THE INVESTMENT FUNDS INSTITUTE OF CANADA | L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA

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September 8, 2015

Delivered By Email cpp-consultations-rpc@fin.gc.ca

Catherine Adam
Federal-Provincial Relations and Social
Policy Branch
Department of Finance
15th Floor
90 Elgin St
Ottawa, Canada K1A 0G5

Dear Ms. Adam:

RE: Consultations on a Voluntary Supplement to the Canada Pension Plan

We are writing to provide comments on behalf of the members of The Investment Funds Institute of Canada ("IFIC" or "we") with respect to the consultation paper ("the Paper") on a voluntary supplement to the Canada Pension Plan (CPP). IFIC is the voice of Canada's investment funds industry, bringing together 150 organizations – including fund managers and distributors – to foster a strong, stable investment funds industry through which investors can realize their financial goals. We are proud to have served Canada's mutual funds industry and its investors for more than 50 years.

Canada has one of the strongest retirement income systems in the world, a multi-pillared system that is diversified, resilient and financially sustainable. It has allowed Canada to achieve one of the world's lowest rates of low-income seniors, and, as the Paper correctly notes, most Canadian retirees achieve high levels of income replacement, with the median Canadian senior earning about 91 per cent as much as the median Canadian. Any efforts to reform or augment this successful framework must take great care not to disturb its balance or effectiveness.

Although the existing system is working well for the vast majority of Canadians, there remain pockets of Canadian households that are not well-prepared for retirement. These 17 percent of households (as estimated by McKinsey and Company) are largely working age middle- and upper-middle income households that are at risk of retiring with materially less disposable income than they had during their working years. Rather than experiencing a pressing nationwide retirement crisis as some suggest, Canada has targeted retirement income challenges that demand targeted solutions.

We recommend that the government focus its efforts and resources on promoting the many existing programs already available to Canadians, rather than add yet another new program in the form of a voluntary CPP. The problem for those at risk of under-saving is not lack of access to voluntary savings opportunities, but rather under-utilization of existing retirement savings channels.

Currently, participation in most workplace plans (other than defined benefit plans) is voluntary, making it easy for individuals who should participate to choose not to enrol. As a starting point, the government could increase employee participation in existing defined contribution, group RRSP and TFSA plans by facilitating such proven behavioural techniques as auto-enrolment and auto-escalation, combined with targeted public awareness campaigns aimed specifically at 'nudging' those people most at risk of under-saving for retirement to save more.

A second, equally important available set of tools involves ensuring that employers have access to workplace pension plan programs suited to their needs. The new PRPP, as it becomes available in individual provinces may help stimulate more workplace programs. For other employers, group RRSPs and TFSAs may be a more attractive option. Group registered plans hold the additional benefit of providing access to advice – a proven tool for creating savings discipline; however, current rules that do not exempt group RRSPs and TFSAs from payroll tax discourage use of these programs. Changes in the rules governing group RRSPs and group TFSAs to require locking in of the employer portion and to permit auto-enrollment would encourage employers to offer these group retirement savings plans. The government could also make it mandatory for every employer to provide a retirement savings program with locked-in features, while keeping employer matching contributions voluntary, as they are now, to avoid placing an undue financial burden on smaller employers.

In closing, we repeat our submission that Canada's retirement savings challenges are not the result of a lack of voluntary retirement savings options and that the addition of a voluntary CPP option is not an appropriate solution. Further, a voluntary CPP will be complex to set up and costly to administer given the likelihood of a fairly low participation rate and the need to track individual accounts. However, should the government decide to proceed with a voluntary CPP, the proposed supplement must be carefully designed so as not to disrupt the existing pillars of Canada's retirement income system. Given that the CPP supplement would be competing for assets with private savings options, any beneficial design features built into the CPP supplement should be extended to existing programs like group RRSPs.

We look forward to working with the federal government to advance our shared goal of strengthening retirement security for all Canadians. Should you have any questions or desire to discuss these comments, please Graham Smith, Senior Policy Advisor at 416-309-2328 or by email at gsmith@ific.ca.

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA

By: Joanne De Laurentiis
President & CEO