compensate through pension plan contributions. If employers are currently discouraged from setting up and contributing to pension plans because of government regulations, we believe those disincentives should be removed. Moreover, if plans could be set up that offer employers a competitive option that they view as beneficial to themselves and their employees, we believe it should be encouraged.
- Third, we believe this is a **prime opportunity for public policy makers to recognize and build upon the confidence Canadians have in their financial institutions**, and the strength and stability of the financial system in this country. This confidence is well-founded, in light of the strong track record of the financial sector in providing financial services and financial advice to households over every stage of their life cycle.
- Finally, and as we have stated in other venues, 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.

Enhancing the third pillar

With these principles in mind, it is our view that public policy makers should look first to the private sector as governments seek ways of increasing savings before turning to new public or government-sponsored approaches. We say this in light of (a) the financial sector's capacity and expertise to provide Canadians with the retirement savings products and advice they need, and (b) the existing and well-functioning infrastructure in the financial services marketplace to develop and provide services. It would be difficult and expensive to replicate in any new government plan what is already in place in the private sector, and our concern is that these efforts would have unintended consequences for the retirement system as a whole.

More specifically, we believe that reforms to the retirement system rest appropriately in the third pillar. The three pillars perform specific roles that complement each other but do not substitute and compete with each other. Any such competition between the three pillars would lead to confusion in the public's mind. With this perspective in mind, set out below is a discussion of:

- The important role that expert advice plays in a family's financial planning over the course of the normal life cycle. In our view, one of the key concerns about some current proposals for a new government-sponsored plan structured as a defined-contribution system is the absence of an advisory function, which we think is critically important as the financial circumstances of individuals and families change over time;
- The unique issue of small businesses (including farms) in the public policy consideration of how best to strengthen savings for retirement; and
- Further detail on one possible approach that had been flagged in our November 2009 paper for strengthening retirement savings through the private sector third pillar. In our earlier paper, we identified a number of ways that the rules governing pension plans could be improved, including the concept proposed by some pension experts for de-linking pension plans from the employment relationship. Below we set out our view on how this model could be established in Canada.

The importance of advice in financial and retirement planning: In the current public policy discussion on retirement savings, the CBA has stressed the importance of adopting a life-cycle approach to assessing how and why Canadians save, and what further steps need to be taken to encourage adequate retirement income. In our view, any consideration of the way forward must take into account the critical role of advice in financial and retirement planning over an individual's and family's lifetime. In this regard, there are two challenges in the current debate: first, some proposals for new supplemental plans that are structured as defined contribution plans do not sufficiently take into account the crucial need for advice. Individuals participating in such plans would be subject to a wide range of risks and they need to be aware of this and the potential consequences for their retirement income. Second, too often in the current debate, discussion of the private sector's role in helping Canadians prepare for retirement has been focused on a consideration of the management expense ratios associated with investing in mutual funds, and claims that Canadians have difficulty in saving sufficiently for retirement because they cannot earn a sufficiently high rate of return through individual savings. This is one of the primary justifications of those who believe that a new public or quasi-public supplemental pension plan is needed.

Consider the financial decisions that an individual or family needs to make over a lifetime. Early in the lifecycle, the primary concern is to pay off education-related debt. Then further debt might be accumulated to acquire a car while some savings are being accumulated for a down payment for a house, the purchase of which would lead to substantial further debt accumulation. Subsequently the family starts saving for the education of children and preparation for retirement.

As the family transitions through its financial lifecycle, from consuming more than it earns and acquiring net debt to earning more than it consumes and paying down debt and acquiring increasingly positive amounts of net worth, to once again consuming more than it earns at retirement and hence drawing down savings, it is continually making decisions about assets and liabilities, taxes and risks. The family may have several types of debt, with different maturities and different interest rates. Some may be tax deductible but most not. At the same time it is accumulating real and financial assets, some of which will be used to finance education or near term consumption while other assets are intended to generate an income stream at retirement. And the way in which that income stream is structured will have consequences for the tax liabilities of the family. At the same time, the family may be engaged in some forms of non-discretionary saving through an Employer Pension Plan.

Not surprisingly, the family needs to make many financial decisions and requires a wide range of financial advice. Not only do the various stages overlap, for example a family may be paying down student debt at the same time that it is saving for a down payment on a house, the financial decisions are all interdependent. Starting to save early for retirement is generally regarded to be a good idea but it may also mean a longer effective amortization on a mortgage or lower savings for children's education, etc. Balancing these priorities is what financial planning is all about.

In all of the key financial savings and investment streams (building up net worth in general, saving for education for the children, preparing for retirement) financial planners focus on planning, setting realistic goals, balancing risk and return in an efficient manner, and considering a variety of factors such as taxes, liquidity needs and time horizons. On the debt side, financial planners make sure families know about the real cost of debt, paying off high cost debt first and managing overall levels of debt. The overall level of debt must be appropriate for the overall level of assets but also income and personal comfort levels. Financial planners coach families on risk, whether investment or liquidity risk, amongst others.

As noted, however, much of the current discussion about the role of the private sector has focused on the question of the costs of mutual funds. This narrow focus runs the risk of distorting the financial planning experience in the marketplace, mis-identifying the issues that need to be solved, and unduly narrowing the range of options under consideration. For example, it does not take into account the fact that Canadians have a range of options for their individual savings vehicles, many of which are low cost and even no cost. Canadians can save through GICs issued by financial institutions or by buying stocks, bonds and Exchange Traded Funds directly. Moreover, even within the mutual fund category, there are a wide range of options available, including index funds with low expenses.

Furthermore, it does not adequately distinguish between retail products for individual savers and wholesale products for large groups of savers, and ignores those features of individual savings options that savers value such as flexibility and a high degree of liquidity. Most important of all, advice should not just be thought of as investment advice. It is not just about choosing mutual fund A as opposed to mutual fund B. Financial advice runs the entire gamut from basic financial literacy to the specific investment advice, with guiding principles in between about managing assets and liabilities and the tax consequences of those choices. This is precisely what bank financial groups and many other financial institutions do. They help families to save for different goals, and acquire and manage debt in a prudent and tax appropriate manner.

The unique advice needs of families with small businesses: About one-fifth of the assets of non-Employer Pension Plan families is in the form of business equity. Within certain income ranges, this can reach as much as 30% and even 40%. The advice that matters to these families is unique. It involves recognizing and managing a wide variety of risks that are specific to the business in question. Other important advice concerns establishing a business plan and forecasting cash flow, determining how the business is to be financed and acquiring debt in a tax efficient manner. Small business owners also need advice about the various types of government programs that might be beneficial to the business, including loan guarantee programs. And as small business owners are likely to have a very large part of their net worth tied up in the business, they need advice on how to limit their business risks and preserve family net worth overall.

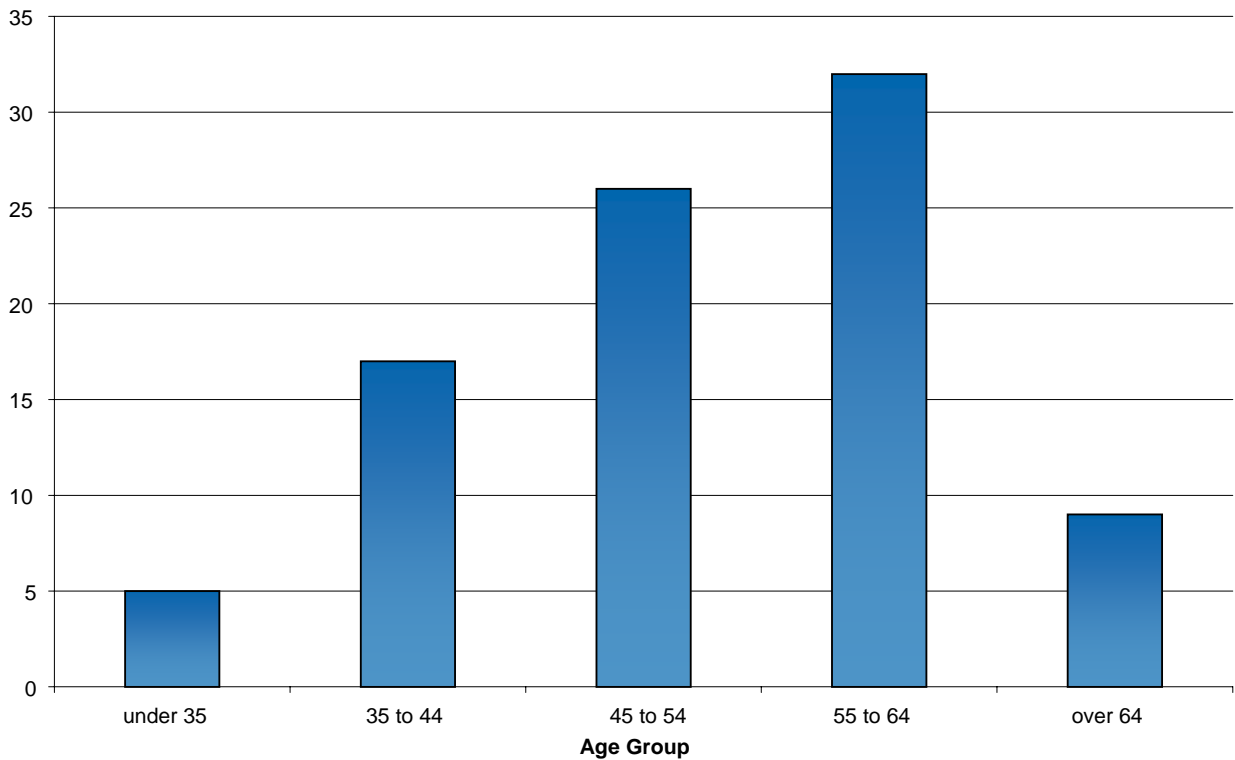
Succession planning is also crucial here since, for many of these families, the business equity is their pension plan. This is very evident by the age pattern of business equity amongst non-Employer Pension Plan families. The relative importance of business equity increases along with the age category. Business equity represents a small part of the total assets of younger families but that grows to over one-third of total assets for the age group just before retirement. Families aged 64 and over have a much lower share of assets in business equity but a much higher share in financial assets such as stocks and bonds. This likely reflects the consequences of transitioning out of a business environment into a retirement situation. These families require specific and unique advice to make such a transition successful, with tax planning being one of the keys.

While business equity plays a big role in the net worth of these families, it is also likely that there is a family member working for pay outside the family business. This is very common on family farms, for example. The retirement savings position of that family member cannot be determined independently of the family business.

There are two key points to bear in mind here: first, as we have stressed elsewhere in this paper, adequacy of retirement income cannot be determined solely on the basis of income derived from formal pension or registered savings plans; it must also take into account the range of family assets. Second, the experiences of small businesses in Canada highlight the importance of expert advice in financial planning, an element that is available through private sector sources but does not seem to be adequately taken into account by some proponents of new government-sponsored plans.

The Role of Business Equity in non-Employer Pension Plan Families

% of Total Assets



A further option in the third pillar: A number of expert commentators have identified ways to improve the third pillar by making it easier for Canadians to save individually and by making it easier for them to have access to structured pension plans. With respect to individual, tax-assisted retail savings products, for instance, improvements can be made by reforming the TFSA by increasing the allowable annual limits or by taking a lifetime approach to total contributions. Similarly, reforms can be made to the rules governing RRSPs to make them more flexible and better attuned to today’s realities. This would include increasing the age at which RRSPs must be closed out, lowering the minimum withdrawals from RRIFs, and lowering the tax on RRSP withdrawals. RRSP contribution limits could also be increased.

The third pillar also includes large, structured retirement plans currently sponsored by employers. Again, there are a number of ways in which reforms could make it easier for employers to sponsor pension plans, whether defined benefit or defined contribution and we have elaborated on that previously. Two of our key suggestions related to the harmonization of pension laws and amendments to the *Income Tax Act* permit pensions to build up larger surpluses to protect against market declines. In this regard it is also important that governments recognize the unintended, negative impact on pension plans that arise from decisions taken outside of the pension realm. A case in point in the banking industry concerns the proposed capital treatment of defined benefit plans under the BIS capital requirements. This treatment might discourage affected employers from maintaining a healthy surplus in such plans and might even discourage them from offering DB plans in the future.

But we also envisage structured pension plans that could be sponsored and managed in new ways, outside of the employment relationship. The CBA suggested in our November 2009 paper that multi-employer/multi-sponsor or third party pension plans could be created to achieve economies of scale and introduce competition into the market. This would also break the current required link to an employer. We believe that such plans would not only make it more appealing for employers to participate in pension plans for the benefit of their employees, it would enable all Canadians to participate in structured plans, even if they are not in an employer-employee relationship. It is this approach, and an appropriate model, that we wish to elaborate upon.

If rules are changed to allow further pension options to be created, we believe that they should be firmly rooted in the private sector. In the first place, we believe that the first two pillars are doing a good job at providing income replacement for their target groups, lower income Canadians. While government policies should encourage and make it easier for all Canadians to save for retirement, those in the middle and upper income levels should ultimately be responsible for their own financial security. Secondly, the first two pillars are financed through the broad tax system generally and through mandatory payroll taxes. Canadians have a fairly clear expectation about what these two pillars deliver and how the benefits are paid for. These are effectively part of the social safety net. The third pillar, on the other hand is financed by the private sector, individuals and firms, albeit with some degree of tax assistance. The objectives and the financing of additional savings make that a clear candidate for the third pillar.

Private sector additions to third pillar options

One approach to improving the third pillar would be to amend rules to introduce more flexibility into the system and allow the creation of private sector initiated, market competitive, structured pension plans that are delivered by the existing financial sector institutions. The CBA agrees with proposals (e.g. James Pierlot, *A Pension in Every Pot*) that the right to offer pension plans should be de-linked from the employment relationship. By amending the *Income Tax Act* rule which requires that pensions be based on income from employment with an employer (“service as employees”) the federal government could set the stage for the development of new types of pension plans in Canada. The financial sector could be the means by which this is accomplished if the government were to permit individuals to contribute from their employment compensation to *any* pension arrangement whether linked to an employer or not and make it unnecessary for individual employers to sponsor plans and permit them to contribute on behalf of their employees to *any* pension plan(s) in which the employees participate.

More specifically, we believe that regulated financial institutions should have the ability to establish and administer structured defined-contribution pension plans that can be promoted to both individuals and businesses so that individuals could accumulate savings for retirement under well-defined rules. It would be important that such pension plans be regulated uniformly across Canada so that the plans could draw upon the largest market possible to achieve economies of scale and minimize regulatory costs. National regulation would also ensure that every Canadian has access to the same potential retirement benefits.

Such plans would be purely voluntary and could draw upon many of the sound ideas that have been put forward as part of the retirement income discussion. The key features would be as follows:

- Unlike existing retail savings plans, whether within RRSPs or outside RRSPs, these would be structured pension plans. Savings would be locked in to generate retirement income.
- As in existing defined contribution pension plans, individuals would contribute into their own account. The value of their account would vary according to the amount of their contributions and the return on their portfolio, less their share of management and other costs.
- Much like existing defined contribution plans, these plans would likely offer limited investment choices, although it would be up to the plan sponsor to decide the terms of the plan. One institution might wish to create a 'no frills' type of pension plan with limited choice and features, but low administration costs, while other sponsors might offer more choices. The market should decide which succeeds and which does not.
- As has been suggested by many commentators, savings would be gradually converted into annuities as individuals approach retirement age to avoid the risk that savers are converting all or most of their savings into an income stream when market conditions are unfavourable.
- These plans should be purely voluntary. Individuals may choose to participate. Employers may choose to participate as well by enrolling their employees and making contributions on their behalf.
- Outside of the generally accepted prudential and market conduct rules; the legislative framework around these plans should be as flexible as possible. The ability to offer such plans should not be limited to certain types of financial institutions.
- All financial institutions should be able to offer these plans on a level playing field basis. The investment options should be the same for all institutions, as should be the ability to reach customers in a wide variety of ways. Similarly, all eligible institutions should be able to convert investment portfolios into income streams through life annuities.
- Since participants in such a plan would bear a number of risks from their investment decisions, they should be responsible for all investment decisions, including portfolio investments, contribution amounts, annuitization decisions, how investments in this plan relate to their overall financial plans, etc. Accordingly, access to advice would be a critical element of the plan option outlined above. The Canadian Association of Pension Supervisory Authorities (CAPSA) has produced a set of guidelines for capital accumulation plans (CAPs), including guidelines about reporting, education and member responsibilities, that should form the basis for the new pension plan option as outlined above. In particular, the CAPSA guidelines suggest that plan sponsors either make available or refer members to a service provider who could provide appropriate advice about investments.

What we have described above is a new financial product that would be delivered by the existing financial sector infrastructure and that could complement the existing set of financial products that Canadians now use

to enhance their financial security. As with any other product that Canadians choose to acquire, it is important that they fully understand its features and how it would fit in with other financial products. In this regard, the delivery of the new product via the existing set of financial institutions would fit in well with the broad range of financial advice that is available to Canadians through their financial institutions.

Issues that policy-makers need to consider

The CBA is suggesting that a new form of structured pension plan outlined above be delivered within the private sector, and more generally that improvements to the third pillar are more appropriate than new public or quasi-public options. As noted earlier, we believe that the three pillars serve distinct functions and should not compete with each other. But, if governments do choose to go the public or quasi-public route, we believe there are a number of issues that would need to be addressed first, for example:

- There should be no regulatory or legislative advantage to government-sponsored plans. They should not be allowed greater flexibility or regulatory leeway than private sector competitors. Moreover, there should be no requirement for, or ability to, auto enrol individuals in such plans.
- There should be no artificial cost advantage over private sector plans. Existing pension managers should not be allowed to cross subsidize such supplemental plans. In this regard there should be clear reporting and disclosure of costs.
- Contributors to these plans should not enjoy any tax advantages over those who contribute to other plans.
- There should be no reputational advantage to such plans. They should not enjoy any implicit or explicit government seal of approval and it must be made clear that the government is not providing any guarantee with respect to portfolio balance, rate of return or income stream.
- There must be a high degree of clarity and disclosure about the nature of the plan. Participants in a supplemental plan should understand fully what plan they are participating in. If, for example, the CPPIB were to offer a supplemental plan, participants should understand clearly that they are not participating in the CPP. At its most basic, they must understand that they are participating in a defined contribution plan, not a defined benefit plan.
- There must be a high degree of clarity and disclosure about contributions to the plan. Individuals should not be led to believe that employers will make matching or any contributions.
- Plans must be required to provide participants with an adequate degree of reporting and advice.
- Individuals, who would bear all of the risks associated with these investments, must be responsible for all of the decision making.

Concluding Comments

The purpose of this submission is to elaborate on some of the suggestions the CBA made in our November 2009 paper, “Modernizing Canada’s Retirement Savings System.” Again, our intent is to provide what we hope are useful suggestions and factors to consider as governments continue their deliberations on this important issue.

In our view, it is necessary to consider the full range of families’ assets and liabilities over their entire lifecycle to determine if they are achieving financial security. This approach not only puts savings and investment decisions in a broader context, it also helps to understand the true nature of financial advice and its value to Canadians. This is also why any new structured pension plan would be best delivered through the existing capacity of financial institutions. Retirement savings should not be accumulated in a vacuum but should be one part of the vast array of financial decisions that individuals and families must make. Access to advice that understands the full and unique financial picture of families is crucial in making the right decisions.

Canada has a strong, internationally recognized pension/retirement savings system, based on three mutually-reinforcing pillars. Canadians have been well-served by the system, but it is widely recognized that some improvements to the third pillar would make a strong system even better in its capacity to help Canadians save for retirement. The Canadian Bankers Association urges policy makers to consider to issues and proposals outline in this submission as practical ways of achieving their public policy goals.