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October 15, 2010

Department of Finance
c/o Crown Agencies and Corporations
Provincial Building, 1723 Hollis Street
Halifax, NS B3J 1V9

Attention: Susan Winfield

Dear Ms. Winfield:

Re: ***Mechanisms for Enhancing the Retirement Income System in Canada***

Advocis, The Financial Advisors Association of Canada, is pleased to provide comments to your consultation on Mechanisms for Enhancing the Retirement Income System in Canada.

Advocis is Canada's oldest and largest voluntary professional membership association of financial advisors and planners. We represent life and health insurance licensees and mutual fund and securities registrants across the country. Advocis members pride themselves on the service and advice delivered to individuals and the business community, particularly small-and medium-sized companies through the provision of comprehensive professional financial advice and insurance and financial services products. This includes group RRSPs, deferred profit sharing plans and defined contribution ("DC") plans (hereinafter referred to collectively as "Capital Accumulation Plans" or "CAP Plans") and defined benefit "DB" plans.

Advocis has established a Retirement Income Adequacy Committee whose mandate is to identify retirement and pension issues that are of concern to Canadians and to promote a sound retirement income system in Canada including reforms to improve retirement income adequacy for Canadians now and in the future.

Pension coverage, retirement income adequacy and necessary reforms are major public policy issues. We commend the Nova Scotia Government for making it a priority to address pension gaps for its citizens that do not currently participate in a pension plan.

Your paper outlined two areas where Finance Ministers had agreed at their June, 2010 meeting to do further work, both designed to enhance the retirement income system in Canada. One involved a modest, phased-in, and fully-funded enhancement to the CPP. The other involved "pension innovations that would allow financial institutions to offer broad based defined contribution pension plans to multiple employers, all employees and to the self-employed."

Reforms to The First Two Pillars of the Retirement Income System

Advocis strongly believes that Canadians should have the choice of how they accumulate savings for their retirement and that government should not implement reforms that substantially alter the balance between the current three pillars of the retirement income system and would mandate how Canadians save.

Advocis does not, at this time, support expansion of the CPP as a way to improve retirement income adequacy for future Canadian retirees.

Advocis urges the government to allow private sector pension reforms to be implemented and given a chance to succeed prior to giving serious consideration to changes to Pillar 2 (CPP) of the retirement income system.

In addition, the Federal Government and many provinces' deficit situations and the existing tax burden for employees and employers does not support the imposition of an additional tax burden on employers or employees that would be required to expand the CPP.

Advocis believes that the current apportionment of the three pillars is the appropriate balance (with the modifications to OAS and GIS listed below), so long as reforms are made to the third pillar to encourage greater participation in private sector pension plans, including CAP Plans.

Advocis recommends the following changes to the OAS and GIS:

- Guaranteed Income Supplement (GIS) recipients should be permitted to claim nonrefundable tax credits that eliminate the personal income tax that they would otherwise pay. This would reduce their effective marginal tax rate to 50% - the basic GIS clawback and would resolve the serious disincentive to saving through RRSPs or CAP Plans that currently exists given the high post-retirement effective marginal tax rates.

- The Old Age Security (OAS) claw-back of 15% should be reduced to 10.5 percent, if not abolished. The OAS claw-back creates a dramatic ballooning of marginal and effective tax rates post-retirement. The OAS claw-back is a major deterrent for middle income working Canadians to continue to contribute to society through their work after age 65 and has an adverse incentive effect for retirement savings for some individuals.

Innovations and Reforms to the Third Pillar of the Retirement Income System

Advocis believes that governments should give serious consideration to implementing private sector pension and retirement income reforms so that pension coverage and retirement income adequacy can be improved. These reforms could be implemented quickly to improve the retirement income system for Canadians.

The modernization of pension standards legislation to reduce complexities and costs to employers and harmonization of the legislation between provinces, will encourage more employers to offer a pension plan to their employees.

Reducing barriers will increase pension coverage but incentives to encourage employers to offer these plans are also required. Otherwise, pension coverage will not be increased as much as it otherwise could be. Governments should explore tax incentives to encourage small and medium sized businesses to offer pension plans to their employees.

Employers who are well-versed on the issues associated with retirement planning tend to be more interested and we would suggest more inclined to offer benefits to employees. Improvements to financial literacy amongst Canadians should be supported.

Advocis strongly believes that tax reforms should be implemented to promote pension coverage. Through tax reforms DC plans can be placed on a more equitable footing with DB plans. There are also reforms to RRSPs that can be made to improve that form of retirement savings.

Our recommendations are:

a) Contribution limits for CAP Plans and RRSPs should be increased to help participants in CAP Plans and RRSPs achieve retirement incomes comparable to participants in public sector DB plans. As a first step, contribution limits should be increased to 20% of earned income and the maximum dollar limits should continue to be indexed. Further increases in these limits should be a priority for future fiscal policy.

b) The current two year 100% vesting rule should be replaced by gradual vesting over a 3-year period from the date of plan enrolment, with 1/3 at the end of the first year, 2/3 at the end of the second year and full vesting at the end of the third year (the employees contributions are, of course, fully vested from the beginning). This would provide employers with a greater incentive to establish a pension plan. The employee would also have a greater incentive to remain with the company over a longer period, while at the same time, providing some compensation to employees who leave the company before the three-year period. With this approach, employees always receive their money plus a share of the employer's money at termination of employment. Non-vested forfeitures should only be used to offset an employer's current service contributions.

c) While it is recognized that the tax assisted private retirement planning system in Canada results in significant deferrals, ultimately the tax will be paid. Accordingly, administration rule amendments such as: a reduction or change in minimum withdrawal rates; a longer window for deferral, i.e. to age 75 and the ability to defer tax for prescribed pension amounts while still actively employed (ie voluntary private and public pension rollovers) would create larger pools of capital for the individual to supplement their retirement income at a later date, and for governments to ultimately tax.

d) Contributions to retirement savings plans should be determined on a life-time average basis in order to not penalize those individuals with fluctuating incomes and individuals whose income increases rapidly later in their working lives. This would allow any earned income in excess of the contribution limit in a year to be carried back or forward to create additional contribution room for years where earned income was below the limit. Any taxable withdrawals from an RRSP or CAP Plan in a year would create future RRSP contribution room. This would allow individuals with career interruptions to make up for years with little or no income by permitting extra contributions in subsequent years of high earnings.

   For DC plans, employees and employers should be allowed to make past service contributions based on prior year's earnings up to the limit of the individual's unused RRSP contribution room.

   This would also allow individuals to draw down their pension savings to finance other needs (as is currently allowed with RRSPs) without permanently impairing their ability to save for retirement.

e) The age limit for contributions to retirement savings plans should be increased from age 71 to 75, implemented over a 4-year phase in period given the fact that people are living longer and continuing to work post-retirement.

f) The required withdrawal of amounts upon retirement from locked-in retirement accounts should be lowered to reflect the fact that interest rates are low, Canadians are continuing to work post-retirement and are living longer.

We appreciate the opportunity to provide our comments to the government as it considers reforms to the retirement income system.

Yours sincerely,

Greg Pollock
President and CEO

Terry Zavitz, CFP, CLU, RHU, GBA, EPC
Chair, National Board of Directors