Check against Delivery

"Reigniting a Culture of Savings"
National Summit on Pension Reform
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Good evening….and thank you for that warm welcome.

Pension reform is a very timely topic in Canada.

It landed on the national scene, again, during the latter stages of 2012 and will be discussed across the country in the months to come.

I want to thank Premier Alward for having the province of New Brunswick and the city of Fredericton play host to this conference. This province has made important progress recently on pension reform.

I also want to acknowledge the Minister of State for Finance, Ted Menzies, who is here tonight, and our government, for the recent PRPP regulations which will broaden the options we have to enhance existing pension programs.

I also want to thank the Public Policy Forum – it's clear they have done a terrific job of gathering together in one room a range of voices that come at this issue from varying perspectives.

And, finally I want to recognize the CD Howe Institute. For more than four years, it has produced a broad cross section of views on retirement income and pension reform.

Let me set the stage for the conference by looking at pension reform in the broadest context and in a way that incorporates the largest number of Canadians.

Because, in the end, that is the goal we all share – to bring about pension reform that will benefit all Canadians.

And, to improve their future by giving them better options to address one of their top concerns – their financial security, post retirement.

So tonight, I'm going to start off by looking at pensions as a key element of an individual's savings.

For many Canadians, life's two main financial goals are buying a home and planning for retirement.

Both represent a form of savings.

Home ownership begins as debt, but over time is transformed into an asset that is future savings.

And, the emphasis on housing as a form of savings has been fundamentally reinforced by the recent shortening of amortizations from 40 years to 25 years.

Meanwhile, Pensions, TFSAs, RRSPs, PRPPs and any other money that individuals are able to set aside – these are savings the whole way through.

So, if we're going to talk about ways to enhance the pension system, we first need to get a sense of how Canadians are doing right now – and how they're likely to be doing in the years ahead – when it comes to these two critical contributors to savings.

HOME OWNERSHIP

Let's look first at home ownership.

In 1971, 60 per cent of Canadians owned their homes.

Today, it's almost 70 per cent – and over that same period, the percentage of young people – Canadians between 25 and 34 – who own a home has risen to 46 per cent from 36 per cent.

In large part, the increase in home ownership is a tribute to the mortgage system itself – a system has proven to be stable and secure as well as transparent, simple and efficient.

More important, home ownership is easy to understand and designed to help the average person succeed.

You can put down as little as 5 per cent of the cost of the home and have the government back your mortgage with a financial institution.

You can pay off your mortgage over 25 years – or quicker.

Canadians go into a mortgage knowing that if they keep up their end of the bargain – if they make their payments – they are, on a specific date in the future, going to own that home free and clear.

So, over the long term, housing has proven to be an effective vehicle for future savings.

During the past few years, we've all heard warnings about the extent to which Canadians are in debt.

But, what exactly are we talking about when we talk about debt?

It is important to note that 75% of the new debt that Canadians have taken on in recent years has been to finance a home.

This is debt with a purpose – debt that over the course of time will be transformed into one of the most important assets that Canadians will ever own.

Yes, the numbers look a little scary on a national basis, especially when so many are taking on debt at the same time.

But on an individual basis, many Canadians are making prudent decisions.

So, why does the home ownership system work so well?

Because Canadians understand it.

It's date certain and amount certain.

It's predictable and transparent.

There's good governance.

And, the outcomes are clear.

All in all, home ownership as part of future savings is working – and more and more Canadians are taking advantage of it.

SAVINGS

Now let's turn our attention to the second goal: saving for retirement.

And as you may be able to guess – this story doesn't have the same happy ending.

That's not to say there isn't a system in place to help us save and get us to where we want to be.

There is.

We have RRSPs, company pensions, tax-free savings accounts and PRPPs – all of which provide Canadians with options and value.

Beyond that, we have established a support system for Canadians in their retirement years, through Old Age Security, the Guaranteed Income Supplement and the Canada Pension Plan.

Together, these mechanisms and support programs serve a sizable percentage of our population.

So, how are Canadians doing when it comes to preparing for life after work?

At CIBC, we put our economists to work on this.

We had them investigate whether trends in pension coverage, government programs and savings rates will allow today's working Canadians to maintain their lifestyle at retirement.

The result? Well, the data shows that it depends on how old they are.

The people who are near retirement today – they're part of a cohort that routinely set aside more than 15 per cent of their after-tax income in the 1970s and '80s.

They benefited from higher real interest rates on their deposits and relatively healthy returns in the market.

They saw their homes rise substantially in value over decades.

And, they went to work at a time when private pensions plans were more common.

That doesn't mean every person near retirement today is free from financial challenge.

But the numbers tell us that many are in reasonable shape to maintain their standard of living when they stop working.

The news, however, is vastly different for younger Canadians.

They're not saving nearly as much: in fact, a 35-year-old person today puts aside, on average, less than half of what a 35-year-old saved a generation ago.

Our research focused on Canadians who today are between the ages of 25 and 64, earning less than $100,000 a year.

It found that within this group, some 8.4 million Canadians will experience a decline of more than 5 per cent in their standard of living at retirement.

Far more troubling is the fact that 5.8 million of these Canadians are on pace to experience a significant decline – meaning a reduction in living standards of more than 20 per cent.

And, here is perhaps the most alarming takeaway: when we look at that most vulnerable group – those 5.8 million individuals – we see that most of them are young.

In fact, our economists estimate that Canadians now in their late 20s or early 30s can expect to experience, on average, a decline of 30 per cent in their standard of living when they retire.

We're not talking about the normal reduction in income that individuals typically see in retirement.

We're talking about a real and significant decline in living standards as measured by consumption power.

Many of these young Canadians – especially those with lower incomes – can't afford to buy the average home, so they're deprived of the benefits of the forced savings represented through home ownership.

They're also coming of age in an era when private pension plans are increasingly scarce.

They're finding it hard to replace what those private plans offered: scale, obligatory participation, expert investment management, locked-in contributions, a mandatory long-term horizon and certainty of outcome.

And, while they have access to tax-sheltered investment vehicles – such as RRSPs and TFSAs – many of these Canadians may not earn enough to fully realize the tax benefit these vehicles provide.

And, more importantly, these vehicles lack the certainty of outcome that these Canadians so desperately need.

A generation ago, a person starting out in the world focused first on earning money.

Then, as they found their way in the workplace and their earnings grew, they began to think about saving – for further education, for a down payment or for retirement.

Today, for many Canadians, there's a bigger emphasis placed on investing – on rates of return – than on the critical need to actually set aside money.

Individuals are more focused on how they're investing their money rather than on how much they're putting away, and for how long.

The need to save seems to have been become secondary.

The tail is wagging the dog.

We've become too focused on returns – and not enough on how much we're setting aside, and how long we're giving it to grow.

In many ways, we have confused and blurred the lines between savings power and investing power.

The key take away is this: The average Canadian needs to focus more and earlier on setting aside money as savings for retirement.

And they're more likely to do that if they have access to a simple, efficient and effective system for putting it away and letting it grow.

The good news?

Our research found there's an opportunity for those younger Canadians I spoke of earlier -- those most at risk -- to catch up.

Their fate isn't set in stone because they have one critical resource in abundant quantity and that's time – time to let the savings process work for them; time to allow small contributions to grow into significant savings over a long term horizon.

THE PATH FORWARD

So if our objective is to restore and enhance savings as a key element of the retirement picture of Canadians, I believe we should look to the best attributes of the home ownership system and the best of the private pension system.

That provides us with five imperatives for any retirement savings solution:

1. First, any mechanism to enhance savings needs to be easy to understand and simple to participate in. It must provide choice to the millions of Canadians that need it the most.

2. Second, it needs to put the money of Canadians to work over the longest possible horizon – as much as 40 years or more – to maximize returns and grow savings.

3. Third, it needs to be voluntary, but committed savings – like a mortgage or a private pension – so after an individual opts in annually, the money can't be touched until retirement, giving it every opportunity to grow.

   These additional voluntary contributions would come from after tax income, similar to the TSFA, and when withdrawn at retirement would neither be taxable nor result in a loss of income tested benefits.

4. Fourth, it needs to provide a predictable income stream at retirement – providing a date certain, real dollar certain return to Canadians at the conclusion of their working years.

5. And fifth, it needs to take advantage of the benefits of scale – and the incremental returns that are available from accessing high-quality investment management that operates within a low cost structure due to its size and scope.

The private sector, through the financial services industry, does a number of things very well on behalf of Canadians and families.

It helps build wealth and preserve financial stability.

It provides essential advice, guidance, services and support.

But of the five imperatives I just laid out, three fall beyond the mandate of the private sector.

For example, financial services firms do not have the mandate to hold onto the money of Canadians for 40 years with no option for withdrawals, while providing a date certain, real dollar certain, competitive amount at retirement. Nor should they.

It makes sense, then, to instead turn to a place where all five imperatives are already being met.

And we don't have to look very far to find an example – it's the Canada Pension Plan.

It's a model that works – one that's been tested in the real world, one that's tried and true, a model that's been an integral part of Canadian life for almost half a century.

For these reasons, I believe the time has come to give Canadians the opportunity to enhance their pension savings by making additional, voluntary contributions to the Canada Pension Plan – or a CPP-like vehicle.

The founding goal of the Canada Pension Plan – and I quote directly from the white paper that helped bring the plan into being – was "to make reasonable minimum levels of income available at normal retirement age."

Allowing additional, voluntary contributions would help to preserve and advance that goal.

These additional voluntary contributions would not be matched by employers and therefore not represent a burden to businesses.

But it would give Canadians the choice to put aside more – a little at a time – with the confidence of clearly knowing what benefits it will bring.

It would deliver scale, date certainty and real dollar amount certainty.

It would improve the future of Canadians who choose to opt in – through forced savings and no withdrawals – over the arc of 40 years.

And, it would afford individuals the advantages of saving along the longest possible growth horizon – as close as we can get to Warren Buffett's ideal holding period, which he's described as: "Forever."

According to CIBC researchers, this would give millions of Canadians the opportunity to significantly change their retirement future.

Obviously, forming detailed projections is difficult given the length of time we're talking about and the element of voluntary participation.

But let's go back to those Canadians I spoke of earlier – those in their 20s and 30s. Our economists ran the numbers. They focused on those making the median income for their age group.

If these individuals were to, for example, double their CPP contributions over the course of their working lives, it would close as much as 80 per cent of their standard of living gap they'd otherwise face.

For this calculation, our economists used existing CPP methodology. If these additional voluntary contributions were in the form of prepaid, as I suggested earlier, the outcome would be the same or better.

The point is that those who do participate fully – or close to it – would retire with nearly the same standard of living they had during their working lives.

And they would have themselves to thank, because they made a prudent decision early in life and stuck with it.

Now, this is not a solution that addresses every problem and meets every need.

But it's a starting point – a starting point that gets to the heart of what a large number of Canadians need most – and that's certainty of outcome.

And, it will do it in a way that complements existing pension programs or any new ones being proposed.

As I said at the outset, pension reform is going to be an important policy topic in 2013.

And conferences like this are invaluable as we consider various models for how to do things differently and how to do them better.

As we contemplate changes to our pension system, I believe our objective should be to create the biggest possible tent and welcome inside the largest number of Canadians.

We need to provide Canadians with further choice.

Choice that gives them date certainty and amount certainty – and allows their savings to work over the longest time possible.

A choice that will help Canadians as individuals, and Canada as a nation, reignite a culture of savings.

As we do, I am confident that Canadians will do what they do best – make smart, prudent decisions that are in their best interest. Decisions that improve their future and position them in the best way possible for retirement.

Thank you.