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Speech by the Honourable Jim Flaherty, Minister of Finance, at a symposium hosted by the Institute for Research on Public Policy

Toronto, Ontario

It's a pleasure to be here with you in Toronto. Tonight I would like to say a few words on the subject of retirement income and the Government of Canada's cross-country consultations.

We have been consulting broadly and across the country. I've been participating in those consultations to the extent I can and my Parliamentary Secretary, Ted Menzies, has been doing a lot of that work. I do thank the IRPP for hosting this event today. There were new ideas discussed here today. And I thank Mel Cappe for that and his leadership with the IRPP. These are important institutions and quite frankly, we don't have enough public debate outside of the obvious political forums about important public policy issues in this country. I thank those who serve as directors—Graham Scott and the Honourable Barbara McDougall. These are important public policy functions that they perform.

Let me say a few words about where we are in our thinking. I will not come to any conclusions because we are serious about this public consultation and about the issues that we're facing. These are important issues for Canadians. They are generational issues. And having triplet 19-year-old boys, I'm conscious of not imposing on them and their generation burdens that they should have to carry to help those who perhaps have not saved enough in the generation before them. So we have to be careful of the generational consequences of what we do in this area of retirement income.

This is not simply an academic exercise, although we've commissioned lots of studies and reports, and this has been done purposefully in cooperation with the provincial and territorial ministers of finance. My colleague Dwight Duncan from Ontario was here today, and he and I worked together on this subject as we do on other subjects. There's very good support across the country.

I must say that crises are helpful in this sense. We ran into a real economic crisis in the late part of 2008, when there was tremendous uncertainty in the world and it looked like Canada was going into what could have been a prolonged and deep recession. Weekly and sometimes every second day, I had phone calls with my colleagues in the provinces and territories, and we talked about it and I told them what I was hearing from G7 and G20 ministers and from the central bankers. This helps to build a fraternity of ministers that helps us also later work on problems that Canadians really care about like retirement.

So to go back to the importance of consultations for a moment, in the fall of 2008 we were a minority government and an election was called. The world economy was deteriorating during the course of the election campaign. This was not anticipated by any economists, including any of us in government—we wouldn't have called an election if we'd thought that we were about to

have a worldwide crisis.

The Prime Minister and I had lots of telephone calls during the election period. As you know, during an election period governments aren't supposed to do extraordinary things in the British parliamentary tradition. But toward the end we did have to act in order to protect our financial institutions. So on the morning of Friday, October 10, 2008, I announced that we would protect the liquidity positions of our banks by buying insured mortgages and that we would maintain a level playing field by guaranteeing their wholesale debt.

In the afternoon, the G7 finance ministers and central bankers met in Washington and hammered out a five-point plan, which was then approved by the G20 that weekend, in which we agreed that we would not let another Lehman Brothers happen.

All of this was important to setting the stage for December 2008. As you know, we had a parliamentary crisis at the end of November 2008. The Governor General agreed with the Prime Minister's recommendation that we would prorogue. We prorogued and then it was becoming increasingly evident that we had a serious issue in Canada.

I can remember being in Saskatoon on December 15, 2008 at a roundtable with small and medium-sized businesses and with some Toronto business people and realizing that the depth of what was happening on the street was more than we were anticipating in Ottawa and, quite frankly, more than the academics and the economists were telling us was going on.

And then you have to make the decision about how largely and how quickly to act. And my judgment was that if we were not bold and decisive and if we didn't act quickly, then we were risking a long and deep recession rather than a relatively short-term recession in Canada. And we were risking unemployment numbers that could have been quite shocking.

So we tabled the earliest budget in Canadian history on January 27, 2009—Canada's Economic Action Plan.

In the same way, when we're consulting now on the retirement income system, we're listening intently. We have not closed any options. We are open to any suggestions. We are looking at the research carefully with our provincial and territorial colleagues. We've commissioned a lot of research. We want to get this right. We certainly don't want to do any harm. We have to be very careful about retirement income reform.

It will be at the top of our agenda when finance ministers from across the country gather for our meeting on June 13–14 in Prince Edward Island. It's important that we do this together because we share the regulation of private defined benefit pension plans in Canada. We are also joint stewards of the Canada Pension Plan. There are some in the opposition parties who have already decided that we should do Option A or Option B. We should have a new supplemental CPP or we should expand the current mandatory CPP. There are some who have jumped to a conclusion without adequate consultation and listening and commissioning the right research and making

sure that we get this right.

Our government is going to work closely with the provinces. We have terrific cooperation and we intend to get this right. That doesn't mean we are going to avoid difficult decisions. It doesn't mean that we will avoid choices. We will work together with the provinces and territories, and as it becomes clear that certain options are perhaps preferable to others, then we will go ahead and choose those options.

We have a strong foundation. First of all, there is the OAS/GIS system, which is not an inexpensive system. It provides a basic minimum income guarantee for seniors. It is funded out of federal government revenues. The cost is \$33 billion and it goes to 4.5 million Canadians. So this is a large social program for older Canadians funded by your taxes each and every year and it's not dependent on work experience. This is an important pillar, and I haven't heard about it in the roundtables and in the town halls that we've had.

And then there is the second pillar, which does come up, and that is the CPP/QPP. My Quebec colleague Minister Bachand has been quite interested in the work we've been doing on the CPP because of its applicability in certain respects to the QPP reality. This pillar has been a central focus of attention in the recent debate over retirement income adequacy.

Research suggests that there is a portion of modest- and middle-income Canadians that may not be saving enough to provide adequate levels of income replacement in retirement. This is a concern because we know from experience that if a certain percentage of Canadians cannot afford a reasonable standard of living when they retire, then other Canadians will be called upon to support them through their taxes and through reallocation of funds federally. So this is an income issue that should involve 100 per cent of Canadians because it will affect all of us.

Research also indicates that the proportion of Canadian workers with employee-sponsored private defined benefit pension plans is declining. Some advocate for the creation of a voluntary supplemental CPP. Others advocate for the expansion of the current CPP. As I've made clear, we are open to all options. We will work with the provinces and territories, and we certainly welcome the advice that we get from symposia like this one. It's very important that we get the best advice available so that we don't get this wrong when it comes time to make some decisions.

Last May, we made some decisions with the provinces unanimously on smart, effective changes to the CPP. We removed the requirement for individuals to stop working or reduce earnings for two months in order to start receiving CPP benefits. We also permitted more low-earnings years to be excluded from pension income calculations. We're also restoring equity to our flexible retirement provisions, expanding CPP coverage to those who receive the CPP and continue to work or return to work. Our triennial review also confirmed that the program is actuarially sound for the next 75 years. This long-term fiscal strength is something we wish to maintain.

I'll now turn to private savings and what individual Canadians do themselves, which is multifaceted. We've had the RRSP program in Canada since 1958. This foundation has been

important to us.

We have a sound financial sector in our country. The World Economic Forum says Canada has the soundest financial system in the world. This serves us well and I'm mindful of this when I look at the potential for additional private involvement in retirement income issues. Our top 5 banks are in the top 50 in the world. Some people don't notice that if you use capitalization numbers. Our 3 largest insurance companies are in the top 10 in the world. So we shouldn't be glib about turning our back on the private sector, on the importance of the strength of our financial sector in Canada, which is increasingly recognized around the world.

So these are opportunities that we need to look at. We are consulting further on that. We are consulting with the private sector as well. We want to hear all of the options.

The Tax-Free Savings Account, which we created a couple of years ago, has taken on a life of its own. We decided that we would take the revenue hit over time in the interest of encouraging Canadians of all ages to save. According to the last survey that I saw from Investor Economics, and Ipsos Reid has some survey data as well, Canadians had opened 4.7 million TFSA accounts by the end of December 2009, for a total value of almost \$16 billion. This is all in the first year that they were available. This is the most important tax change in terms of savings since the RRSP was introduced in 1958.

There are also Registered Education Savings Plans, as well as Registered Disability Savings Plans, which are growing in use across Canada for families with family members who have serious disabilities, to help provide them with financial security later in their lives.

The TFSA is an important savings vehicle for seniors. It is not age-limited. It is tax-efficient. They can use it beyond age 71 when they are required to draw down their registered retirement savings.

Also, since taking office, our government has reduced taxes. We continue to reduce personal income taxes. We continue to reduce business taxes. By 2012, which is just around the corner, the majority of the provinces, with the Government of Canada, will have reached the goal of a 25 per cent business tax. This is a great branding point for our country around the world. It means more investment. It means more jobs in Canada. We have reduced taxes of all kinds and we are going to continue to do that.

We've made changes to some of the pension rules. For example, we changed the age for the rollover of RRSPs to 71 from 69. We've allowed more flexible phased retirement arrangements under defined benefit pension plans. And on October 31, 2006, we introduced pension income splitting—this is very important to many Canadians, who are saving thousands of dollars a year on their income taxes.

Financial literacy is another important issue. Governments can pass all the laws we want. We can introduce all sorts of tax initiatives and the private sector can put forward ideas encouraging

people to save. And we could expand the current mandatory CPP or introduce a voluntary supplemental CPP. But if people don't understand what is being said, if they don't have a degree of financial literacy so that they can act in their own informed self-interest, then we will not accomplish what we need to accomplish.

I know that a number of people here are involved in the financial literacy efforts that go on across Canada. The province of British Columbia has a very good program in its schools. A couple of budgets ago, we gave money to the Financial Consumer Agency of Canada so that they can move forward in cooperation with other governments in Canada in advancing financial literacy, primarily in schools. I established a very important task force headed by Don Stewart, the CEO of Sun Life, that is dealing with the issue of financial literacy. This is a terrific task force. They have been conducting consultations across the country and they will be reporting on time and on budget in December. I expect that we will act on those recommendations fairly quickly because of this kind of discussion that we're having about retirement income issues and other issues about the under-use of RRSPs and TFSAs, although it is increasing. These are the kinds of issues with respect to which we need advice.

And as Minister of Finance I also deal with issues like, most recently, credit and debit cards. And these are issues that concern me quite deeply because I see the kind of difficulties that some Canadians can get into because of their unfamiliarity with the realities of compound interest and debt. So we need to act in some circumstances to protect but certainly in all circumstances to inform Canadians on these types of issues. We've taken some steps in this regard. A couple of weeks ago, I introduced what I hope will be a voluntary code of conduct for credit and debit cards in Canada. We're hoping that everyone will sign on to the voluntary code of conduct.

I think that we will end up with a national financial literacy strategy in Canada as a result of the good work that Don Stewart and his excellent panel are doing.

Where are we going from here? We're listening. We're evaluating. I think we'll have our most informed discussions as ministers of finance at our meeting in Prince Edward Island in June. We'll review what's been done so far and then we need to chart a course on what issues we want to look at further and where our decision points will be. We will need your continued advice in all of this. We try our best to reconcile needs and conflicting advice, to be analytical and to do the right thing. But at the end of the day we do make choices. So we need to have your informed advice about all of these items.

The next 60 days are going to be remarkable for our country. It's a great time to be a Canadian. We had the Olympics earlier this year, which were spectacular and noticed around the world. And in June we will host the G8 Summit in Muskoka and the G20 Summit right here in Toronto. Canada's brand internationally is stellar. And co-chairing the G20 this year is a wonderful opportunity to advance our country on the international stage with respect to all issues that matter, including this important issue of retirement income.

I thank you for the invitation to be here.