

Retirement Income Improvement Coalition / Coalition pour la bonification des revenus de retraite

Canadian Bar Association
• L'Association du Barreau canadien

Canadian Chiropractic Association
• L'Association chiropratique
canadienne

Canadian Dental Association
• L'Association dentaire canadienne

Canadian Federation of Independent
Business • Fédération canadienne de
l'entreprise indépendante

Canadian Medical Association
• Association médicale canadienne

Canadian Pharmacists Association
• Association des pharmaciens du
Canada

Canadian Society of Customs Brokers
• Société canadienne des courtiers en
douane

Canadian Veterinary Medical
Association • L'Association canadienne
des médecins vétérinaires

Certified General Accountants
Association of Canada
• Association des comptables généraux
accrédités du Canada

Certified Management Accountants of
Canada • La Société des comptables en
management du Canada

March 18, 2011

The Honourable James M. Flaherty, PC, MP
Minister of Finance
Finance Canada
140 O'Connor Street
Ottawa, Ontario K1A 0G5

Dear Minister:

Re: Self-Employed Canadians and Retirement Planning Vehicles

We are writing on behalf of a newly formed coalition, the Retirement Income Improvement Coalition (RIIC). The coalition's membership includes several national associations and organizations representing close to 700,000 members. These are listed at the end of this letter.

Members of the RIIC share a common interest in seeking improvements to Canada's retirement income system. One obvious improvement would be greater harmonization of the regulation of pension plans in Canada. We recognize the role of the Canadian Association of Pension Supervisory Authorities (CAPSA) in achieving enhanced harmonization and have copied CAPSA on this letter.

We are writing to urge changes to Canada's retirement income system to ensure that self-employed Canadians have enhanced options to save for retirement. Many changes to achieve this goal could occur without significant public expense or legislative change. Self-employed individuals, who comprise an ever-increasing number of Canadians, currently do not have the same options to save for their retirement as Canadians in an employment relationship. In particular, the *Income Tax Act* precludes self-employed Canadians from participating in Registered Pension Plans (RPPs).

We urge the Government of Canada to change the *Income Tax Act* and its Regulations to provide the same opportunities for self-employed Canadians to save for their retirement as other Canadians. These opportunities should be available on a voluntary basis, so individuals may plan for retirement in their own best interest.

The December 2010 announcement to introduce Pooled Registered Pension Plans (PRPPs) is a positive step. Our members were pleased that the retirement concerns of self-employed Canadians were discussed by finance ministers. We believe that PRPPs will begin to address the imbalance between the retirement savings opportunities for self-employed Canadians versus those in employment relationships. However, we are concerned about the proposed structure and limitations of PRPPs. These concerns are discussed in greater detail below, along with our specific recommendations.

1. Ability to Participate in Registered Pension Plans

The RIIC asks the Government of Canada to amend the *Income Tax Act* and its Regulations to permit self-employed Canadians the same ability to participate in RPPs as employed Canadians. This is a matter of equity and fairness, and would help more Canadians to save for retirement. Contributions to RPPs would be regulated and based on reported income. The Government could continue to place reasonable limits on contributions and benefits. Not allowing self-employed Canadians to participate in RPPs has the unfortunate effect of foreclosing to them access to one of the most effective private retirement vehicles.

2. Limitations with the PRPP Proposal

The RIIC supports the December 2010 announcement to introduce PRPPs and was pleased that it recognized the need for self-employed Canadians to voluntarily participate in these products. However, as currently proposed, the PRPP has two significant restrictions which limit its attractiveness to self-employed Canadians.

First, the RIIC believes that the administration of PRPPs should not be limited to financial institutions. Large, well-governed organizations that represent a particular membership should be able to sponsor and administer RPPs and PRPPs for their own members, including self-employed members.

Second, the PRPP proposal should not be limited to defined contribution pension plans. Target benefit plans should be permitted and encouraged. Target benefit plans allow risk to be pooled among the plan members, providing a more secure vehicle than defined contribution plans.

3. Income Tax Act Limits

To achieve adequate income replacement in retirement the RIIC believes that Canadians should be encouraged to save more for their retirement through tax-deferred vehicles generally. The current percentage and dollar limits on contributions in the *Income Tax Act* for vehicles such as RPPs and RRSPs are well below limits in both the United States and the United Kingdom. The RIIC recommends that those limits be increased. Maximum dollar limits were essentially frozen for 25 years and, despite modest increases since 2004, these limits are attainable at an earnings level now achieved by many more Canadians than in the past.

4. Maximum Age

Canadians are living and working longer, and the self-employed in particular are working longer. The RIIC recommends amending the *Income Tax Act* to allow contributions to RPPs and RRSPs until age 75 (rather than the current age 71). RRSP rules should also be amended so that funds need not be transferred into disbursement vehicles (typically RRIFs) until age 75.

The RIIC also believes there should be changes for the benefit of all Canadians, including the self-employed, in the following areas:

5. Portability

The RIIC recommends that the Government of Canada work with the provincial and territorial governments to facilitate portability of funds between various tax-deferred vehicles. This would allow Canadians who change or transfer jobs to concentrate their retirement savings and better plan for their retirement.

6. Financial Literacy

The RIIC recommends that the federal government encourage greater financial awareness and literacy among all Canadians. We believe that with increased financial literacy, Canadians will be more likely to adequately save for retirement.

7. Long-Term Care

As Canadians age, concerns about long-term care will also increase. The RIIC encourages the government to consider options for pre-funding long-term care, including private insurance, tax-deferred and tax-prepaid savings approaches, and contribution-based social insurance.

Thank you for your consideration of our views. We would appreciate the opportunity to expand on these issues at a meeting at your earliest convenience.

Yours truly,

Retirement Income Improvement Coalition Members:

cc: The Honourable Ted Menzies, P.C., M.P., Minister of State (Finance)
Canadian Association of Pension Supervisory Authorities

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(original signed by Michael Mazzuca)

Michael Mazzuca
Canadian Bar Association Representative
Pensions and Benefits Law Section

(original signed by Dr. Eleanor White)

Dr. Eleanor White, DC
President
Canadian Chiropractic Association

(original signed by Andrew Jones)

Andrew Jones
Director of Public Affairs
Canadian Dental Association

(original signed by Corinne Pohlmann)

Corinne Pohlmann
Vice-President
National Affairs
Canadian Federation of Independent Business

(original signed by Dr. Jeffrey Turnbull)

Dr. Jeffrey Turnbull, MD, FRCP
President
Canadian Medical Association

(original signed by Jeff Poston)

Jeff Poston, PhD, MRPharmS.
Executive Director
Canadian Pharmacists Association

(original signed by Carol West)

Carol West
President
Canadian Society of Custom Brokers

(original signed by Dr. Douglas A. Roberts)

Dr. Douglas A. Roberts
President
Canadian Veterinary Medical Association

(original signed by Anthony Ariganello)

Anthony Ariganello, CPA (DE), FCGA
President and CEO
Certified General Accountants Association of
Canada

(original signed by Joy Thomas)

Joy Thomas, MBA, FCMA, C. Dir.
President and CEO
Certified Management Accountants of Canada