



Canadian Life
and Health Insurance
Association Inc.

Association canadienne
des compagnies d'assurances
de personnes inc.

**STATEMENT TO THE
HOUSE OF COMMONS STANDING COMMITTEE ON
FINANCE**

by the

Canadian Life and Health Insurance Association

March 23, 2010

I. Introduction

Mr. Chair, members of the Committee, I am very pleased to have the opportunity to be here today on behalf of the Canadian Life and Health Insurance Association. I am joined today by Frank Swedlove, President of the CLHIA. We welcome the opportunity to share our views with the Standing Committee on Finance on the adequacy of retirement savings among Canadians.

The CLHIA is a voluntary association whose member companies account for 99 per cent of Canada's life and health insurance business. Over two-thirds of Canada's pension plans, primarily Defined Contribution (DC) plans for small and medium-size businesses, are administered by Canada's life and health insurance industry. The industry also provides a wide range of financial security products such as life insurance, annuities and supplementary health insurance to about 26 million Canadians.

The Canadian life and health insurance industry commends the Standing Committee for its focus on retirement income security. We very much share your interests. This is an area that is highly meaningful to our customers, who rely on us for financial security -- whether it be through life and health insurance or lifetime income solutions that we offer through pensions, annuities, RRSPs and RRIFs.

As an industry, we've been giving this a lot of thought, both in terms of serving our customers and staying abreast of their changing needs, but also in terms of the role that we play and the contribution that we make to the broader fabric of Canadian society.

Today, we'd like to focus on the adequacy of retirement savings. In so doing, we'll touch on the various components that make up retirement savings and the role that government and the private sector should play. We'll talk about behavioural challenges. And we'll make a few specific suggestions that, in our view, will go a long way to improving retirement savings for all Canadians.

II. Components of Canada's retirement savings system

According to the 2009 Melbourne-Mercer Global Pension Index, Canada's retirement savings system has only three peers: Australia, the Netherlands and Sweden. This success is predicated on the complementary relationship between government and private plans. In this regard, we often talk about the three pillars of retirement savings. The government makes up the first two pillars -- the Old Age Security and Guaranteed Income Supplement programs, and the Canada (and Quebec) Pension Plans. It is our view that the role of the government in Canada's retirement savings system should be to ensure that all Canadians receive a level of income that meets their basic needs in retirement. We believe that these first two pillars -- the public part of our retirement savings system -- are working well.

The third pillar is a combination of workplace pensions and other retirement plans, individual RRSPs and other savings plans provided by the private sector. This third pillar is meant to provide a level of income adequacy that goes beyond the basics.

III. Adequacy of savings for retirement

In thinking about adequacy further, we could ask a few basic questions. Is there product choice? Are there appropriate tax incentives? Are Canadians taking full advantage of their options here?

Well, the answer is yes and no. Structurally, we have a healthy third pillar. There are a wide range of products available through a wide range of providers. It is a competitive marketplace. There are tax incentives.

But many Canadians are not sufficiently engaged and some not at all. Sometimes this is by choice and sometimes it's through a lack of access.

For instance, we know that only 30% of tax-filers contribute to RRSPs, although 88% of them are eligible to do so. And collectively, they only use around 6% of their accumulated contribution room. Annual contributions are about \$34 billion a year. The unused RRSP contribution room is roughly \$500 billion!

When it comes to workplace retirement plans, there's a fair bit of inequity that breaks down between the public and private sectors, and between large and small employers.

About 8 million workers -- out of a total workforce of 14 million workers -- have access to some kind of workplace retirement plan. 5 million workers are covered by Defined Benefit (or DB) pension plans which are designed to provide a defined lifetime income. Another 1.3 million Canadians are covered by workplace Defined Contribution (or DC) plans, where retirement income will be based on accumulated savings at point of retirement. And 2 million are covered by workplace Group RRSPs, which are less administratively complex than DC plans.

If a Canadian is working in the public sector, chances are they have a pension plan. 90% of public sector workers are covered by workplace retirement plans and these are usually DB pension plans. When it comes to the private sector, however, only 50% of workers have access to some form of workplace retirement plan. This could be a DB plan but, these days, is more likely to be a DC pension plan or a Group RRSP.

In the private sector, there's a shift underway from DB plans to DC plans or Group RRSPs. This is part of a global shift and it's driven by the funding costs, the risks and the complexities of DB plans that make them increasingly unattractive to employers. As a result, DC plans that involve less risk and Group RRSPs that are administratively simpler for the employer are growing in popularity with private sector employers.

IV: Recommendations to improve the retirement savings system

And, what does the insurance industry believe will improve savings for Canadians in retirement? We believe that there are reasonable steps that can go a long way to improving our retirement savings system.

We join others in believing there should be a good look at the rules around RRSPs. Are certain groups being marginalized by the current rules? Do the rules recognize the trend that the demographics of increased longevity allows the flexibility for working longer? Are there approaches other than the current maximum contribution rule that could be more effective?

We believe that expanding the definition of earned income to capture such things as royalties and active business income would be much more inclusive of self-employed Canadians.

In addition, extending the age at which Canadians must start withdrawing from their RRSPs and other pension vehicles -- from 71 to 73 -- would allow those who are still working to continue to build up their retirement savings. Some countries have gone even further. For instance, pensions don't need to be taken until 75 in the United Kingdom.

Looking to the UK example again, they have adopted a "lifetime pension contribution limit" in place of an annual contribution limit. This would certainly

allow for greater flexibility for those who leave the workforce, say to go back to school, or where there is a great deal of fluctuation in income over the years.

A second area that we believe could make a huge difference to Canadians is improving access to workplace retirement plans.

Most employers currently offer health and dental benefit plans for their employees. But we know that only 50% of workers in the private sector have retirement plans. Why is that and what can be done to improve this situation?

The main impediments for employers right now are the costs and administrative complexities. This is especially so for smaller employers.

The Canadian life and health insurance industry is recommending an approach that we believe would appeal to employers who currently think retirement plans are out of their reach, and would make a real difference in increasing participation in workplace plans.

We recommend that governments allow "Multi-Employer Pension Plans" that are set up as DC plans (or DC-MEPPs), whereby a regulated financial institution acts as the sponsor and administrator, and any employer may join. This gets away from the existing barrier that requires an employer-employee relationship. It spares the employer almost all the administrative costs and compliance burdens (except for payroll deductions). Because multiple employers could participate in the same plan, there would be significant economies of scale.

Employees would be automatically enrolled but would be permitted to opt out. As well, legislation should permit "auto-escalation" where a plan could start members out at a base contribution rate with an automatic increase in subsequent years until the desired target level of contribution was reached. Employers could match employee contributions or could choose not to contribute.

For those employers who offer Group RRSPs, a current impediment to maximizing retirement savings is that contributions to these plans are not locked in for retirement but can be withdrawn at any time. We recommend that any employer contributions be locked in, to ensure that they are meeting the objective of providing retirement income.

All of these changes to private pensions—auto-enrollment, auto-escalation, multi-employer pension plans, locking in employer contributions to Group RRSPs -- are relatively simple and positive steps forward that would build up our third pillar of retirement savings that few if any would oppose.

And finally, is there anything else that can be done to improve consumers' retirement savings habits? We believe that there is -- in the area of education.

The insurance industry fully supports the objectives and direction of the Task Force on Financial Literacy. In particular, the Task Force notes in its public consultation paper that it recognizes the importance of strengthening Canadians' retirement planning skills. We support this emphasis and believe that there need

to be opportunities to enhance communication around the importance of saving for retirement -- particularly to younger Canadians who have the time ahead of them to establish lifelong strategies to prepare for a financially secure future.

V: Government Sponsored Plans

While the life and health insurance industry supports the public system for providing -- through OAS/GIS and through CPP/QPP -- a basic level of pension, it does not support massive new government-run programs. Whether these programs are a DC "top-up" on the CPP/QPP or a whole new government-sponsored plan, in our view such plans would only replicate what is already done in the private sector.

Our proposals to open up access to workplace plans do not require new infrastructure costs nor do they include an implied government guarantee if returns fall short of expectations. New government-sponsored plans would also lead to a monopoly situation -- our DC-MEPP proposal would permit a number of suppliers to continue to compete and innovate in the marketplace.

VI: Conclusion

In the view of the life and health insurance industry, we have a structure of saving for retirement that is sound and is internationally recognized as such. What we need to do is find mechanisms to allow more Canadians to take advantage of what is available. Our proposals to free up the RRSP market and

to make workplace retirement plans more accessible to workers, are the best way to achieve their objectives.