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Submitted by email: cpp-consultations-rpc@fin.gc.ca

Subject: Consultation on a Voluntary Supplement to the Canada Pension Plan (CPP)

Independent Financial Brokers of Canada (IFB) is pleased to provide our comments on the proposed voluntary supplement to the CPP. We support the government's consultative approach to gathering input in advance of legislative changes, and we share the concern that some Canadians are not saving sufficiently for retirement.

IFB is a national, not-for-profit professional association representing approximately 4,000 licensed financial advisors. IFB members are typically self-employed professionals who operate small to medium sized businesses in their local community. They are at the forefront of providing financial advice to consumers every day. They help Canadians plan for the future, save and invest money, and be more financially prepared for planned, and unexpected, life events. Multiple research studies have demonstrated the link between access to professional financial advice and better financial outcomes for consumers.

Central to developing a culture of saving – leading to retirement readiness - is education. IFB members play a critical role in contributing to financial education. They assist individuals to understand the concepts related to financial terminology (products and services), financial instruments (such as life insurance and investment products) and the importance of budgeting and sticking to that plan.

Conceptually, we can see some advantages to a voluntary supplement, in that the CPP is national in scope (except in Quebec), and portable across employers. However, Canadians already have access to a number of other options to encourage saving, including Tax-Free Savings Accounts (TFSAs) and Registered Retirement Savings Plans (RRSPs). Statistics show these plans are often underutilized, especially among Canadians with less disposable income, and/or higher living expenses. A better approach could be for the federal government to develop strategies to enhance the ability of these Canadians to 'catch up' by more fully utilizing these savings vehicles in the future, as their debt/income

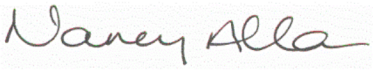
level becomes more manageable. This might include measures to allow additional savings to be set aside to cover periods of lost or lower income (such as during maternity/parental leaves, illness, etc.), and increasing the RRSP limit, which would benefit all Canadians.

Ultimately, it may be more effective for the government to work alongside provincial governments to strengthen the private-sector, tax-assisted system already in place, rather than create a new public sector plan that duplicates the existing systems and infrastructure. With so few details available on how the voluntary supplement would be structured, more research and analyses will be needed well in advance of the government moving forward on this proposal.

IFB appreciates the opportunity to contribute to this discussion. Below, we have provided our comments on the specific questions posed in the consultation paper.

Should you wish to discuss the matter further, please contact me, or Tamara Terefenko, Policy Analyst, (Email: tamara@ifbc.ca).

Yours truly,



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Voluntary Supplement to the Canadian Pension Plan Consultation Questions.

1. *Do you believe a voluntary supplement to the CPP should be an option for Canadians to save for retirement?*
   A voluntary supplement to the CPP may be attractive to a segment of employed Canadians, because it is national (except Quebec) and portable between employers. However, actual uptake will depend on the design details of the supplemental plan, the cost of participation, and the degree of flexibility it will offer for participants to access their savings, in the event of financial need, pre-retirement. It could be an attractive option to others, if the voluntary supplement was extended to those not in the workforce and, therefore, not contributing through their employer.

2. *How could a voluntary supplement to the CPP be designed to facilitate participation of individuals who may be at risk of under-saving for their retirement?*
   Reasons for under-saving by individuals and families can be varied, yet valid. For example, older Canadians are more likely to view saving for retirement as a priority than young people, who need more ready access to their money to meet day to day living expenses. Government incentives aimed at minimizing the impact of these early years, by allowing individuals to save proportionately more in future years without penalty, could help address this under-saving.

   Retirement schemes with an auto-enrolment feature (and the ability to opt-out) have been shown to encourage a culture of long-term savings. Auto-enrolment plans, such as the UK's National Employment Savings Trust (NEST) or New Zealand's KiwiSaver, have proven to be effective, despite offering an opt-out feature. The KiwiSaver program also includes incentives, like a tax-free kick start (until May of 2015), along with subsidized payments from the government, a yearly tax credit, and a semi-annual fee subsidy. Auto-enrolment plans, however, pose a number of design questions, including whether investors should be able to opt-in and opt-out at will, and the costs associated with such flexibility.

3. *How much flexibility should there be for individuals who choose to participate? For example, what are your views on locking-in funds for retirement and providing variability in the contribution rates?*
   Locked-in savings would simplify administration of the plan, and minimize fluctuations of CPP assets, but may make a voluntary supplement less attractive compared to other alternatives that exist today.

4. *How could a voluntary supplement to the CPP be designed to provide a secure stream for retirement income?*
   The voluntary supplement could be treated like a DC pension plan, where returns on investment depend on market performance, which are converted on payout to an annuity-like product. It might prove complicated and costly to manage a two-tiered approach, however, since the CPP pays a defined benefit.

5. *What retirement income options should be available upon retirement for savings accrued within a voluntary supplement to the CPP?*
   Retirement income from voluntary contributions should reflect the same flexibility of choice available in other retirement savings vehicles. In addition, individuals could have the option to increase their monthly income from CPP, by including their retirement income accrued from the supplementary funds.

6. *Should transfers between a voluntary supplement to the CPP and other retirement savings vehicles be permitted? If yes, should there be any limits?*
   Depending on the structure of the voluntary supplement, it would likely be more attractive to participants if they could transfer savings between a voluntary supplement and other retirement savings vehicles.

7. *While employers would not be required to contribute, what would be the appropriate role for employers?*
   While employers will not be required to contribute, there will likely be administration costs associated with setting up the employee's file, and remitting and tracking the voluntary contributions. In addition, beginning in 2017, employers in Ontario will be required to participate in the Ontario Registered Pension Plan (ORPP), if they do not offer an equivalent pension plan. The equivalency provision will mean many employers will discontinue their existing pension/retirement savings plans. The cost of the ORPP will be significant, and disproportionately so for small businesses. The implementation of the ORPP will likely reduce the attractiveness of participating in a voluntary supplement for employers and employees alike.

   IFB argued against the ORPP in our submission to the Ontario government. We think a better, and more cost-effective solution is to build on existing retirement savings options to improve consumer/employer uptake, while preserving investment choice in the marketplace.

8. *Who should be responsible for investing the contributions made to a voluntary supplement to the CPP?*
   It is premature, in our view, to develop a recommendation, as much will depend on the plan details, should the proposal move forward.