

# Avenues for reforming the Canadian retirement income system

PANEL ON RETIREMENT SAVING INSTRUMENTS FOR WORKERS IN SMALL AND MEDIUM-SIZED ENTERPRISES

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# Agenda

1 The consumption vs. investment decision & other broad issues

2 The role of financial knowledge

3 Some needed characteristics of plans

4 Other people's recommendations

5 Perspective

# Finding the balance: The consumption vs. investment decision



- One of the oldest problems in economic analysis
- In theory, the individual can properly evaluate the two
- In practice, the individual needs some help
- Both consumption & investment are relevant
  - Making good investment (retirement savings) decisions is not optimal if it results in bad consumption decisions
- We shouldn't neglect the influence of investment market and economic performance



# What can tip the scales?

## The role of financial knowledge



- People need financial knowledge and advice to make good financial decisions about consumption & investment
- Fidelity's research: Only 25% of pre-retirees have a financial plan for retirement
- Fidelity's research: Those receiving financial advice consistently report being better off, more confident about their financial situation, than those who don't
- Financial advice needs to be focused, associated with the work place savings plan and be an integral part of the process, i.e., mandatory



Source: 2009 Fidelity Retirement Survey conducted by the Strategic Council.

# Are SMEs the least covered?

- Less than 40% of Canadian workers participate in a work place pension plan
- In the private sector, figure is even less (25%)
- Combining data from Statistics Canada & Industry Canada:
  - Businesses employing less than 100 workers make up **48%** of the private sector work force
  - Small private sector pension plans with less than 100 members represent only **7%** of private sector membership



Source: Statistics Canada; Industry Canada. Figures are for 2008.

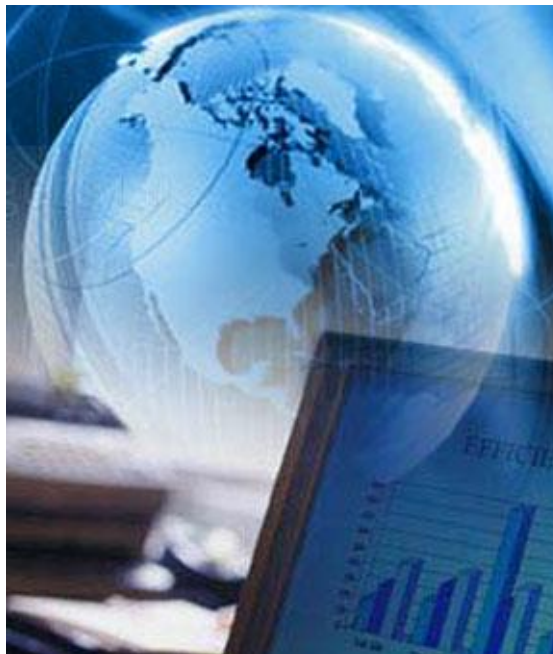
# Building better plans for SMEs



**Administratively  
simple**



**Balance investment  
returns & risks**



**Reasonable  
costs**



# Other people's recommendations



- Increase enrolment & participation

- Increase WRSP availability

- Improve the lot of individual participants

- Harmonize federal and provincial retirement savings and pension policies

# Perspective



- These proposed changes are not trivial



- Some have already been applied in U.S. & Canada



- May not make the perfect retirement income system, in general or for SMEs, but would improve it a lot

