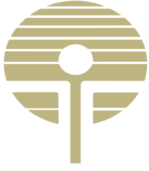

Canadian Life
and Health Insurance
Association Inc.

Association canadienne
des compagnies d'assurances
de personnes inc.

Submission

by the

Canadian Life and Health Insurance Association

to the

Government of Manitoba

on

# Savings for Retirement

April 30, 2010

Canadian Life
and Health Insurance
Association Inc.

Association canadienne
des compagnies d'assurances
de personnes inc.

## I: INTRODUCTION

Canada's retirement system is internationally recognized as a success. The recent Melbourne-Mercer Global Pension Index ranks Canada's pension system among the top four worldwide.[1] But gaps in retirement-focused savings remain for middle incomer earners, and corresponding refinements of our private pension regime to address these shortfalls are needed.

As service providers to many private sector pension and retirement savings arrangements, Canada's life and health insurance companies have direct experience and knowledge of the strengths and challenges of our "three pillar" retirement savings and income system, and much to contribute to discussions of pension income adequacy.

In this paper, we review current savings gaps, discuss principles that should form the basis of a robust and efficient pension system, and consider the benefits and challenges of current proposals in light of both these gaps and principles. We recommend simple legislative changes that would quickly and efficiently facilitate expanded access to flexible, competitive, retirement arrangements for all working Canadians.

Canada's existing pension regime is fundamentally sound but the scope of public elements was never intended to exceed basic income replacement. Small legislative and regulatory changes can leverage existing private sector infrastructure and expertise to increase coverage, adequacy and the security of supplementary retirement incomes for Canadians, at costs competitive with public plans. Moreover, these changes can be implemented quickly, and avoid the significant fiscal risks of expanding public pension systems or creating new government-sponsored arrangements.

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[1] Melbourne Mercer Global Pension Index. 2009. http://www.mercer.com/globalpensionindex

More broadly, Canadians need to play an active role in building their retirement prospects. The attached CLHIA report, entitled *Saving More for the Future: An Achievable Goal for Canadians*, identifies simple ways to support behaviours that can help deliver the retirement resources and lifestyles we all seek.

## II: THE PENSION GAP

Canada's retirement system is built on three complementary elements:

Old Age Security and the Guaranteed Income Supplement are state programs granted to all Canadians based on age, residency, and income level, and are financed out of general government revenues. They are intended to provide guaranteed levels of income to meet the very basic of living expenses.

The Canada Pension Plan and Quebec Pension Plan are compulsory, employment-based programs that provide core income security up to 25% of wages, to the national average income of $47,200. Contribution rates are 4.95% for both employees and employers.

Additional employment-based savings are meant to augment public plans to provide "adequate" retirement income. They consist of workplace retirement plans such as employer-sponsored pension plans and Group Registered Retirement Savings Plans (GRRSPs), as well as individual tax-assisted savings.

As Manitoba's consultation paper *Mechanisms for Expanding Pension coverage and Retirement Income Adequacy in Canada* correctly points out, studies show that a significant proportion of Canadians will not be able to maintain their lifestyles in retirement. Since public programs are designed to replace pre-retirement income for wage levels up to the average industrial wage and nothing above that level, individuals earning more than $47,200 in 2010 will see declining levels of public support. Indeed, given the clawback of OAS benefits where income from other sources exceeds $66,335 (2009 threshold), the declining replacement level from public programs becomes quite pronounced. The following table reflects the

maximum income replacement rates from public programs as pre-retirement income varies:

| CPP/QPP + OAS, Single person, maximum, 2010 [2] | | | | |
|---|---|---|---|---|
| Pre-retirement income | $30K | $50K | $80K | $100K |
| Replacement Rate | 46% | 35% | 22% | 17% |

While the required income replacement ratio in retirement will be contingent on many factors, and public programs provide comparatively high income replacement levels below the $30,000 threshold, the table shows that the replacement rate provided by public programs for incomes from $30,000 to $100,000 leads to a significant need for supplementary savings.

Similarly, participation in supplementary workplace-based retirement plans is dramatically skewed. Within the public sector, 80% of workers participate in defined benefit (DB) pension plans paying inflation-indexed benefits that typically replace 60-70 per cent of pre-retirement earnings.[3] By contrast, only 50 per cent of private sector employees have access to employment-based retirement arrangements, and this participation is primarily by employees of larger enterprises. Statistics Canada data indicate that more than 80 per cent of employees of organizations of 500 or more employees have registered pension plans, compared to just 26 per cent for organizations of 100-499 employees, and only 2 per cent for those working in businesses with fewer than 50 employees.[4]

[2] BMO Retirement Institute. 2010. Special Report: Saving for retirement: One size does not fit all. http://www.bmonesbittburns.com/personalinvest/retirementyourway/pdf/Saving_for_Retirement_E_final.pdf.

[3] Statistics Canada, 2008. Federal Public Service Retirements: Trends in the New Millennium. May. Catalogue no. 11-621-M-No. 068.

[4] Statistics Canada, CANSIM, table 281-0042 for employees and 280-0010 for RPP members.

Increasing employee mobility, the reduced role of collective bargaining in the Canadian economy and continuing employer concerns about the financial and legal liabilities associated with defined benefit pension plans have driven down the prevalence of defined benefit plans in the private sector. Just as defined contribution plans have become more common, non-pension savings arrangements such as Group Registered Retirement Savings Plans have grown in significance, in large part because of their consistent national regulatory regime and greater flexibility in employer funding. Private sector pension participation is now estimated at about 23 per cent nationally, with participation in alternative arrangements such as Group RRSPs estimated to be a further 28 per cent.[5] Still, a significant number of Canadian workers, particularly at middle income levels, do not participate in employer-provided retirement programs.

Finally, Canadians individually have access to a robust and comprehensive set of tax-assisted savings vehicles, generally through registered retirement savings plan (RRSPs). However, it is clear that Canadians are not availing themselves of this option to the full extent. Only about the third of those eligible for RRSPs actually choose to use this savings vehicle and only 6% of the available contribution room has been used since 1991. Therefore, policies to encourage more tax-assisted savings at the individual level must also be explored.

## III: GUIDING PRINCIPLES FOR PENSION REFORM

The CLHIA believes that any changes to the Canadian pension system must be made within the context of set policy principles. In our view, these principles are:

<u>Providing for basic needs</u>

The retirement system should ensure that all Canadians receive a level of income that meets their basic needs in retirement. This, correctly, is the goal of the first

[5] Baldwin, 2008. Canadian Public Policy: The Shift from DB to DC Coverage: A Reflection on the Issues. November. Vol. XXXIV, Supplement.

two pillars of Canada's pension system and the CLHIA believes that the current system is broadly successful at achieving this.

Incentives to save

The retirement savings system should encourage and enable all Canadians to save enough in order to approximate their pre-retirement standard of living during retirement.

Private sector participation

The retirement system should, as much as possible, rely on the third pillar programs to move Canadians from simply meeting their basic needs to supporting their desired retirement lifestyle.

Choice

The retirement savings system should ensure that Canadians have flexibility in determining how they save for retirement. This choice should encompass both the ability to choose the appropriate vehicles for their savings (employer pension plans versus other tax-assisted instruments) as well as who the ultimate provider and administrator of their savings is.

## IV: A BETTER ALTERNATIVE

The CLHIA proposes a series of changes to the pension regimes in Canada and the provinces that, cumulatively, will meet all of the principles laid out above. These proposals and rationale are outlined in more detail in our attached policy paper - *Saving More for the Future: An Achievable Goal for Canadians* - and so are presented in summary form here.

**1. Improve the take-up rate by individuals for tax-assisted retirement saving:**

Individual Canadians have a great deal of choice about how they access financial products, services and advice. There are a multitude of savings vehicles and sales channels currently available to Canadians that can meet any desired savings need a Canadian may have.

That said, as Manitoba's Consultation Paper correctly points out, tax-assisted savings vehicles are not being fully utilized. As a result, there are many Canadians not saving enough in order to sustain pre-retirement standards of living into retirement.

The CLHIA believes that there are some minor changes that could significantly increase individual savings behaviour:

1. amend tax legislation to expand the definition of income eligible for tax-assisted savings to include all income of an individual from office, employment, business and property
2. extend the date at which Canadians must draw down on their tax-assisted savings by two years to the end of the year they turn 73
3. allow individuals to apply their unused RRSP contribution room to DC pension plans
4. federal government to study whether to shift from an annual 18% contribution for RRSPs and DC pension plans to a lifetime maximum amount

Further, to educate Canadians about the importance of saving for retirement and to give them the tools to make responsible decisions, the CLHIA paper recommends that governments develop a national program, supported by a central portal of information and educational tools. This should be augmented by a national advertising campaign to promote savings-savvy behaviour.

**2. Provide universal access to workplace savings plans:**

The CLHIA notes that there are gaps in today's Canadian workplace retirement system. The most notable is between the coverage of public and private sector employees, the former having a coverage ratio of close to 90% while the corresponding private sector ratio is around 50%.

Canada currently has in place the infrastructure to implement cost-effective plans in most workplaces. The Canadian life and health insurance industry has many decades of experience offering DB, DC and Group RRSP plans for employers. However, there are impediments to extending workplace plans further. We would propose the following five-pronged approach to addressing the structural issues that are impediments to greater take-up of retirement savings at the workplace.

1. Amend tax and pension legislation to permit Defined Contribution – Multiple Employer Pension Plans (DC-MEPPs)

We propose the creation of a new kind of MEPP, which would be sponsored and administered by regulated financial institutions and would be a DC plan. In order to accomplish this, legislation that requires the employer to act as plan sponsor would be eliminated. DC-MEPPs would remove almost all of the administrative and compliance burdens that inhibit many smaller employers from offering pension plans to their employees.

A key benefit of this arrangement would be that it would overcome the barrier to universal access, namely the requirement for a unique employer-employee relationship. The added benefit would be that single plans for multiple workplaces would achieve economies of scale currently available to only the largest pension plans.

Research carried out for governments by the Jack Mintz study clearly indicates that scale can be very important in reducing the cost of operating pension plans. Present

DC arrangements in Canada routinely operate with costs in the 40-70 bps range[6]. A DC-MEPP model could be expected to have similar cost levels.

A question has been raised about how regulated financial institutions can take on the roles of both sponsor and administrator of a plan. Currently, any employer that offers a traditional pension plan deals with the twin accountabilities of their obligations to shareholders as sponsors of the plan, and their fiduciary obligations to plan members as the legal Administrator of the plan. This situation is well understood and there are well established processes in Canada to ensuring the proper separation.

The industry believes that present requirements under the various insurance acts and the requirement to act in the best interest of clients, is sufficient to deal with any potential conflicts.

However, if it were felt necessary for an additional third-party governance mechanism, the industry is ready to discuss this issue further with government officials.

<u>2. Amend tax and pension legislation to enable auto-enrollment in workplace group retirement plans:</u>

The CLHIA proposes that workers be automatically signed up for their employer's retirement plan. However, we would provide them the ability to opt-out, thereby preserving all Canadians' right to chose how they prefer to save for retirement. Such auto enrollment schemes in the United States have resulted in dramatic improvements in the percentage of workers who are covered by a retirement plan.

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[6] Jog. 2009. Investment Performance and Costs of Pension and other Retirement Savings Funds in Canada: Implications on Wealth Accumulation and Retirement. http://www.fin.gc.ca/activty/pubs/pension/ref-bib/jog-eng.asp

3. Remove any pension and employment legislative impediments to auto-escalation in workplace retirement plans:

The auto-escalation option would allow for the amount that employees contribute to their retirement plan to escalate from a low starting base over time. For example, such a system could start members at a base contribution rate of pay, and automatically escalate it by a constant amount as the age and income of the individual increases over time. As with auto-enrollment, an employee could override the auto-escalation should he or she wish.

4. Require all workplaces with greater than 20 employees to have a workplace retirement plan:

The life and health insurance industry recommends that all employers with twenty or more employees be required to offer some form of workplace retirement plan. Such a requirement and threshold would ensure that roughly 80% of Canadian workers are covered by a workplace retirement plan. While smaller businesses would not be required to offer a plan, we feel that many of the smaller firms would offer a retirement plan to their employees and ultimately far greater than 80% of Canadians would be covered. With the existence of group RRSPs and DC-MEPPs, an employer could offer retirement plans at little or no cost aside from payroll deduction.

5. Amend tax legislation to ensure that employer contributions to Group RRSPs are locked in:

Group RRSPs represent an increasing proportion of workplace plans. Some are structured where only employees contribute, while others have an employer contribution component as well. Given that under such arrangements, withdrawals can be made at any time, some employers have voiced a concern about whether the money they are contributing will stay in the plan until retirement. Accordingly, we recommend that a lock-in provision for Group RRSPs be developed, at least for the employer share, similar to what exists for DC pension plans and Quebec Simplified Pension Plans.

## V: OTHER PROPOSALS

A number of governments and interest groups have identified other possible pension plan options for consideration. These options all attempt to improve coverage and adequacy but in our view are not as attractive as those that we have proposed above. All involve greater direct government involvement with increased fiscal exposure and risks. We believe that consistent with the three pillar model that has served Canada well, governments should empower the private sector to increase savings opportunities for Canadians.

Let us look more closely at these other proposals.

**Increasing CPP/QPP**

One possibility would be to increase substantially the existing DB premiums and benefits of the CPP program. A doubling of premiums has been suggested. While we agree that governments must assess the levels of CPP/QPP from time to time to determine whether they continue to contribute effectively to meeting basic needs in retirement, a doubling of present levels would have significant impacts on these plans themselves and on employers and employees. First, if premiums were doubled tomorrow, the doubling of payments would not occur for over 30 years, assuming no government subsidization. Furthermore, a mandatory doubling of premiums to be paid by employers to 9.9% in this economic environment would certainly be problematic for many employers, particularly small business, and would discourage them from hiring or retaining existing employees. As British Columbia Finance Minister Colin Hansen has noted, an expansion of the CPP may not sit well with struggling companies who would be forced to increase their payroll taxes. "If we were to try to implement this today (a compulsory plan), we would get great pushback from the private sector, who basically could not afford an increased burden of an increased payroll tax. If it's a voluntary program then that helps mitigate that problem."

**A Government Sponsored DC Plan**

A second proposal is to establish a government sponsored DC plan that would offer a large-scale pension plan option to all workers. The proposal normally is accompanied by a recommendation for an auto-enrollment provision, with an option to opt-out, presumably at the level of the employer.

While the objectives of this proposal are similar to those of our DC-MEPP proposal, we believe that there are many more dangers related to a government sponsored option. First, we believe proponents severely underestimate the costs and time it will take to set up such a plan. On the cost side, massive expenditures will be needed to replicate the infrastructure that already exists in the financial sector (administration, individualized record keeping, call centres, marketing, investment management, etc.). History has shown that those who have gone this route have not fully appreciated the magnitude of these costs, particularly early on in the establishment of new government plans. The recent experience of the United Kingdom in this very same area has been instructive. The United Kingdom has announced the expected costs associated with operations of the National Employment Savings Trust (NEST). In addition to the 30 basis point costs of ongoing administration, there will be a 200 basis point levy on each contribution for an indefinite period to cover start-up costs. This will make the NEST costs higher than the average occupational plan in Britain and well above large scale plans in Canada. One former UK Treasury advisor, Ros Altmann, noted in the Daily Telegraph: "The idea of taking away 2% of people's money before they even start saving strikes me as high, but the costs of administering tiny pots of money for decades is also high. Call me cynical, but this scheme has disaster written all over it".

The UK experience is also instructive in how long these government plans may take to start running. The NEST is expected to start in 2012, even though the UK government announced its establishment in 2005! No such delays will be needed for DC-MEPPs where the infrastructure and expertise are in place.

Another disadvantage of a government sponsored plan is the implied financial liability of the government or governments. It is true that the proposal is for a defined contribution plan. However, Canadians will believe that, if returns fall short of expectations, the government will be there to "top up" the plan. Notwithstanding possible statements by the government at the time of set up, the pressure for governments to step in during difficult times (as we have seen recently elsewhere during the financial crisis) will be enormous.

Some proponents of a government sponsored plan believe that such a plan could co-exist with DC-MEPPs and other industry offerings. This would be difficult, particularly if there is a supporting automatic opt-in provision to the government plan. Why would an employer choose to opt out of a government run plan if he or she or his or her employees believe that there is an implied backstop? Similarly, would there be a legal liability for the employer by opting-out if results were less than favourable in the private sector plan? One could easily see how over time the government sponsored plan would develop into a de-facto monopoly of workplace savings for retirement. This concentration of assets with one organization would lead to significant implications if there were poor performance, and little hope for innovation and cost efficiency.

In order to deal with these perception concerns, some believe that the government could establish an independent board to operate free from government influence. However, in our view, if the plan is established by government with a legislative requirement of opting into that plan, it will be inevitably seen as a government plan, and any behaviour and results of that plan will reflect on the government or governments that set up the plan.

**A DC Top-up to the CPP/QPP**

The proponents of a CPP/QPP top-up believe that some of the cost and timing issues of a government sponsored plan can be reduced by attaching the new DC government plan to the present CPP structure. We believe this largely not to be the case and tying it to the present Canadian success story has its own set of problems.

First, with respect to costs, there is very little savings that would occur to have the DC plan run by the CPP/QPP. While there may be some investment management overlap, the present Canadian Pension Plan Investment Board (CPPIB) has no experience or infrastructure to run a DC plan that would need to provide education, advice and service to its DC customers. As Mr. Ian Dale of the CPPIB stated before the House Finance Committee on March 23, 2010, "the way we are currently set up, we're not equipped to do that. That would be a significant departure for us should policy makers ask us to do that kind of thing." Therefore, there appears to be little cost or time savings that will occur in adding a new DC plan to the CPP/QPP.

Indeed, in terms of all the disadvantages for a government sponsored plan that are described above, we believe that they also apply to the CPP/QPP top-up. In fact, the implied government liability would even be stronger if the DC plan were associated with the DB CPP/QPP. The opportunity for confusion in the minds of the public between the present basic DB plan and a new DC plan is enormous, creating even more demands for government intervention if returns fall short of expectations.

The CPP/QPP is a great Canadian success story in its present form and is recognized as such domestically and internationally. We should not jeopardize that reputation by adding onto it a program that it has not been set up to do.

## VI: CONCLUSION

We commend Governments throughout Canada for their efforts to enhance savings of Canadians for retirement. We believe it is time to have this debate and to seek solutions.

Regulated financial institutions already offer a wide range of services to pensions and retirement savings plans in Canada. Achievable legislative and regulatory reforms can lead to substantial increases in coverage and adequacy of retirement savings.

We believe that this would be best achieved by leveraging the infrastructure and demonstrated expertise of the private sector.

The life and health insurance industry is ready to play its role in supporting governments, businesses and individuals in reforming the retirement savings system so that all Canadians can meet their basic needs and enjoy an adequate lifestyle as they move into their senior years.

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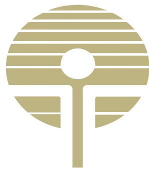
## ABOUT CLHIA

Established in 1894, CLHIA is a voluntary trade association that represents the collective interests of its member life and health insurers. Our members account for 99 per cent of the life and health insurance in force in Canada and contribute to the financial well-being of millions of Canadians by providing a wide range of financial security products.

The industry protects 26 million Canadians, as well as 19 million policyholders in other countries around the world, with products such as life insurance, annuities, RRSPs, RRIFs, disability insurance and supplementary health insurance. It also administers two-thirds of Canada's pension plans, primarily Defined Contribution (DC) plans for small and medium-size businesses.

In 2008, Canada's life and health insurers paid out $58.4 billion in payments to policyholders and beneficiaries, of which $27.5 billion was annuity payments.



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# Saving More for the Future:

# An Achievable Goal for Canadians

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March, 2010

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# I: INTRODUCTION

**Canada has one of the best retirement savings systems in the world**

Canada's retirement savings system ranks among the best in the world. Indeed, according to the Melbourne-Mercer Global Pension Index[1], it has only three peers: Australia, the Netherlands and Sweden.

This success is predicated on several complementary factors – government plans that provide a base-line of retirement income, occupational pension and other workplace retirement plans, a world-class insurance and financial services industry whose reputation for stability and innovation has been recognized internationally, particularly coming out of the financial crisis and, historically at least, good savings habits by Canadians.

**.... but there are fears it is not enough**

Despite that ranking, there is concern that the current retirement savings system is not adequate, and many Canadians are approaching retirement with uncertainty about their future standard of living. These fears have prompted Canada's governments to review the retirement savings system.

Are these fears warranted? Canada's retirement savings system has succeeded in reducing poverty among the elderly from 35% 30 years ago to 5% today.[2] Beyond that, seniors have average incomes that are the third highest among OECD countries.[3] Canada has made great strides in providing more equitable retirement outcomes – but recent studies suggest there are still retirement income gaps among some groups.

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1 Melbourne Mercer Global Pension Index. 2009. http://www.mercer.com/globalpensionindex

2 Baldwin, Bob. 2009. Research Study on the Canadian Retirement Income System. p.v. http://www.fin.gov.on.ca/en/consultations/pension/dec09report.pdf

3 Mintz, Jack. 2009. Summary Report on Retirement Income Adequacy Research. Ottawa: Department of Finance. http://www.fin.gc.ca/activty/pubs/pension/riar-narr-eng.asp

Concerns have been raised that trends in personal savings behaviour and in workplace retirement plans could create future gaps:

**Canadians are saving less...**

- the savings rate of Canadians is at a 30-year low, down from 20% of disposable income in 1980 to 5% today[4]
- private sector employers continue to move away from defined benefit (DB) pension plans to defined contribution (DC) pension plans and other group retirement savings plans

**The financial crisis has highlighted weaknesses**

These trends have been made more noteworthy by two factors. First, the world financial crisis has turned a spotlight on some aspects of Canada's retirement savings. Companies have gone bankrupt, with underfunded defined benefit (DB) plans to be wound up. Private savers have been similarly affected: some have seen their assets and incomes eroded by stock market declines and persistently low interest rates. Added to this mix are worries about whether healthcare needs will be met by a public system that is under increasing financial stress.

**Baby boomer retirees will put pressure on social safety network**

The second factor is the aging population. The proportion of seniors in Canada is expected to nearly double in the next 20 years, from 13% to 23%.[5] This puts pressure on Canada's social safety network. The rising proportion of retirees, by definition, increases the dependency ratio – the number of non-workers supported by active workers – and pushes up against a limit on taxpayer resources.

All of this is happening amid an ongoing transformation of Canada's retirement system. Around the world, there is a significant one-way shift from DB to DC pensions and other retirement plans. Worldwide, DC pension assets now constitute

4 Mintz, Jack. 2009. Summary Report on Retirement Income Adequacy Research. Ottawa: Department of Finance.

5 Baldwin, Bob. 2009. Research Study on the Canadian Retirement Income System p.1.

42% of total pension assets, and are growing at an annual rate of 6.2%, compared to growth in DB assets of just 1.6%. While the shift in Canada is at a slower pace,[6] there is a definite move to DC pension plans and Group RRSPs as employers struggle with the funding costs, legal liabilities and unnecessarily complex legislation behind DB plans.

**Worldwide shift from DB to DC pension plans...**

For many Canadians, this transformation is a fundamental change and underscores the importance of personal awareness of and responsibility for retirement savings.

**... and greater consumer responsibilities**

Before addressing what needs to change to support this emerging model, it is necessary to examine how well the current retirement system is working. Does it meet basic needs? Can it provide an adequate retirement income? By and large, the answer is yes.

Canada has a well-developed retirement system, based on a combination of public programs and private savings. The structures are there, and so are the tax incentives.

**Current system works well structurally ...**

But the best-designed system can still fall short if Canadians don't use it. As such, the more fundamental issue is how to encourage employers and consumers to be more "savings-savvy" in their behaviour.

**... but Canadians need to make better use of it**

The CLHIA believes that there are solutions that do not demand major structural changes. They will require legislative action as well as education to encourage shifts in savings behaviour.

The CLHIA is not alone in this analysis. The Melbourne-Mercer report reached similar conclusions in its review of the global retirement system. Among the key areas for improvement, it highlighted two issues specific to Canada: increasing the level of coverage of employees in occupational pension schemes;

6 Towers Watson. 2010. 2010 Global Pension Asset Survey.

and ensuring that voluntary retirement savings are preserved for retirement purposes.[7]

**Small changes can make a big difference**

**Consumer behaviour is the key**

In this paper, we look at changes in the retirement savings system that could be easily implemented and should lead to major improvements in retirement savings behaviour. Ultimately, the success of the system depends on the behaviour of employers and consumers.

7 Melbourne Mercer Global Pension Index – Canada http://www.mercer.com/referencecontent.htm?idContent=1359330

## II: THE THREE PILLARS

Canada's retirement savings system is built on a number of elements. They are commonly known as the "three pillars."

***First Pillar: OAS/GIS***

**Basic government pension is Old Age Security**

The first pillar consists of state pensions granted to all Canadians. Old Age Security is provided at age 65 for retirees who have 40 years of residence after age 18 in Canada. For those with fewer years of residence, the pension is pro-rated. For low-income seniors, there is also a Guaranteed Income Supplement. These inflation-indexed pensions are financed out of general government revenues.

***Second Pillar: CPP/QPP***

**CPP/QPP designed to replace 25% of wages up to threshhold**

The second pillar is the Canada Pension Plan/Quebec Pension Plan. It acts like a DB plan and is funded by mandatory contributions, split between employer and employee, of 9.9% of covered earnings. It is intended to replace up to 25% of wages, to the national median income of $47,200.

OAS/GIS and CPP/QPP together replace 75% of employment income for someone making $20,000 and 41% for someone making $40,000. As employment income rises above these levels, the replacement income ratio falls, so that a $100,000 earner would see OAS and CPP/QPP covering only 17% of pre-retirement earnings.[8]

***Third Pillar: RPPs & RRSPs***

**Third pillar is workplace retirement plans and individual savings**

The third pillar is meant to provide a level of income adequacy that goes beyond the bare basics. It relies on private sector savings and consists of two elements - workplace retirement plans and, outside the workplace, individual savings.

8 BMO Retirement Institute. 2010. Special Report: Saving for retirement: One size does not fit all. http://www.bmonesbittburns.com/personalinvest/retirementyourway/pdf/Saving_for_Retirement_E_final.pdfS

About 8 million Canadian workers have access to some form of workplace retirement plan

Workplace retirement plans include registered pension plans (RPPs) as well as Group RRSPs. The proportion of workers covered by RPPs (which include DB and DC plans) is declining. It is currently estimated at 39% – down from 46% in the late 1970s.[9] Five million Canadians are covered by workplace DB pension plans, which are designed to provide a defined lifetime income. The majority of these plans are in the public sector. About 1.3 million Canadians are covered by workplace DC plans where retirement income will be based on accumulated savings at point of retirement. Another two million are covered by workplace Group RRSPs, which are not necessarily locked in for retirement.

Canadians only contribute a fraction of what they could to RRSPs

Individual Canadians contribute more than $34 billion a year to RRSPs, largely through individual plans established with the ongoing assistance and support of advisors. However, they've only used 6% of the contribution room they've built since 1991. There is thus an enormous potential to boost private savings.

Third pillar income an important part of seniors' total income

On average, seniors seem to have an adequate income, but the picture is less clear for the next generation of retirees. As Table 1 illustrates, the current generation of seniors relies heavily on private sector sources - pensions and RRSPs, investments and continuing employment earnings. Income from this third pillar represents 45% of total income for women and 58% of total income for men.

**Table 1: Amounts and Sources of Income of Seniors, Women and Men, Canada, 2007** [10]

| | **Total Income** | OAS/GIS | C/QPP | **Pension** | **Investment** | **Earnings** |
|---|---|---|---|---|---|---|
| Women | $23,700 | $7,000 | $4,600 | $6,800 | $2,700 | $1,100 |
| Men | $34,600 | $6,200 | $6,600 | $13,400 | $3,400 | $3,400 |

9 Baldwin, Bob. 2009. Research Study on the Canadian Retirement Income System. p.vi.
10 Baldwin, Bob. 2009. Research Study on the Canadian Retirement Income System. p.33.

In a study for the Research Working Group on Retirement Income Adequacy (the Mintz report), Keith Horner estimates that 30% of middle-income Canadians are not saving enough to maintain their lifestyle in retirement.[11] His estimates are paralleled by other studies. Bob Baldwin, for example, cites surveys that indicate one-third of Canadians between 45 and 64 will likely have retirement incomes that are inadequate for supporting their standard of living.[12]

***Three Pillars: Conclusions***

**Middle income Canadians are not saving enough for retirement**

Government plans come fairly close to supporting basic needs in retirement. But if expectations of consumption in retirement beyond basic needs are to be supported, then the Canadian system has gaps, particularly for those in the middle-income deciles.

11 Horner, Keith. 2009. Retirement Saving by Canadian Households. Ottawa: Department of Finance. http://www.fin.gc.ca/activty/pubs/pension/ref-bib/horner-eng.asp

12 Baldwin, Bob. 2009. Research Study on the Canadian Retirement Income System. p. v.

## III: GUIDING PRINCIPLES

**Retirement savings system should be based on four principles ...**

Before embarking on specific measures, the government needs to elaborate a set of principles that will guide the formation of policy on retirement savings. CLHIA proposes the following framework:

**1. Providing for basic needs.**

The retirement savings system should ensure that all Canadians receive a level of income that meets their basic needs in retirement. Basic needs are defined as the goods and services – shelter, food, clothing and transportation, among other things – essential to functioning in modern society. This should be the goal of the first two pillars – the public part – of the retirement savings system.

**... first two pillars should provide for basic needs**

**2. Incentives to save.**

**... the system should encourage and enable third pillar savings**

The retirement savings system should encourage and enable all Canadians to save more than is required to meet basic needs in order to fund what they consider to be an adequate lifestyle. This is largely the function of the third-pillar – workplace retirement plans and individual savings.

**3. Private sector participation.**

The retirement savings system should, as much as possible, rely on third-pillar programs as the primary vehicle to move Canadians from simply meeting basic needs in retirement to reaching a level of income replacement they consider adequate to supporting their retirement lifestyle. Canada possesses a competitive world-class financial infrastructure, one that reaches almost all households and workplaces, and one that is managed by professionals who are quickly making Canada an international centre of financial excellence. These are strengths on which to build in enhancing the retirement savings system.

**... private sector should provide third pillar products and services**

... and Canadians should have choice

### 4. Choice

The retirement savings system should ensure that Canadians have flexibility in determining how they save for retirement. Individuals should be empowered to assess their own needs, define their own objectives and work to achieve goals. Workers should have access to workplace retirement plans through their employers. Individual RRSP savers have access to comparable financial products through the advice channels of Canada's financial institutions. Higher net worth individuals seek access to more sophisticated strategies through financial advisors. As former Bank of Canada Governor David Dodge cautioned on the eve of Canada's finance minister meeting in Whitehorse in December 2009, we have to guard against a prescriptive "nanny-state" approach.

## IV: RECOMMENDATIONS

In these Recommendations, Section A will look at the overall retirement savings system, particularly as it relates to individual savings. Section B will consider increasing participation in workplace retirement savings plans. And Section C will explore awareness–building initiatives.

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### A. Strengthening the Retirement Savings System

There is a whole industry already serving the needs of those individuals who seek personalized financial advice and customized solutions. Surveys show that this segment is well-served[13].

Individual Canadians have a great deal of choice about how they access financial products, service and advice. Canadians can choose to access (and pay for) only those products they want or think are appropriate for their individual needs.

**Canadians don't take full advantage of tax-assisted retirement savings**

That said, the take-up rate for tax-assisted retirement savings is lower than the architects of the system may have expected, despite the incentives. We believe some relatively minor changes could significantly increase savings behaviour. Those changes would include:

1. reviewing the definition of "earned income" as well as legal factors that create barriers for self-employed Canadians; and

13 Surveys have found that Canadians who have access to a financial advisor feel more confident about their retirement and are more likely to believe they will achieve their expected level of income (Investment Executive, February 7, 2010 – Light hearted Sun Life videos stress the importance of obtaining advice). Further, 80% of Canadians who work with a financial advisor feel good about their financial health at retirement (Role of Advisor, Russell Investments Research, Dec. 2008)

2. lowering barriers that inhibit how and when Canadians contribute to their RRSPs and when they take retirement income.

First, let's consider what constitutes income that qualifies for tax-assisted plans. Earned income is broadly defined for RRSP purposes, through the *Income Tax Act*. But when it comes to pension plan contributions, it does not capture all the earnings of the self-employed and professionals. For example, the self-employed could, in their businesses or corporations or partnerships, receive earnings as royalties, active business income, interest income on their receivables or rental income.

**Self-employed and professionals are at a disadvantage re pension plans …**

To put RRSPs and workplace retirement plans on an equal basis for the self-employed, the definition of eligible earnings for all retirement savings plans should include all income of an individual from office, employment, business and property.

**… definition of "earned income" should be amended**

Another consideration is that Canadians are living longer. Over the past two decades, life expectancy at age 65 has risen by about four years, an astonishing increase in such a short timeframe.[14] Many Canadians are choosing to work beyond the traditional retirement age of 65, whether full-time or part-time, because they want to or need to.

**Canadians are living longer…**

**… and choosing to work longer …**

The Canadian government should ensure that there are no barriers that limit flexibility for Canadians in deciding when and how to retire. The income tax system, for example, should ensure that Canadians are not discouraged from working longer. It should also allow Canadians to phase in their retirement.

**Income tax system should allow greater flexibility for phasing in retirement …**

14 Gunderson and Wilson, p. 34

Canadians can currently hold their RRSPs only until the end of the year in which they turn 71, at which point they must start drawing income. Those working full-time may not need or want the extra income. As well, starting to draw down their savings may be working at cross-purposes to their desires to build up sufficient funds to finance their lifestyle when they do retire. At the very least, some flexibility should be allowed for working Canadians who wish to defer taking income from their RRSPs. For instance, in the UK, pensions don't have to be taken before age 75.

**... like raising the age at which retirement withdrawals must begin**

Another consideration is how to help Canadians optimize their unused RRSP contribution room of roughly $500 billion. Perhaps some of that RRSP overhang might be contributed to their DC pension plan if this was permitted. Hesitant RRSP savers might find this an attractive option in comparison to doing it themselves.

**Would Canadians optimize unused RRSP contribution room if they could use a workplace DC pension plan?**

Finally, lifetime income is often lumpy. For example, someone who returns to school will find their next annual RRSP contribution limit considerably lower than when they were in the workforce. Effectively, they are reducing their future retirement income because they miss out on a year or more of compound returns. Similarly, when they return to the workforce, if they earn a higher income it may not be reflected in their contribution limit – contributions are capped at $22,000[15]. The banking of unused RRSP contribution room only partially resolves this issue – savers may have used up all their contribution room. A fixed-dollar, lifetime contribution limit might better encourage savers than the current 18% annual limit, which has a hard-dollar cap of $22,000.

**A shift to a lifetime RRSP maximum may be more effective than annual contribution amounts**

15 The C.D. Howe' Institute's Bill Robson suggests that, to match federal DB plan limits, individual savers should have a hard cap of $34,000. Robson. Bill. 2010. *Cutting Through Pension Complexity: Easy Steps Forward for the 2010 Federal Budget.* Toronto: C.D. How Institute.

It's an issue worth further study. In 2004, Britain instituted a lifetime pension contribution limit that now sits at £1.8 million, with an annual contribution limit of £255,000. In addition, tax credits are available for contributions up to 100% of eligible salary in a given year.

**Recommendations:**

**The CLHIA recommends that:**

1) **tax legislation be amended to expand the definition of income eligible for tax-assisted savings.**
2) **the age at which Canadians must begin taking income from their RRSPs and RPPs, as well as LIRAs and other locked-in instruments, be extended by two years, until the end of the year in which they turn 73.**
3) **individuals be permitted to apply their unused RRSP contribution room to DC pension plans.**
4) **the federal government study whether to shift from an annual 18% contribution for RRSPs and DC Pension Plans to a lifetime maximum amount.**

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## B. Universal Access to Workplace Savings Plans

**Access is key to improving workplace savings**

Increasing individual savings depends on some small changes to the existing RRSP system and a robust education effort. Increasing workplace savings, however, is more a matter of access – and mechanisms that would reinforce savings behaviour.

There are gaps in today's Canadian workplace retirement system. One measure is coverage. Around 90% of public sector workers are covered by workplace retirement plans, usually DB pension plans. However, only 50% of private sector workers have access to some form of workplace retirement plan, either a pension plan or a Group RRSP.

**Only half of private sector workers have access to a workplace retirement plan**

Two international examples illustrate how other countries have encouraged workplace participation.

New Zealand has a “KiwiSaver” plan, a mandatory DC-type plan introduced in 2007 that uses private sector providers and now covers 73% of the labour force. Workers are automatically enrolled from ages 18 to 64, but can opt out. They can choose to make payroll contributions of 2%, 4% or 8% of gross income.

**Other countries have introduced programs to encourage/mandate workplace participation**

Australia has taken a different approach, creating a universal DC-type system in the 1990s. Employers make mandatory contributions of 9% of income to employees' privately-run superannuation funds. All workers between 18 and 70 are covered – and they can't opt out. Neither country has an equivalent to CPP/QPP.

Canada has the infrastructure to implement cost-effective plans in most workplaces. Most private sector workplaces already have supplemental health plans to cover dental, vision care, prescription drugs, wellness programs and procedures that are not eligible for provincial and territorial health insurance plans. They are managed largely by life and health insurance companies that also offer DC or Group RRSP plans. However, far fewer employers offer retirement plans.

**Workplace health plans are far more common than workplace retirement plans**

Three structural changes could change that dramatically:

**A few structural changes could alter that dramatically**

1. improving access to workplace retirement plans through multi-employer pension plans;

2. introducing auto-enrolment of employees (with an opt-out feature); and

3. introducing auto-escalation of employee contributions.

Multi-Employer Pension Plans (MEPPs) can expand access while fostering regular contributions to retirement savings. MEPPs already exist in Canada, typically in the construction trade and other industries, but are restricted to groups of related employers.

**Allow Multi-Employer Pension Plans (MEPPs) ...**

The CLHIA believes that, by using regulated financial institutions, MEPPs could provide an excellent model for employers who would not otherwise consider offering a pension plan.

**... that are sponsored and administered by financial institutions that assume administration and compliance duties**

This new kind of MEPP would be sponsored and administered by regulated financial institutions and would be a DC pension plan. In such a DC-MEPP, employers would be spared almost all the administrative costs and compliance burdens (except for payroll deductions) that currently pose challenges for many smaller employers, such as selecting the investment and savings options, performing due diligence on the investment/savings providers and selecting trustees.

**DC-MEPPs would be accessible to all employers...**

**... even the self-employed**

Such an arrangement would overcome an existing barrier to universal access, namely that there be an employer-employee relationship. With the regulated financial institution taking on the role of plan sponsor, a DC-MEPP could then be accessible to the self-employed.

**Enhanced economies of scale would further reduce costs**

An added benefit would be that, with a single plan for multiple workplaces, administrative and compliance costs would be reduced, meaning the DC-MEPP could operate at economies of scale that today are only realized by the largest of pension plans. As Dr. Vijay Jog notes:

*"…the larger the plan (based on # of members) and higher the average asset value per member, the smaller the corresponding costs. For a plan with 25 members and average asset value per member of $25,000, the costs are 1.25%, whereas for a plan with 7,500 members and with average asset value of $50,000, the costs decline to 0.44%."*[16]

**Workers would be signed up automatically but could opt out**

**Auto-enrolment** would mean that workers would be signed up unless they specifically opted out. The New Zealand KiwiSaver plan demonstrates the success of that option. Equivalent data from the United States found that, prior to auto-enrolment rules in 2006, 66% of workers participated in a DC plan. With auto-enrolment, participation rates rose to 87%.

**Contributions could escalate automatically to reach the target level**

An **auto-escalation** feature could be included on top of auto-enrolment. With auto-escalation, a plan could start members out at a base contribution rate such as 3% of pay, and automatically escalate it by 1% (for example) in each successive year until it reached a fixed rate such as 6% of pay.

**Workplace with 20+ employees should have a workplace retirement plan**

Every workplace with more than 20 workers should have a workplace retirement plan. The employer could sponsor their own plan or provide sign up with a DC-MEPP. Why a 20-worker threshold? Statistics Canada data indicates that workplaces with 20 or more workers cover about 80% of Canadian workers[17]. Currently, almost 82% of workers with very large employers (500+ employees) have registered pension plans; that percentage falls to 26% for employers with 100-499 employees, and dwindles to 2% coverage in workplaces with fewer than 50 employees.[18]

**This would guarantee access to 80% of Canadian workers**

A compulsory plan for all workplaces with 20 or more workers would ensure **access** to 80% of Canadian workers, and would leave the smallest of Canadian businesses unaffected. It need

16 Jog Vijay 2009, "Investment Performance and Costs of Pension and other Retirement Savings Funds in Canada: Implications for Wealth Accumulation and Retirement."
17 Statistics Canada, CANSIM, table 281-0042 and Catalogue no. 72-002-x
18 Statistics Canada, CANSIM, table 281-0042 for employees and 280-0010 for RPP members

**Employer contributions would not be mandatory**

not require employer contributions. Individual workers would have the ability to opt out.

**Companies with fewer than 20 employees would also see advantages to joining a DC-MEPP**

The 20-worker threshold reflects a tradeoff between expanding pension coverage versus forcing the smallest of Canadian employers to participate in a plan. That said, we believe a number of the under 20-worker businesses will voluntarily sign on with a DC-MEPP in order to offer this opportunity to their employees.

A DC-MEPP could provide a default investment selection, along with a range of simple investment options including "target date" and "lifecycle" funds to reflect current age and assumed retirement age. It could also provide decision-making tools to refine personalized investment strategies.

In addition, if administered by a life insurance company, a DC-MEPP can offer annuity and other lifetime income options that would smooth out the impact of market volatility before an individual retires, and provide greater certainty of income during the person's retirement years. This is important because as Canadian life expectancies continue to improve, the risk of outliving one's retirement assets grows. Canadian life insurers are uniquely positioned to help in this regard.

**Group RRSPs allow withdrawals at any time and, thus, cannot guarantee retirement income**

Finally, Group RRSPs are an increasing proportion of workplace plans. Employers choose them because they are administratively simpler than DC pension plans but, like all RRSPs, they may not provide certainty of income at retirement because withdrawals can be made at any time. Some are structured for only employee contributions. Others have an employer contribution component. Some employers voice concerns about whether the money they contribute, or their employees contribute, will stay in the plan to fund retirement.

**Consider lock-in provisions for Group RRSPs**

For those employers who sponsor a Group RRSP today or who choose to establish one in the future, a lock-in provision for Group RRSPs should be developed, similar to what exists for DC pension plans and Quebec Simplified Pension Plans.

Ultimately, universal access to workplace retirement plans should be the goal of reform efforts. But to provide access to – and encourage participation in – professionally managed and cost-effective plans, a number of hurdles have to be overcome. There are barriers in the *Income Tax Act.* There are other obstacles inherent in pension benefit and employment standard legislation that varies across the provinces and territories.

**Recommendations:**

**In order to provide greater access by Canadian workers to workplace retirement plans, the CLHIA recommends that:**

**5) tax and pension legislation should be amended to permit adoption of DC-MEPPs;**

**6) every workplace with 20 or more workers be required to provide a retirement plan, either on its own, or through a DC-MEPP. Employers could decide whether or not to contribute to the plan;**

**7) tax and pension legislation be amended to enable auto-enrolment in workplace retirement plans;**

**8) pension and employment standards legislation not impede auto-escalation in workplace retirement plans; and**

**9) amendments be made to tax legislation to ensure that employer contributions to Group RRSPs are retained for retirement purposes through locking in.**

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## C. Creating A Savings-Savvy Population

In the post-war period of robust economic expansion, tax-advantaged company pension plans were an incentive to recruit and retain employees. But not all firms offered such pension plans, and RRSPs were created in 1957 to provide a way for workers without access to workplace retirement plans to save on their own.

**How can Canadians be encouraged to save for retirement?**

Although 88% of taxfilers are eligible to contribute to RRSPs, only 30% do so. They contribute around 6% of their accumulated contribution room, or about $34 billion a year, with a median contribution of $2,700.[19]

What more needs to be done?

**... Participaction for retirement savings!**

A major component of encouraging savings should focus on outreach and education – much as the Participaction plan did in the 1970s to encourage Canadians to boost their physical fitness by a regular regime of exercise. Let's call this outreach program "CanSave".

Concurrent with this is a need to build financial literacy. We are encouraged by the work of the federal Task Force on Financial Literacy which, in its February 2010 consultation paper, identifies "planning for retirement" as one of several key components in a national strategy on financial literacy. Specifically, it notes that "while financial institutions and other sources provide *some* educational information on retirement planning, this information may not be available to everyone, or may not be useful for specific, underserved groups".[20]

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19 Statistics Canada. 2009. The Daily. November 2009.

20 Task Force on Financial Literacy. p.32

**Various resources are already available**

**... through financial institutions or advisors**

Members of workplace retirement plans, those who choose self-directed RRSPs and those who work with an advisor to make investment decisions can get basic web-based retirement planning calculators and tools from the financial institutions and advisors they deal with. But not all Canadians are actively engaged in managing their retirement savings.

**... through regulators' and government agency websites**

To address this challenge, some of Canada's securities commissions have set up consumer websites, such as Ontario's Investor Ed[21], Alberta's You ASC'd,[22] BC's Invest Right,[23] and Quebec's It's Your Money[24] sites. There is also the Financial Consumer Agency of Canada[25] which provides outreach for younger Canadians, mainly about debt, as well as the Canadian Consumer Information Gateway, sponsored by the federal Office of Consumer Affairs, which aggregates information from other websites.[26]

The question is whether there is an opportunity for a national program to raise consumer awareness and provide the educational tools they need. Australia has such an educational model called FIDO, sponsored by the Australian Securities and Investment Commission[27]. It is concerned primarily with investments and investment scams, but includes sections on setting up house, starting to invest, credit card debt, as well as the mandatory superannuation fund. New Zealand also has a website called Sorted,[28] sponsored by New Zealand's Retirement Commission; it covers the life stages of financial planning and includes calculators as well as discussions on budgeting, debt, mortgages, insurance, investing and fees.

21 http://www.getsmarteraboutmoney.ca/Pages/default.aspx
22 http://www.albertasecurities.com/Investors/YouASCd/Pages/default.aspx
23 http://www.investright.org/
24 https://secure.tesaffaires.com/en/index.asp
25 http://www.fcac-acfc.gc.ca/eng/default.asp
26 http://consumerinformation.ca/app/oca/ccig/main.do?language=eng
27 http://www.fido.asic.gov.au/fido/fido.nsf
28 http://www.sorted.org.nz/home

**... but is there a central core message that resonates with Canadians?**

In Canada there is a need for a stronger national effort – a "Participaction for retirement savings", or "CanSave" – to educate Canadians about the importance of saving for retirement and to give them the tools to make responsible decisions.

**Recommendations:**

**In order to educate and motivate Canadians about retirement savings issues, the CLHIA recommends:**

**10) leveraging the work of the Task Force on Financial Literacy, the federal government work with the provinces and territories to develop a national program, supported by a central portal of information and educational tools, aimed at improving the financial literacy of Canadians when it comes to understanding and planning their prospective income in retirement; and**

**11) as a corollary to the above, governments develop a national advertising program to create awareness about savings-savvy behaviour, and promote action through the use of the retirement planning tools.**

## V: CONCLUSION

Canada's retirement savings system is structurally sound, but not perfect. It is a foundation upon which to build. This paper lays out a number of areas in which governments can stimulate greater retirement savings by Canadians. Reaching that goal will require a combination of education, incentives and legislative changes, within a framework where Canadians can choose among competing service providers and savings vehicles.

Today, Canada’s life and health insurance industry plays a key role in helping Canadians prepare for retirement not only through workplace plans, but also through the advice, and savings and lifetime income solutions, delivered by the thousands of financial advisors who serve Canadians every day in communities from coast to coast. The industry is ready to play its role in supporting governments, businesses and individuals in advancing the retirement savings system in a distinctly Canadian way: inclusive, practical and affordable.

## APPENDIX

### Summary of CLHIA Recommendations

1) tax legislation be amended to expand the definition of income eligible for tax-assisted savings.

2) the age at which Canadians must begin taking income from their RRSPs and RPPs, as well as LIRAs and other locked-in instruments, be extended by two years, until the end of the year in which they turn 73.

3) individuals be permitted to apply their unused RRSP contribution room to DC pension plans.

4) the federal government study whether to shift from an annual 18% contribution for RRSPs and DC Pension Plans to a lifetime maximum amount.

5) tax and pension legislation be amended to permit adoption of DC-MEPPs.

6) every workplace with 20 or more workers be required to provide a retirement plan, either on its own, or through a DC-MEPP. Employers could decide whether or not to contribute to the plan.

7) tax and pension legislation be amended to enable auto-enrolment in workplace retirement plans.

8) pension and employment standards legislation not impede auto-escalation in workplace retirement plans.

9) amendments be made to tax legislation to ensure that employer contributions to Group RRSPs are retained for retirement purposes through locking in.

10) leveraging the work of the Task Force on Financial Literacy, the federal government work with the provinces and territories to develop a national program, supported by a central portal of information and educational tools, aimed at improving the financial literacy of Canadians when it comes to understanding and planning their prospective income in retirement; and

11) as a corollary to the above, governments develop a national advertising program to create awareness about savings-savvy behaviour, and promote action through the use of the retirement planning tools.

## ABOUT CLHIA

Established in 1894, CLHIA is a voluntary trade association that represents the collective interests of its member life and health insurers. Our members account for 99 per cent of the life and health insurance in force in Canada and contribute to the financial well-being of millions of Canadians by providing a wide range of financial security products.

The industry protects 26 million Canadians, as well as 19 million policyholders in other countries around the world, with products such as life, health and disability insurance; savings and lifetime income solutions like segregated funds, annuities and Guaranteed Minimum Withdrawal Benefit plans. It also administers two-thirds of Canada's pension plans, primarily Defined Contribution (DC) plans for small and medium-size businesses.

In 2008, Canada's life and health insurers paid out $58.4 billion in payments to policyholders and beneficiaries, of which $27.5 billion was annuity payments.