

SUBMISSION TO
THE HONOURABLE JAMES M. FLAHERTY
MINISTER OF FINANCE

submitted by the
Canadian Association of Retired Teachers
(ACER-CART)

November 2008

OVERVIEW

Through fourteen (14) provincial and territorial associations of retired teachers, the Canadian Association of Retired Teachers (ACER-CART) represents well over 150 000 members across Canada.

Every year, Directors representing these fourteen associations meet in Ottawa to discuss issues relating to aging and seniors: government policies and programs, health care, elder abuse, retirement income, downloading of responsibilities between the different levels of government, affordable housing, long term care, property taxes, pharmacare, ...

As a member of the Congress of National Seniors' Organizations (CNSO), ACER-CART strongly supports CNSO's mission: *influence and shape policies and programs on aging through efficient and effective dialogue between seniors' organizations and all levels of government.*

ACER-CART, along with other seniors' organizations, guides its actions on the basis of the following principles:

- Seniors' organizations are an important and invaluable part of the voluntary sector.
- The concerns of seniors are societal in nature and touch all generations, even when the focus is on seniors' issues.
- Seniors' organizations strongly support a *public involvement* approach and want to actively work in close partnership with all levels of government.
- Seniors' organizations strongly believe that all Canadians are entitled to the very best quality of life without endangering the economic framework.

INTRODUCTION

At its June 2008 Annual General Meeting, ACER-CART adopted a series of motions related to the financial well-being of seniors: annual inflation protection for all retirees, protection from escalating property taxes, mechanisms allowing for the review of property assessments, right of appeal of property assessment, increased financial assistance to municipalities, funding of infrastructure projects and upgrades, ...

At the same meeting, Directors adopted motions related to the health and quality of life of seniors: national drug formulary, more active role of the Federal government on health care issues, enforcement of the core principles of the Canada Health Act, long term care, ...

ACER-CART values the opportunity to provide this submission to the Standing Committee on Finance. Financial well-being is closely tied to healthy well-being and quality of life. Any policy and program development with respect to aging and seniors must take into account the core values that seniors have

espoused over the years and in many submissions to governments of all levels: dignity, independence, participation, fairness and security.

What governments of all levels will do next with the numerous recommendations presented to the Committee will determine how seniors live out their retirement years and how Canadians of all ages continue to benefit from seniors' contributions to society.

It is ACER-CART's hope that the Standing Committee on Finance will influence the Government of Canada to act quickly, in cooperation with the provinces and territories, to move forward on strategies to allow seniors to enjoy a life of dignity and independence.

SAVINGS PROTECTION

Throughout history, Canada has been marked by periods of growth and recession. The recent financial developments in the United States and in many countries across the world have shaken the confidence of many Canadians in financial institutions. Many seniors are asking if similar consequences could happen in Canada; many no longer wonder if the sombre days of unemployment, low returns on investments, bankruptcies, economic slowdown, ... will come. The question is now one of when and how bad.

While it is a fact that Canadian banks are recognized worldwide for their stability and their cautious lending practices, there are still numerous doubts in many Canadians's mind about the future.

It is important that Canadians, in particular seniors, be given additional guarantees regarding their savings. The Canada Deposit Insurance Corporation (CDIC) recognizes the possibility that banks in Canada can fail: *' While it does not happen often, it has happened and could happen again. '*

At present savings are covered by CDIC up to \$100 000. It is a fact that many seniors prefer the lower return on investments through guaranteed investment certificates (GICs) to the possibly higher return achieved through stocks and mutual funds.

Concrete steps must be taken to maintain confidence in the Canadian banking system.

RECOMMENDATION: That the present limit of \$100 000 protection of savings by CDIC be raised immediately to \$250 000.

REGISTERED RETIREMENT SAVINGS PLANS

Registered retirement savings plans (RRSPs) were intended for retirement and have been a very attractive way to save while enjoying tax benefits. Many Canadians have taken advantage of these plans to plan for future years, investing in more secure forms of investments (GICs, Canada Savings Bonds, ...) or even taking a riskier path (stocks, mutual funds, ...).

For many, the recent and very volatile financial crisis has had a serious blow to the value of their RRSPs: erosion of the portfolio's value, low or even no return, uncertainty of future investments, no foreseeable growth in the short and even long term.

Another drawback is the fact that, in the present volatile climate, many RRSP holders, because of their age, are being forced to make withdrawals at very disadvantageous conditions. This also creates insecurity. Seniors are more and more convinced that there is a real possibility that they may outlive their investment income and lose their independence.

The present contribution limit of 18% of a person's earned income from the previous tax year greatly disadvantages low income Canadians. For example, someone who earned \$50 000 in 2007 would be limited to a contribution of \$ 9000 in 2008 while someone with 2007 earnings of \$100 000 could contribute \$18 000, each with a very different reduction in income tax payable, each being allowed to prepare their retirement on very different conditions.

Another anomaly in the present system is the fact that, in the same family, it is possible for the spouses to have as many as six RRSPs: for each an individual plan, a spousal plan and a locked-in retirement account. This translates in additional administrative fees, benefitting financial institutions at the expense of the RRSP holder; such a system is a burden for good financial planning and does not allow pooling of resources within a couple in order to achieve a greater return on their combined investments. The principle of asset sharing has already been accepted by the Federal Government when it introduced pension splitting.

RRSP holders could benefit, without additional costs to governments, both federal and provincial, from significant changes to the conditions imposed on RRSPs.

RECOMMENDATION: That the contribution limit be a straight monetary amount for all Canadians without the present 18% reference to a percentage of earned income from the previous tax year. The present limits for 2008 (\$20 000), 2009 (\$21 000), and 2010 (\$22 000) should be the norms for the next three years with full indexation after year 2010.

RECOMMENDATION: That spouses be allowed to pool their RRSPs into a joint RRSP, with the same individual contribution limits, but with the age of the younger spouse being the basis for cashing out an RRSP or transferring to a registered retirement income fund (RRIF) or an annuity.

RECOMMENDATION: That that age at which an individual must cashed out an RRSP or transfer it to a RRIF or an annuity be raised immediately to 73.

RECOMMENDATION: That, in consultation with provincial and territorial governments, individuals holding locked-in retirement accounts be allowed to transfer tax-free and without penalty all the funds held in a locked-in account to a regular RRSP.

RECOMMENDATION: That transfers from a RRSP to a registered educational savings plan (RESP) be allowed tax-free and without penalty.

REGISTERED RETIREMENT INCOME FUNDS (RRIFs)

RRSPs are major components of retirement saving in Canada. More Canadians approach the point where they will have to cash out their RRSPs or transfer the funds to a RRIF or an annuity with compulsory withdrawals at specified rates.

This poses a threat by decreasing accumulated tax-deferred assets too rapidly without consideration to the financial situation of the holder, by exposing withdrawals and returns from investment to income taxes and benefit clawback, with the possibility of having many seniors age with badly depleted tax-deferred assets.

Under current policies, seniors have to make minimum withdrawals from RRIFs whether they need the money or not, whether it is to their advantage to make such withdrawals at a specific time, whether such withdrawals make financial sense or not.

Life expectancy is up; real returns on investments are down. RRIF holders, especially with the present financial crisis, face dramatic erosion in the purchasing power of tax-deferred savings in their later years.

Life expectancy, investment conditions (presently on the negative side), benefit clawbacks, combined assets and income are more important factors in determining withdrawals. Retirees and their spouses can better balance income requirements against asset preservation on an ongoing basis. Since no two cases are the same, uniform withdrawal criteria are not the best approach.

For many seniors, compulsory withdrawals will trigger clawbacks and other income and asset tests, leaving many with anticipated sizeable late-in-life expenses. Increasing demands on individual and public resources suggest governments should encourage saving and put in place conditions that will guarantee to as many Canadians as possible a carefree and independent future.

Today's real investment returns are eroding tax-deferred funds well ahead of the ages on which the present withdrawal criteria are based.

RECOMMENDATION: That RRIF minimum withdrawals be abolished, at the very least reviewed to match changes in life expectancy.

INTEREST INCOME

Canadians used to be able to consider the first \$1 000 of interest income as non taxable income. This deduction has disappeared; on the other hand, the Federal government has given preferential treatment to another form of investment income, capital gains.

It is a fact that many seniors prefer investing in more secure areas even if it means lower returns; for them, it is a question of security, of peace of mind; it also allows for better planning since the source of income is less likely to fluctuate. Why should a group of investors be penalized by being asked to pay taxes on all their investment income while other can shelter 50% of their investment income tax free?

Low income earners have a tendency of investing in interest bearing portfolios; upper income individual may prefer real estate, stocks and mutual funds. If one accepts the principle that a dollar is a dollar, regardless of how it was generated, then all earned income would be treated on the same basis. If the government treats one group of investors differently by offering them special advantages, then it should extend similar privileges to every group of investors, especially low income earners.

The Federal Government must take the necessary steps to guarantee that seniors, in particular low-income seniors, keep more of their hard earned money and to give them the financial flexibility they desire in retirement.

RECOMMENDATION: That the first \$2 000 of interest income be treated as non taxable earned income.

INFRINGEMENT ON BENEFITS

The Federal Government took a major step with pension splitting in improving the financial status of seniors. While the Federal Government gave with one hand, some provincial governments took from the other.

Many social benefits are means-tested, such as welfare, rent subsidies, nursing home rent subsidies, ...

Basically, low-income seniors are required, in Ontario, to pay all of their after-tax income for a bed in a nursing home ward, minus a small per-month allowance for personal items. The province will help pay part of the monthly rent that private and non-profit homes are permitted to charge for ward accommodation. However, the province will provide no financial help if a person can afford the rent for a ward room.

The act of assigning part of one spouse's pension income to the other spouse's tax return has, in some cases, raised the taxable income of the recipient, making that person no longer eligible for the nursing home rent subsidy or forcing the person to pay a larger share of the rent.

RECOMMENDATION: That the Federal Government, in consultation with the provincial and territorial governments, harmonize tax benefits to ensure that the gains obtained

by one level of government are not cancelled or clawed back by another level of government.

CONCLUSION

Seniors represent an important group of the Canadian society. In the not so distant future, seniors will equal and even exceed the number of children for the first time in our history. This will have profound impacts on every aspect of life. Governments of all levels must address the issues now and put in place the framework to allow seniors to age well, with dignity and respect, now and in their retirement years.

Pierre Drouin

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SUMMARY OF RECOMMENDATIONS

RECOMMENDATION: That the present limit of \$100 000 protection of savings by CDIC be raised immediately to \$250 000. **ENDATION:** That the contribution limit be a straight monetary amount for all Canadians without the present 18% reference to a percentage of earned income from the previous tax year. The present limits for 2008 (\$20 000), 2009 (\$21 000), and 2010 (\$22 000) should be the norms for the next three years with full indexation after year 2010.

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