March 24, 2010

ENSURING THE ONGOING STRENGTH OF CANADA'S RETIREMENT INCOME SYSTEM

Consultations Documents:

- News Release (News Release (2010-022)
- Ensuring the Ongoing Strength of Canada's Retirement Income System

Note: A consultation is not a poll. Please do not send multiple or duplicate submissions.

Closing date: April 30, 2010

Who may respond:

These consultations are open to anybody interested in participating.

Submissions can be emailed to ris-consultations-srr@fin.gc.ca.

Written submissions to this consultation are invited and should be forwarded by April 30, 2010, to:

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Federal-Provincial Relations and Social Policy Branch
Department of Finance
L'Esplanade Laurier
15th Floor, East Tower
140 O'Connor Street
Ottawa, Canada K1A 0G5

Once received by the Department of Finance, all submissions will be subject to the *Access to Information Act* and may be disclosed in accordance with its provisions. Should you express an intention that your submission be considered confidential, the Department will make all efforts to protect this information within the requirements of the law.

ENSURING THE ONGOING STRENGTH OF CANADA'S RETIREMENT INCOME SYSTEM

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I. INTRODUCTION

Practically all OECD countries provide retirement income support to older members of their populations. These retirement benefits are typically delivered through a mix of government programs and incentives for private savings. Canada's government-supported retirement income system is based on three pillars:

1. The Old Age Security and Guaranteed Income Supplement program provides a basic minimum income guarantee for seniors, funded out of federal government revenues.

2. The Canada Pension Plan and the Quebec Pension Plan are mandatory, publicly-administered, defined benefit pension plans that provide a basic level of earnings replacement for all Canadian workers, funded by employer and employee contributions.

3. Registered Pension Plans (RPPs) and Registered Retirement Savings Plans (RRSPs) / Registered Retirement Income Funds (RRIFs) provide tax-assisted savings opportunities to encourage Canadians to accumulate additional savings for retirement.

Canada is recognized internationally as having among the strongest retirement income systems in the world. The strengths of the system are based on its:

- long-term sustainability
- balanced mix of mandatory and voluntary pillars, and
- shared public and private responsibilities.

This system has resulted in Canada having a very low rate of poverty among seniors, high rates of replacement income among current seniors and most Canadians saving enough to achieve relatively high rates of income replacement in retirement.

Recently, however, there have been questions and concerns raised about the adequacy of future retirement incomes for some members of the population. These concerns have received particular attention in light of the financial market downturn in 2008. Moreover, other emerging issues, such as longer life expectancies and declining private pension plan coverage have also raised questions about the future of Canada's retirement income system.

In response to these questions and concerns, a wide range of organizations and individuals have offered proposals which seek to address various perceived issues in Canada's retirement income system.

GOVERNMENT ACTION TO DATE

The Government of Canada has been engaged in a very serious discussion with Canadians on pensions and pension security over the past year. Moreover, the Government has taken concrete action to strengthen Canada's retirement income system and reduce the tax burden on seniors since 2006.

First, the Government has been reviewing issues related to pensions under federal jurisdiction. In January 2009, the Government released for public comment a research paper on the legislative and regulatory regime for federally-regulated private pension plans. From March to May 2009, Parliamentary Secretary Ted Menzies conducted cross-country and online public consultations open to all Canadians on the legislative and regulatory framework for federally-regulated private pension plans.

Based on these consultations, the Government released, on October 27, 2009, an important reform plan for the federal private pension legislative and regulatory framework that will:

- enhance protections for plan members;
- reduce funding volatility for defined benefit plans;

- make it easier for participants to negotiate changes to their pension arrangements;
- improve the framework for defined contribution plans and for negotiated contribution plans; and
- modernize the rules for investments made by pension funds.

Second, along with provincial and territorial governments, in May 2009 the Government completed the mandated triennial review of the Canada Pension Plan (CPP). Reforms include the removal of the requirement for individuals to stop working or reduce earnings for two months in order to take up CPP and permitting more low-earnings years to be excluded from the pension calculation. These measures were unanimously agreed to by all provinces.

Third, in June 2009, to help protect pension benefits while allowing companies more flexibility in meeting their pension obligations, new regulations were brought into force to provide temporary solvency funding relief for federally-regulated defined benefit pension plans. The measures cover plans established for employees working in areas that fall under federal jurisdiction.

Fourth, the Government has introduced changes to ease the tax burden on Canadian seniors since 2006, including $2 billion annually in tax relief to seniors and pensioners. These include: increasing the age limit for maturing pensions and RRSPs to 71 from 69; allowing more flexible phased retirement arrangements under defined benefit RPPs; and, increasing the pension surplus threshold to 25 percent from 10 percent for defined benefit RPPs. Other tax measures for seniors and pensioners, such as pension income splitting, have also been introduced.

The new Tax-Free Savings Account (TFSA), introduced in Budget 2008, has significantly increased tax-efficient savings opportunities for Canadians. The TFSA is a flexible, general purpose savings account that may be used to meet a variety of savings needs, including saving for retirement.

- According to a report from Investor Economics and survey data from Ipsos Reid, Canadians had opened up 4.7 million TFSAs by the end of December 2009. The value of Canadians' TFSA assets amounted to about $15.8 billion at the end of December 2009.
- A Leger Marketing poll commissioned by the Bank of Montreal found that one-third of people age 65 and older and one-quarter of those age 55 to 64 had opened a TFSA by early February 2009.

Finally, recognizing the need to work with provincial partners to examine the larger retirement income concerns facing Canadians, the Government raised the issue at the annual meeting of Finance Ministers in late 2008 and, in May 2009, set up a joint federal-provincial research working group to conduct an in-depth examination of retirement income adequacy.

The Research Working Group's **summary report,** which confirms the relative strength of Canada's retirement income system, was presented to Ministers of Finance at their December 2009 meeting in Whitehorse by its research director, Professor Jack Mintz.

While acknowledging the strength of Canada's retirement income system, Ministers tasked senior officials to work collaboratively to analyze the wide range of ideas that have been put forward to ensure the ongoing strength of the retirement income system for future generations of Canadians. Ministers of Finance will follow up on these issues at their next meeting.

Your views are important to the Government in this process.

The purpose of this consultation paper is to:

- provide background information on Canada's retirement income system;
- provide an overview of research on retirement income adequacy;

- describe a variety of proposals in the public domain relating to Canada's retirement income system; and
- solicit views of Canadians on Canada's retirement income system and how to ensure its ongoing strength.

The consultation will be open from March 24 to April 30.

Finance Ministers will review progress on retirement income system issues at their Spring meeting, including a summary of the views submitted through this consultation.

The Government of Canada appreciates your taking the time to participate.

II. CANADA'S GOVERNMENT-SUPPORTED RETIREMENT INCOME SYSTEM

The government-supported retirement income system in Canada is based on three pillars that provide a mix of public pensions and voluntary savings opportunities to ensure a well balanced and diversified system.

Pillar 1. ***The Old Age Security* (OAS) and *Guaranteed Income Supplement* (GIS)** programs provide a basic minimum income guarantee for seniors.

The OAS benefit is a monthly pension of $517 per month paid to almost all seniors in Canada 65 years and over who meet residency requirements to ensure a basic income guarantee. For seniors who have incomes over $66,733, part of the benefit (15 cents per dollar of income in excess of $66,733) is repaid through the tax system. The benefit is phased out completely for incomes over $108,000.

The GIS benefit is an additional monthly payment for low income Canadians who receive the OAS. GIS monthly payments are $652 per month for single individuals and $832 per month for couples. The GIS is reduced by 50 cents for each dollar of family income (other than OAS income) such that no payment is made when income reaches $15,672 for an individual and $20,688 for a couple. This limitation ensures that GIS benefits are targeted to those who need them the most. In the definition of income, there are some exemptions, such as the first $3,500 of income from employment earnings and income from Tax-Free Savings Accounts.

Both OAS and GIS benefits increase with inflation on a quarterly basis. The federal government currently provides $33 billion in OAS/GIS benefits per year to 4.5 million Canadians. OAS and GIS benefits are paid for out of general revenues of the federal government.

Pillar 2. *The Canada Pension Plan* (CPP) and the *Quebec Pension Plan* (QPP) are mandatory public, defined benefit pension plans that provide a basic level of earnings replacement for all Canadian workers. Both Plans also provide ancillary benefits, such as disability benefits and survivor benefits.

The CPP covers workers in all provinces except Quebec. The QPP covers workers in Quebec.

There are currently 16.3 million workers contributing to the CPP/QPP, with the program paying $38 billion in benefits per year to 5.9 million beneficiaries.

Both Plans provide a “defined benefit” in retirement – that is, a guaranteed monthly amount for the life of the beneficiary – based on an individual's earnings, replacing a maximum of 25 percent of earnings up to a limit. the average Year's Maximum Pensionable Earnings ($47,200 in 2010) over the last five years. The maximum benefit under both the CPP and QPP is $934 per month in 2010. Retirement benefits increase annually with inflation.

Full CPP benefits, based on the individual's earnings and contributions, are available at age 65. Actuarially reduced pensions are available as early as age 60. If take-up of the CPP is delayed beyond age 65 (up to age 70), actuarially-increased benefits are paid.

SUSTAINABILITY OF THE CANADA PENSION PLAN

In the 1990s, the CPP faced significant rising costs resulting from changing demographics, slower earnings growth and successive benefit enhancements as did many public pension plans across the world. The Government of Canada and the provinces worked together on a major reform to put the CPP back on a sustainable track, consulting widely across Canada on options. Canadians said it was important to save the CPP. Reforms, including increased contribution rates, a new investment policy, and changes to benefits and administration, were adopted in 1998. The Chief Actuary of the CPP reports in successive triennial Actuarial Reports that the CPP is sustainable for at least the next 75 years at the current contribution rate.

The CPP and QPP are not directly financed by government, but rather are financed by employer and employee contributions. The contribution rate is 9.9 percent of earnings between a basic exemption of $3,500 and the Year's Maximum Pensionable Earnings (YMPE), which is based on the average industrial wage. The YMPE is $47,200 in 2010. The contribution rate is shared equally between employees and employers, while the self-employed pay both shares.

The governments of Canada and the provinces support retirement savings in the CPP/QPP by permitting employee contributions to be made on a tax-creditable basis (and employer CPP contributions to be tax-deductible), and by not taxing the Plans on their investment earnings. The cost of this tax expenditure is estimated at about $4 billion per year in forgone revenue for the federal government (net of the tax collected on CPP/QPP benefits) and, in addition, at about one-half that amount in forgone provincial revenue.

The Government of Canada and the provinces are the joint stewards of the CPP. Changes to the federal legislation governing the CPP require the formal consent of the Parliament of Canada as well as seven out of ten provinces (including Quebec) with two-thirds of the population of Canada. The province of Quebec governs the QPP.

Federal and provincial Ministers of Finance review the CPP every three years to ensure that the Plan remains financially sustainable over the long term and to determine whether any changes to the contribution rate, benefits, or administration are required. Finance Ministers completed their most recent triennial review of the Plan on May 25, 2009 and concluded that the CPP is sustainable for the next 75 years.

Pillar 3: ***Registered Pension Plans (RPPs) and Registered Retirement Savings Plans (RRSPs) / Registered Retirement Income Funds (RRIFs)*** provide tax-assisted savings opportunities to help and encourage Canadians to accumulate additional savings for retirement.

Registered Pension Plans (RPPs) are pension plans that are sponsored by employers, on a voluntary basis. In general, there are two basic RPP plan designs. Defined benefit plans promise a specific benefit, generally based on earnings and years of service. Defined contribution plans provide retirement income based on accumulated contributions and investment returns. Employers (and often employees) are responsible for making contributions to RPPs. Some employers offer plans with both a defined benefit and defined contribution component.

Registered pension plans are regulated under the *Income Tax Act* and the applicable pension standards legislation. Plans sponsored by employers operating in federally-regulated industries, which include the banking, inter-provincial transportation and telecommunication industries, are subject to the federal *Pension Benefits Standards Act, 1985*. The plans of other employers are regulated at the provincial and territorial level. The federal government regulates approximately 7 percent of private pension plans in Canada, accounting for 12 percent of all private pension plan assets.

Registered Retirement Savings Plans (RRSPs) are voluntary, individual, defined contribution savings plans. Employers may provide a "group RRSP" for employees, and may remit a share of contributions on behalf of their employees. By the end of the year in which an individual attains age 71, pension payments from an RPP must commence and an RRSP must be converted to a RRIF (minimum withdrawals from the RRIF must commence the following year).

Contributions to RPPs and RRSPs are deductible from income for tax purposes and investment income earned in these plans, and in RRIFs, is not subject to income tax. Pension payments and withdrawals from RPPs and RRSPs and RRIFs are included in income and taxed at regular rates.

The RPP/RRSP contribution limits are fully integrated – that is, contributions to RPPs and RRSPs are subject to comprehensive annual personal limits that apply in an equivalent manner whether a particular contributor is a member of an RPP, saves through contributions to an RRSP or saves in some combination of the two. The integrated limits permit all Canadians, except those with the highest incomes, to save enough on a tax-assisted basis, over 35 years, to fund a pension equal to 70 percent of pre-retirement earnings – in addition to any CPP/QPP or OAS entitlements. The unlimited carryforward of unused RRSP room effectively provides a lifetime contribution limit and permits Canadians to supplement tax-assisted savings in future years if they have not taken advantage of these tax-assisted savings opportunities in a particular year.

In 2006, approximately 9 million Canadians saved in an RPP and/or a RRSP, and 3.6 million Canadians received income from an RPP and / or RRIF.

Governments support retirement savings in RPPs and RRSPs by permitting the tax deductions for contributions referred to above and by not taxing the investment income earned in the Plans. The cost of this tax expenditure is currently estimated at approximately $20 billion per year in forgone revenue (net of tax collected on RPP/RRSP/RRIF payments and withdrawals) for the federal government and, in addition, at about one-half that amount in forgone provincial revenue.

In 2009, assets in RPPs, RRSPs, RRIFs, and CPP/QPP amounted to almost $2 trillion.

OTHER RETIREMENT SAVINGS

In addition to the government-sponsored retirement income system, Canadians save for retirement through other instruments. For example, the new Tax-Free Savings Account (TFSA) can be used for any savings purpose, including retirement saving. TFSA savings can be withdrawn tax-free at any time and do not affect income-tested benefits such as GIS payments.

Canadians can also accumulate savings for retirement in a number of other financial and non-financial assets. Non-financial assets include, for example, housing equity and small business equity. Savings through home ownership also benefit from tax-assistance due to the exemption of any capital gain realized on the sale of a principal residence for income tax purposes and the non-taxation of imputed rent.

In total, Canadian households have, at the end of December 2009, a net worth of $5.9 trillion, of which approximately $1.9 trillion is in RPPs and RRSPs. The remaining $4.0 trillion is represented by these other savings assets (see Table 1 below).

Table 1
Components of household net worth – 2009Q4

Components of household net wealth	**Aggregate (billions)**
Pension Assets* (individual registered retirement saving plans, employer-based pension plans, CPP/QPP net assets)	$1,860
Real Estate Equity (net of mortgages) (residential and other structures and land)	$1,917
Other financial and non-financial assets (other financial and non-financial assets, excluding financial assets held through individual registered retirement saving plans)	$2,619
Consumer Debt **(consumer credit and loans)**	($ 536)
HOUSEHOLD NET WORTH AND CPP/QPP net asset. **(assets less debts)**	**$5,859**

Source. Statistics Canada; Department of Finance Canada calculations
* Individual registered retirement saving plans and employer-based pension plans are projected from the last published data in 2008Q4 to 2009Q4 based on the financial asset performance of relevant sectors in the quarterly Balance Sheet Accounts.

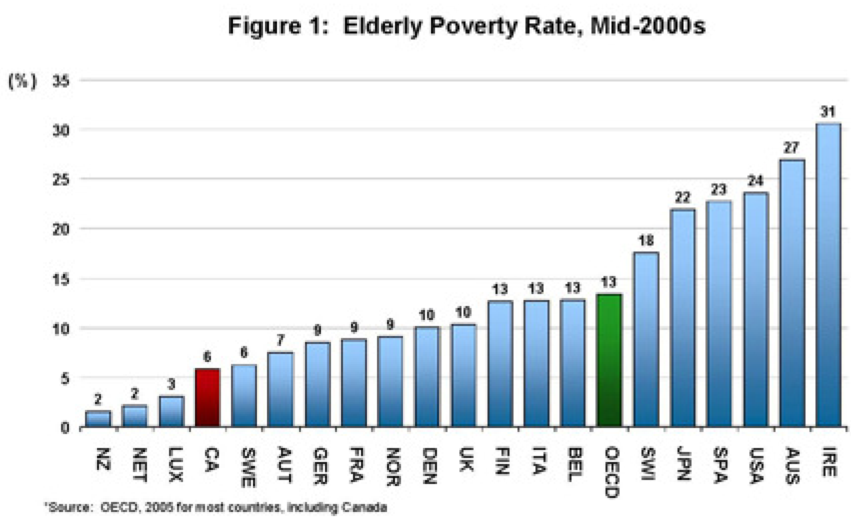
III. RESEARCH ON RETIREMENT INCOME ADEQUACY

The federal-provincial-territorial Research Working Group on Retirement Income Adequacy was Chaired by Mr. Ted Menzies, Parliamentary Secretary to the Minister of Finance, and supported by Research Director Professor Jack Mintz of the University of Calgary, one of Canada's leading economists and an expert in the field.

Additional Background:
How do independent analysts rate Canada's retirement income system? [Melbourne Mercer Global Pension Index - Canada]

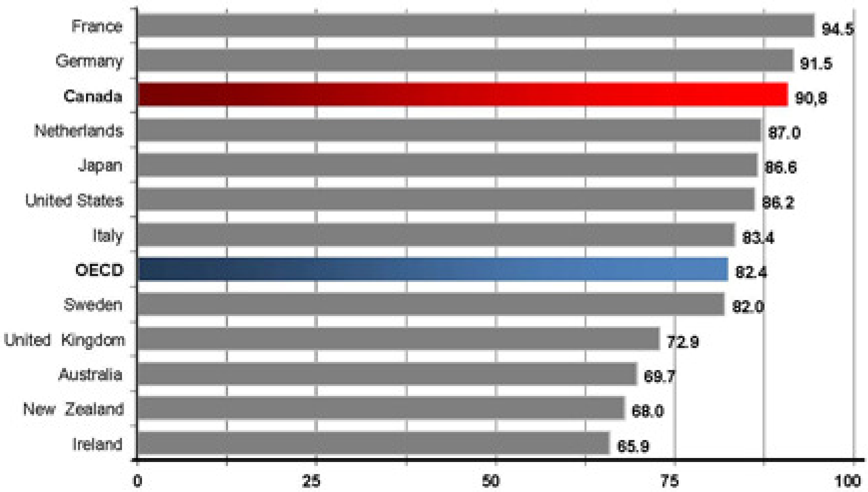
A number of research papers were commissioned by the Group. The Group also drew on other relevant research, most notably a paper by Robert Baldwin, commissioned by the Government of Ontario. Professor Mintz presented [a summary Report] on the research findings to federal, provincial and territorial Ministers of Finance and Minsters responsible for pensions at their meeting in Whitehorse in December 2009.

Professor Mintz's Report concluded that overall, the Canadian retirement income system is performing well, providing Canadians with an adequate standard of living upon retirement. Most low-income seniors have adequate income security, with annual retirement incomes equal to or more than income earned during their working lives. A 2009 OECD paper shows that 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.



It concluded that the Canadian retirement income system is currently providing seniors with replacement of their pre-retirement incomes at high levels, both in absolute terms and in comparison to other countries around the world. For example, the average disposable income of seniors in Canada is 90 percent of the average income of the general population, which indicates they are able to maintain an adequate standard of living in retirement, as seniors generally do not have to spend as much on certain items, such as consumer durables and work-related expenses. Baldwin's report comes to a similar conclusion with regard to current retirees, noting that “the elderly poverty rate in Canada is one of the lowest in the OECD.” (See Figure 2 below).

Figure 2: Average Incomes of Seniors as % of Average Population, Mid-2000s

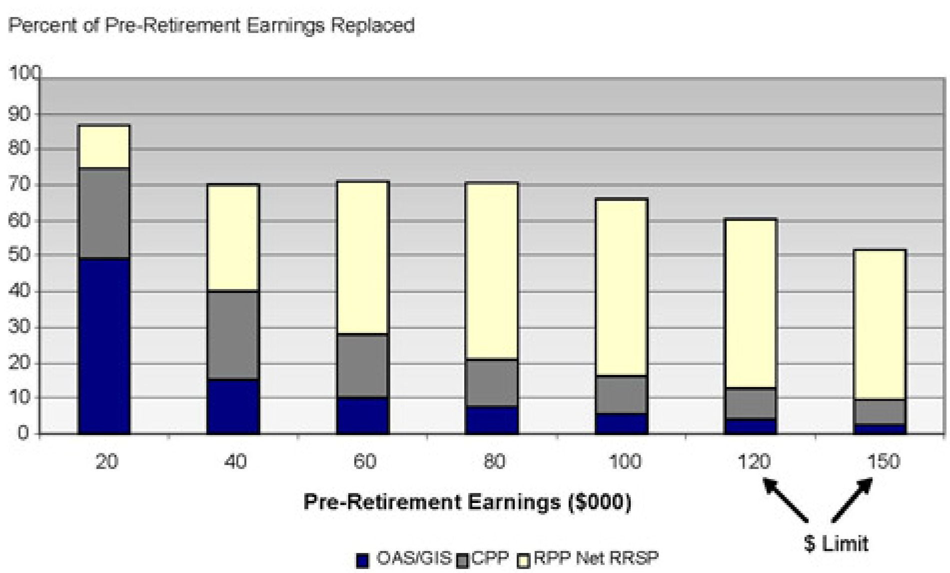


*Source: OECD, 2005 for most countries, including Canada

On examining the situation of working Canadians, Professor Mintz found that, on average, Canadian workers appear to be saving sufficiently, taking account of the OAS/GIS program, CPP/QPP and registered plans, to maintain high levels of replacement income in retirement. Low income individuals are on track to replace over 80 percent of their pre-retirement income, largely due to the Old Age Security/Guaranteed Income Supplement programs and the Canada and Quebec Pension Plans.

As income levels rise, individuals rely more on private savings. Higher-income individuals may achieve a lower overall income replacement rate when taking into account only savings through the three pillars of the RIS (that is, ignoring other sources of retirement income) and due to the effect of the maximum RPP/RRSP dollar limits (see Figure 3 below).

Figure 3: Estimated Income Replacement by Each Pillar of Retirement Income System, All Individuals (Average Savings Rates)



Note: this chart shows estimated income replacement rates from OAS/GIS benefits, CPP benefits and RPP/RRSP savings, based on actual 2006 average RPP/RRSP contribution rates. The contribution rates are converted into earnings replacement rates assuming a 3.5 percent real rate of return on investment and a 35 year contribution period, among other factors. The chart is not based on benefits actually paid out. It is therefore a stylized indicator of how the system may perform for current savers.

Professor Mintz's Report cites some recent studies that provide evidence suggesting that, as a rough rule of thumb for many Canadians, 60 percent [income] replacement levels of pre-tax incomes are adequate to maintain consumption in retirement. The research also points out that no rule for determining adequacy can apply in all circumstances since replacement levels depend on a wide variety of factors, such as income levels, number of individuals in the household, and whether an individual in the household has a disability.

Professor Mintz's Report also identified some important issues that merit further examination. The key debate in this regard revolves around whether and to what extent some Canadians may be undersaving. Some of the research shows that there is a portion of modest and middle-income Canadians that may not be saving enough to provide high levels of income replacement in retirement. For example, some estimates in one study by Keith Horner (Horner, Keith 2009), commissioned under the research directed by Professor Mintz, suggest that about 30 percent of Canadian households (where the household head is 30 to 64 years of age) will not replace 100 percent of pre-retirement consumption, based on projected retirement income from OAS/GIS benefits, CPP/QPP benefits and RPP/RRSP savings (he estimates that 20 percent may not meet a 90 percent threshold). Baldwin comes to similar conclusions with respect to working Canadians, suggesting that as many as a third may not be able to maintain their current consumption in retirement.

The Mintz Report indicated, however, that more work needs to be done to better understand the potential issue of undersaving, because, in particular:

- It is not clear what replacement rate represents a level of income or consumption below which Canadians may experience a material drop in living standards in retirement. There are views that replacing less than 90 percent of consumption may not constitute a material decrease in standards of living.
- The research did not fully examine the extent to which other savings assets, like home equity, small business equity and non-registered savings assets, play a role in supporting individuals in retirement. As Table 1 indicated, Canadians have significant other assets that could potentially be used as a source of retirement income.
- While some researchers, such as Keith Horner in a paper commissioned under the research directed by Professor Mintz, as referenced above, identified a potential under-savings issue in relation to Canadians without RPPs, the research did not fully examine the nature and extent of actual income earned in retirement. In other recent papers by Statistics Canada (Ostrovsky, Yuri and Grant Schellenberg, 2009), evidence indicates that retirees who did not have an RPP in their fifties were, on average, achieving the same income replacement levels in retirement as those with an RPP.
- While most Canadians appear to be saving sufficiently to achieve high replacement rates of income in retirement, a number of experts, including Baldwin, have pointed out that some particular groups may not be doing as well. As much as possible, it is important to get behind the averages and understand which Canadians are at risk of not saving enough.

Another issue raised by Professor Mintz is that retirement income adequacy also depends on the investment performance of retirement funds. He notes that Canadians often appear to pay for asset management and advice that are accompanied by costs without commensurate returns. A paper by Vijay Jog, which was also commissioned under the research directed by Professor Mintz, reviewed studies that have been carried out on the value of active management of invested assets and concludes that there is no clear evidence that actively managed funds perform better than passive investment in indexed funds over time.

Professor Mintz noted that, according to Vijay Jog, investors generally receive a lower return on their actively managed investments compared to passive strategy investments due to the management fees incurred. This could raise questions about the transparency of information and the level of understanding of costs available in Canadian financial markets. The Government of Canada is aware that Canadians have very different levels of understanding of the financial information that they receive. In this context, it is worth noting that the Government of Canada has established a Task Force on Financial Literacy to recommend a national strategy on financial literacy by end of 2010.

IV. CONSIDERATIONS FOR EVALUATING RETIREMENT INCOME SYSTEM ISSUES

Retirement income issues are long-term, and, in considering any potential improvements to Canada's retirement income system, a number of principles should be respected.

In particular, care should be taken not to weaken or compromise the effectiveness of the current Canadian retirement income system, which is generally working well and is recognized as among the most sound in the world. These principles are:

- The system should remain affordable for individuals and businesses;
- Costs incurred by governments should be appropriate and affordable, as well as sustainable over the long-term;
- The system should function so that it does not transfer costs from one generation to another;
- There should continue to be an appropriate balance maintained between individual and government responsibility for retirement savings, and an appropriate level of individual choice; and
- The system should remain accessible to all Canadians.

In assessing potential improvements to Canada's retirement income system, it is also important to consider the significant actions, as described in the Introduction, that governments have recently taken to improve Canada's retirement income system.

V. RANGE OF PROPOSALS IN THE PUBLIC DOMAIN

There is a wide range of various proposals in the public domain aimed at addressing perceived issues with respect to Canada's retirement income system. By contrast, some argue that the current retirement income system is performing well, offers a good balance of public/private and mandatory/voluntary savings opportunities, and is financially sustainable over the long term, so that no fundamental changes should be made to the system at this time. The proposals that have been put forward generally fall into three broad approaches. Most relate to the second and third pillars of Canada's retirement income system though there are clear links to the first pillar (Old Age Security and the Guaranteed Income Supplement) in a number of the proposals that have been put forward. The scope of the proposals ranges from minor refinements of pension rules and regulations to creating new broad-based pension plans.

There is no consensus among the pension experts, interested groups and other proponents on this range of views and proposals. Your views will help to inform discussions among Finance Ministers on different approaches at the next Finance Ministers' Meeting in May.

The three main broad approaches to addressing perceived issues that have been raised with respect to Canada's retirement income system are:

1. GOVERNMENT-SPONSORED, VOLUNTARY DEFINED CONTRIBUTION PENSION PLANS

This category includes various proposals to create a new government-sponsored, voluntary defined contribution pension plan.

While most of these proposals would create a new savings vehicle open to all Canadians, or all residents of a province, some strictly target those workers who currently do not participate in an employer-sponsored pension plan, including the self-employed. Many of these proposals are based on the idea of auto-enrolment – that is, that individuals would be automatically enrolled to save through the plan unless they actively took steps to opt out.

Under these proposals, the new plans would generally have a default contribution rate, although participants could ultimately choose the amount that they wish to contribute. Employers would also be able to contribute, for example, matching amounts. In some variants of the proposal, employers would be required to make contributions if their employees participate. Contributions and returns would be tracked in an individual account. Individual savings would be pooled and invested by a fund manager.

There have been different suggestions for the fund manager. If a new, voluntary, defined contribution tier were to be added on to the CPP, the current CPP Investment Board could potentially be the fund manager, though a new and different function for funds management and tracking individual accounts would have to be established. If the new, voluntary, defined contribution plan were not part of the CPP, a new investment board would have to be set up. Like the CPP Investment Board, it would operate at arms length from government.

Contributions and investment returns would generally be locked in until retirement – that is, participants would not have access to these funds prior to retirement for another purpose. The benefits ultimately provided to participants would depend on the amount contributed and the rate of return of the investment fund. The benefits could be paid out upon retirement using standard defined contribution payout vehicles. purchase of an annuity from an annuities provider, transfer of the funds to a Registered Retirement Income Fund or withdrawals from the individual's account. In some variants, annuity-type payments would be paid from the plan.

It is understood that that contributions to any such plan would be subject to current RPP/RRSP contribution limits.

This category of proposals raises a number of important issues, including. the extent to which additional retirement savings would be generated instead of participants substituting current savings (for example, in RRSPs) to the new plan; the role of employers in sponsoring RPPs; the impacts on the financial services sector; and the role of and costs to governments.

2. MANDATORY, DEFINED BENEFIT PENSION PLANS

This category includes various proposals to expand the current CPP mandatory defined benefit coverage.

Some proponents have suggested doubling the CPP replacement rate to 50 percent while maintaining the existing maximum earnings threshold. The CPP currently replaces a maximum of 25 percent of average earnings up to the Year's Maximum Pensionable Earnings (which grows with the year's average industrial wage and is $47,200 in 2010). The benefit is a “defined” amount in that it does not vary based on the returns of the funds managed by the CPP Investment Board.

This proposal would follow the current structure and design of the CPP, thus participation would be mandatory and the benefit would be a defined amount. The CPP benefit provided would increase. However, there would be an increase in mandatory employer and employee contributions in order to fund the increased benefit. As well, there is a requirement in the CPP to fully fund any benefit enhancements to ensure that the CPP remains financially sustainable and that costs are not transferred to future generations. The effect of this requirement is that it would take 40 years to achieve the full increase (e.g., the doubling) of the CPP benefit.

A variant of this proposal is to expand the CPP by increasing the Year's Maximum Pensionable Earnings (YMPE). For example, the CPP would continue to cover 25 percent of average earnings but up to a higher threshold of earnings (e.g., doubling the YMPE to $94,400). This variant would also require increased, mandatory employer and employee contributions.

This category of proposals also raises a number of important issues, including: the extent to which additional retirement savings would be generated instead of participants substituting current savings (for example, in RRSPs) to the expanded CPP; the impact of changing the balance between mandatory and voluntary savings in the system on certain individuals, such as those with low income; and the increase in costs for businesses due to the increase in mandatory employer contributions.

3. INCREASED FLEXIBILITY FOR PRIVATE-SECTOR, DEFINED-CONTRIBUTION PENSION PLANS AND INCREASED OPPORTUNITIES FOR PRIVATE SAVINGS

This category includes various proposals to amend the tax rules and pension standards regulations to provide more flexibility to the private sector to create broader-based defined contribution pension arrangements. Private sector providers would be permitted to operate defined contribution pension arrangements that do not require an employment relationship, thereby permitting participation by self-employed individuals and employees, either with or without the participation of their employer, in a single pension arrangement.

It also includes proposals to apply certain features to such broad-based defined contribution arrangements and/or group RRSPs, such as. automatic enrolment, automatic escalation of contributions and locking-in requirements.

Various groups and organizations have also put forward proposals to increase opportunities for private retirement saving, which generally fall into two areas:

- Increasing the contribution limits on tax-assisted savings (e.g., increasing the limits for RRSPs and defined contribution RPPs, increasing the TFSA contribution limit); and,
- Modifying certain RRSP and RRIF rules to allow greater tax deferrals on retirement savings (e.g., increasing the age limit for commencing payments from an RPP and converting an RRSP to a RRIF, reducing the RRIF minimum withdrawal factors).

While the objective of proposals in this category is to increase flexibility, choice and savings opportunities for Canadians, such proposals also raise issues related to ensuring compliance with the system of RPP/RRSP rules and limits, the application of pension benefits standards rules, potential forgone revenues for governments and the basic retirement income objective of RRSPs and RRIFs. For example:

- Employers provide important oversight of RPP contributions and benefits, which is key to ensuring compliance with the RPP contribution and benefit limits.
- Increasing the limits on tax-assisted savings would have significant revenue cost implications for governments and would need to be considered in the context of available fiscal resources.
- The basic purpose of the tax deferral provided on RPP, RRSP and RRIF savings is to help Canadians generate income in retirement. Proposals to allow greater tax deferrals would need to be considered with this basic objective in mind.

4. OTHER

While much of the discussion and the majority of the proposals fall within the three approaches described above, other suggestions, such as those relating to Old Age Security and the Guaranteed Income Supplement, have also been put forward. The Government welcomes views on the full range of options, including those that are not within the approaches described above.

VI. SUMMARY OF QUESTIONS

Thank you for taking the time to read this document and sharing your views. This is an integral part of the Government of Canada's process on retirement income issues.

QUESTIONS FOR CONSULTATIONS

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

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

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

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

5. Should there be more mandatory retirement savings.

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

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

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

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

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

Submissions can be emailed to ris-consultations-srr@fin.gc.ca.

Written submissions to this consultation are invited and should be forwarded by April 30, 2010, to:

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