Canadian Medical Association submission to Finance Canada

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Response to the Consultation Paper *Pension Innovation for Canadians: The Target Benefit Plan*

June 23, 2014

ASSOCIATION MÉDICALE CANADIENNE

CANADIAN MEDICAL ASSOCIATION

A healthy population and a vibrant medical profession
Une population en santé et une profession médicale dynamique

The Canadian Medical Association (CMA) is the national voice of Canadian physicians.

Founded in 1867, the CMA is a voluntary professional organization representing more than 80,000 of Canada's physicians and comprising 12 provincial and territorial medical associations and 60 national medical organizations.

CMA's mission is to serve and unite the physicians of Canada and be the national advocate, in partnership with the people of Canada, for the highest standards of health and health care.

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The Canadian Medical Association (CMA) is pleased to provide the comments below in response to Finance Canada's consultation document *Pension Innovation for Canadians: The Target Benefit Plan*.

The CMA is the professional voluntary association representing over 80,000 physicians across Canada. Its mission is to serve and unite the physicians of Canada and to be the national advocate, in partnership with the people of Canada, for the highest standards of health and health care.

The CMA has participated in, and made recommendations to, Finance Canada over the course of the government's multi-year consultation process on Canada's pension framework. Indeed, in light of the importance of the pension framework to our membership, the CMA has been an active participant in previous consultations regarding the pension framework. The CMA's participation in the current, multi-year initiative included responding to the 2010 consultative paper *Ensuring the Ongoing Strength of Canada's Retirement Income System* as well as participating in the legislative and regulatory consultation on the Pooled Registered Pension Plan (PRPP) framework.

While the CMA recognizes that this consultation is focused narrowly on the federally regulated pension plans governed by the *Pension Benefits Standards Act 1985,* the CMA supports additional consultation on Canada's pension framework. The CMA recommends that Finance Canada expand its consultation to explore options to address weaknesses in Canada's pension framework, including a focus on the third pillar: tax-incentivized savings vehicles.

As part of a consultation on the third pillar, the CMA recommends that Finance Canada explore three issues, as elaborated further below:

- Increasing the combined contribution limit for registered retirement savings plans (RRSPs);

- Enabling well-governed professional organizations that represent a particular membership as pension plan sponsors; and,
- Possible impacts of registered retirement income funds (RRIF) mandatory drawdown rates.

Like the Canadian population at large, physicians represent an aging demographic – 42% of Canada's physicians are 55 or older – for whom retirement planning is an important concern. In addition, the vast majority of CMA members are self-employed physicians and, as such, they are unable to participate in workplace registered pension plans (RPPs). This makes physicians more reliant on Registered Retirement Savings Plans (RRSPs) relative to other retirement savings vehicles.

The *Summary Report on Retirement Income Adequacy Research* presented to the F/P/T Ministers of Finance in 2009, suggests that higher-earning Canadians may not be saving enough for retirement. This report highlighted that income replacement rates in retirement fall below 60 per cent of after-tax income for about 35 per cent of Canadians in the upper income quintile. This is related to the effect of maximum contribution limits on tax-incentivized retirement savings vehicles.

Tax-incentivized private saving vehicles are a critical element of Canada's pension framework. As highlighted in the 2010 interim report of the Senate Banking Trade and Commerce *Canadians Savings for Their Future: A Secure Retirement*, the introduction of the RRSP framework in 1957 sought to address a tax inequity due to the ineligibility of private savings for tax-incentive in comparison with registered pension plans. From 1972 to 1991 the RRSP contribution limit was set at 20 percent of earned income and in 1991, the government reduced the contribution limit to 18 percent of earned income; further, over this time period the real value of the absolute dollar limit reduced significantly. Recent increases to the absolute dollar limits have been strongly welcomed.

To ensure that contribution limits do not pose a barrier to saving for future retirement income needs, the CMA recommends that Finance Canada initiate a consultation on future increases to the RRSP contribution limit, both absolute and percent of earned income.

As part of the 2010 Finance Canada consultation and as reiterated during the legislative and regulatory consultation period on the PRPP framework, the CMA highlighted its support for exploring measures to enable organizations to sponsor plans on behalf of the self-employed. During the PRPP consultation, the CMA recommended amending the legislation such that well-governed professional organizations representing a particular membership are able to sponsor and administer PRPPs for their own members, including self-employed members. Once again, the CMA supports an extension of this recommendation to the broader pension framework.

Finally, the CMA has taken note of the concerns regarding the registered retirement income funds (RRIF) mandatory drawdown rates expressed in the C.D. Howe Institute's recent pension policy e-brief *Outliving our savings: Registered retirement income funds rules need a big update*. The CMA recommends that Finance Canada include RRIF mandatory drawdown rates as part of a consultation.

The CMA appreciates the opportunity to provide comment as part of Finance Canada's consultation on enabling target benefit plans within the federally regulated pension framework. The CMA supports further consultation on Canada's pension plan with an aim to ensure optimization of the third pillar, tax-incentivized savings vehicles, to ensure it enables adequate savings levels by self-employed individuals for their future retirement income needs.