



**Canadian Life
and Health Insurance
Association Inc.**

**Association canadienne
des compagnies d'assurances
de personnes inc.**

**STATEMENT TO THE
STANDING SENATE COMMITTEE
ON
BANKING, TRADE AND COMMERCE**

by the

Canadian Life and Health Insurance Association

April 15, 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 Rick Rausch, Senior Vice-President, Individual Retirement and Investment Services, Great-West Life Assurance Company, Frank Laferriere, Chief Operating Officer, Manulife Securities Insurance Inc., and by Kevin Strain, Senior Vice-President, Individual Insurance and Investment, Sun Life Financial.

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, are administered by Canada's life and health insurance industry. CLHIA members administer over 8.5 million retirement arrangements for individual Canadians. The industry provides financial security through 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 savings mechanisms and 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.

Canada's retirement system is internationally recognized as a success. According to the recent Melbourne-Mercer Global Pension Index, Canada's retirement savings system has only three peers: Australia, the Netherlands and Sweden. But gaps in retirement-focused savings remain for middle income earners, and corresponding refinements of our private pension regime and other savings mechanisms to address these shortfalls are needed.

On March 31, the CLHIA, on behalf of the Canadian life insurance industry, released a position paper on saving for retirement. The paper lays out a number of proposals and I urge you all to read it (and we have made copies available to you). I will summarize some of our recommendations as they relate to the mandate of the review established by this Committee.

II. Enhancing Individual Savings

We believe RRSPs can be made more flexible to increase opportunities to save for retirement and to manage our retirement income in later years. For example, extending the age at which Canadians must start withdrawing from their RRSPs -- 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 U.K. again, they have adopted a "lifetime pension contribution limit" in place of our annual RRSP contribution limit. This would 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.

Contributions to both RRSPs and pensions should reflect the same earned income definition, expanding the employment income base currently used for pensions. It could include royalties, rent, and other income from business, office or property, not simply wages. This would provide greater savings opportunities, especially for the self-employed. Governments should consider broadening that base further.

III. Enhancing Group Savings

Tax and pension legislation should also be amended to permit adoption of Defined Contribution Multi-Employer Pension Plans. We propose that every workplace with 20 or more workers be required to offer a group RRSP, DC-MEPP, or some similar arrangement. This would expand access to cost-effective savings plans to about 80% of Canadian workers. Employment standards should facilitate automatic enrolment of employees and automatic escalation of employee contributions, with appropriate opt-out rights, to gently steer human behaviour to smart savings strategies.

For many employers, group RRSPs are an efficient alternative to pension plans. But employer contributions to group RRSPs can be withdrawn at any time by employees. Employers are more likely to contribute if those contributions are locked in, to ensure that they are meeting the objective of providing retirement savings. We recommend that tax law explicitly require such locking in.

Finally, we suggest permitting the crediting of unused RRSP contributions to DC pensions, since this would better target those savings to retirement income.

IV. Tax Free Savings Accounts

Tax Free Saving Accounts offer Canadians a flexible savings tool. Although they do not specifically target retirement savings, consumer surveys suggest retirement savings is a primary focus for TFSAs. And there is one area where TFSAs can be significantly enhanced to maximize retirement incomes.

The *Income Tax Act* requires that TFSAs be portable between financial institutions upon request. However, this portability may not always be to a consumer's advantage. For instance, if a consumer wished to use his or her TFSA room to invest in long-term products, insurance companies could offer

guaranteed, lifelong incomes that significantly exceed the income payable under a liquid arrangement. By forgoing the right to transfer the plan between providers, and any right of a survivor to a residual payment, an individual could increase the guaranteed benefits payable during his or her life by as much as 35 per cent - a significant advantage.

Canada's life and health insurance companies believe that such "non-commutable" annuities should be permitted as both qualified arrangements and qualified investments for TFSA purposes. This would parallel existing rules for Registered Retirement Income Funds and provide consumers with a potentially valuable means of maximizing retirement income.

V. Educational Initiatives

These initiatives provide useful tools for consumers, but governments can play a further role in promoting their effective use. The insurance industry fully supports the objectives and direction of the Task Force on Financial Literacy. In particular, the Task Force 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.

VI. Conclusion

In the view of the life and health insurance industry, we have a structure of savings 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 and TFSA markets and to make workplace retirement plans more accessible to workers, are the best way to achieve these objectives. Thank you, Mr. Chair; along with my colleagues I would be pleased to respond to your questions.