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Filling the Cracks in Pension Coverage: Introducing Workplace Tax-Free Pension Plans

This paper proposes workplace Tax-Free Pension Plans (TFPPs) as an option for improving pension plan coverage in Canada

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About the National Institute on Ageing and the Global Risk Institute in Financial Services (GRI)

The National Institute on Ageing (NIA) is a new policy and research centre based at Ryerson University in Toronto. The NIA is dedicated to enhancing successful ageing across the life course. It is unique in its mandate to consider ageing issues from a broad range of important perspectives, including those of financial, physical, psychological, and social wellness.

The NIA is also focused on leading cross-disciplinary research to better understand the issues that can lead to the development of evidence-informed actionable insights that can meaningfully contribute towards shaping the innovative policies, practices and products that will be needed to address the multiple challenges and opportunities presented by Canada's coming of age.

The NIA is committed to providing national leadership in promoting a collaborative approach that also seeks to continually establish municipal, provincial, federal and global partnerships with other academic centres, and ageing-related organizations.

This report was produced in partnership with the Global Risk Institute in Financial Services (GRI), which is the premier organization that defines thought leadership in risk management for the financial industry. It brings together leaders from industry, academia, and government to draw actionable insights on emerging risks across the globe.

GRI undertakes its mandate by engaging directly with our members and other key stakeholders to deliver leading edge research, events and education focusing on key emerging risks, opportunities and best practices in enterprise risk management.

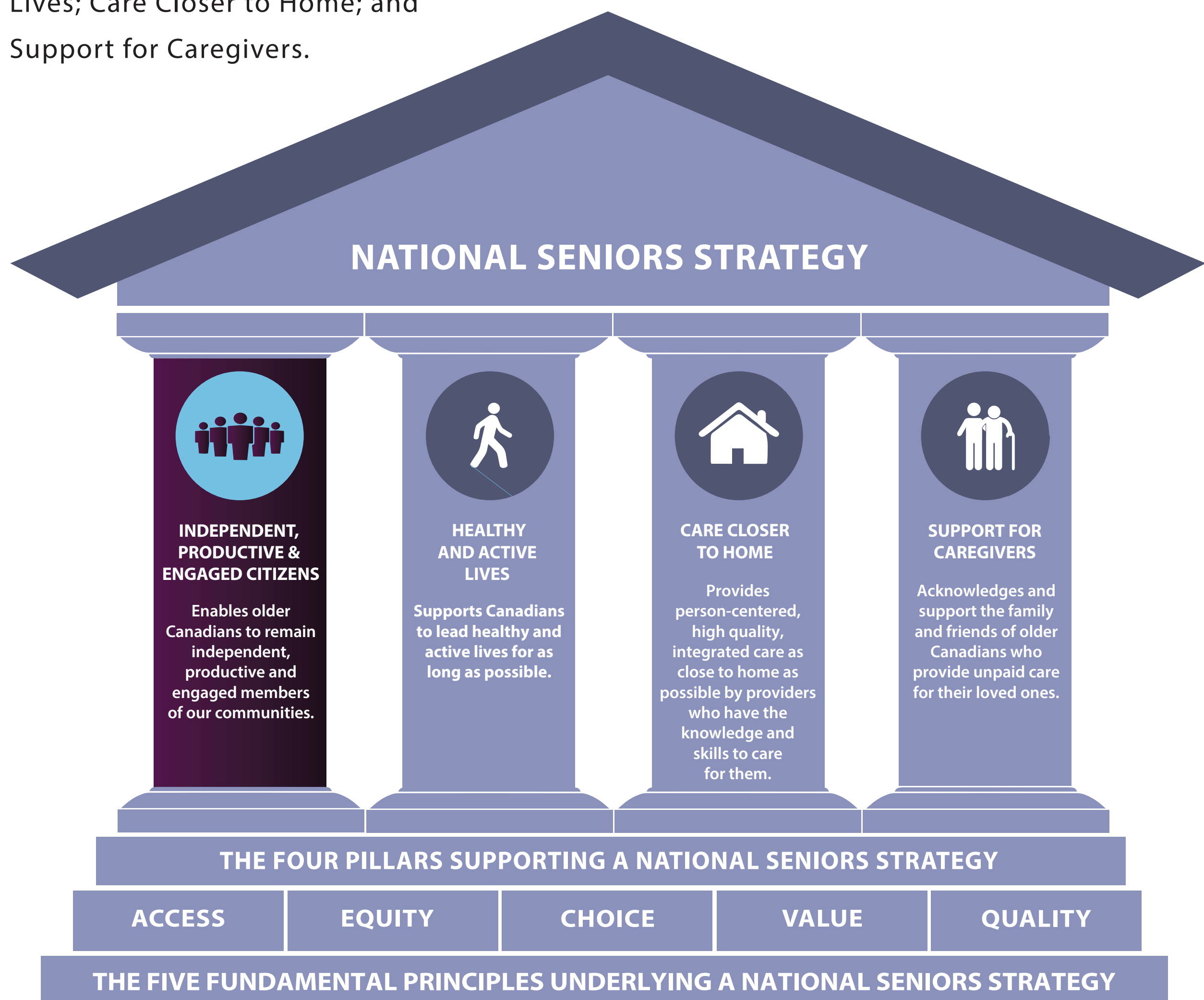
In collaboration with leading Canadian pension plans, service providers, academics, and policy makers, GRI has established the National Pension Hub for Pension Knowledge and Research (NPH). The NPH is focused on providing a sustainable pipeline of independent and objective pension research that, among other things, will lead to innovative solutions to pension design, governance and investment challenges.

National Seniors Strategy

The NIA further serves as the academic home for the National Seniors Strategy (NSS), an evolving evidence-based policy document co-authored by a group of leading researchers, policy experts and stakeholder organizations from across Canada and first published in October 2015.

The NSS outlines four pillars that guide the NIA's work to advance knowledge and inform policies through evidence-based research around ageing in Canada that include Independent, Productive and Engaged Citizens; Healthy and Active Lives; Care Closer to Home; and Support for Caregivers.

This report is part of the NIA's work on retirement income security under the 'Independent, Productive & Engaged Citizens' pillar of work.



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Executive Summary

Workplace Pensions are Important to the Canadian Retirement Income System

Workplace pension plans help protect the retirement income security of Canadians while limiting reliance on publicly funded seniors' programs. As an additional and diversified source of retirement income, workplace plans have the potential to relieve some of the inevitable burdens that Canada will face as our proportion of seniors to workers more than doubles between 2010 and 2060.[2]

The reality is, private savings are often inadequate without the support of workplace plans. For example, Canadian families nearing retirement without workplace pensions have a meager $3,000 in median retirement savings.[3] Given that more than three-quarters of Canadian private sector workers are currently not covered by workplace plans,[4] how can Canada's third retirement income pillar (after senior social benefits and C/QPP) better meet its social, economic and demographic challenges – and how can policy-makers help?

Evolution of Pension Plan Design

This paper targets the disparity within the current system: clear financial incentives for Canadians at the upper end of the earnings spectrum to participate in workplace registered pension plans, versus sub-par (or even negative) incentives for those at the middle to lower end.

Outside of public programs, workplace pension plans are considered the most effective vehicle to save for retirement due to features like automatic savings, employer contributions, substantial fee reductions via economies of scale, potentially higher risk-adjusted investment returns, and possible pooling of longevity and other risks. However, the dynamics of income taxes and government senior social benefits can lead to financial incentives that are both unclear and inconsistent across Canadians. Conceptually, workplace plans allow workers to defer income – and taxes on that income – to a time when they are not working (i.e., retirement). But these tax deferrals are generally much more valuable to higher earners. Canadians with lower annual income also pay an effective tax rate

of 50% or more on each dollar of pension income they receive, due to the income testing underlying the eligibility calculation for senior social benefits like the Guaranteed Income Supplement (GIS). When these factors are combined, modest-income Canadians can face financial penalties, rather than incentives, within the current registered pension plan system.

To address these disparities, this paper proposes a new class of workplace pension plans. These plans would be similar to the current plans available, but with one critical exception: rather than operating in a "registered savings" environment, they would operate in a "tax-free savings" environment, with after-tax contributions during working years and pensions that do not count as income after retirement.

Introducing Workplace Tax-Free Pension Plans (TFPPs)

Workplace registered pension plans parallel registered retirement savings plans (RRSPs), in terms of their income tax treatment and senior social benefits calculations. Contributions are tax-deductible, and investments grow tax-free while they remain in the plan. When payments are made from the plan, however, they are taxable as ordinary income and count as income when calculating income-tested reductions to GIS benefits, as well as other provincial senior subsidies.

On the other hand, workplace Tax-Free Pension Plans (TFPPs) would operate in a "tax-free" environment like TFSAs. Contributions to TFPPs would be made using after-tax dollars and, therefore, would not receive a tax deduction. Once the money is in the plan, however, it would grow free of investment income tax, and withdrawals would not be taxed or added to taxable income. Since it wouldn't count as income, pension income from TFPPs would not be considered when determining eligibility for federal or provincial income-tested benefits, credits and subsidies.

A More Transparent and Consistent System

The issue at hand is not whether, or how much, Canadians of varying income backgrounds should be saving for retirement. Rather, this paper proposes the option to offer workplace pension plans that remove the current disincentives for lower and middle-income working Canadians.

By replacing the existing tax deferral with "pre-paid taxes" on contributions, TFPPs could do for workplace pensions what TFSAs did for individual savings. Although all Canadians benefit from TFSAs, TFSAs are

generally more effective savings tools than RRSPs for younger Canadians and/or those with modest annual income. The same would be true for TFPPs compared with current workplace registered pension plans.

TFPPs would also compliment the current registered pension system by providing more choice to suit a company's business objectives and workforce needs. TFPPs could become a valuable pension plan option for modest-income Canadians as it would deliver clearer and more consistent financial incentives across all workers, regardless of their income level.

When combined with a "rainy-day TFSA" to cover immediate financial needs, this pension plan innovation would address both the short- and long-term financial security of Canadian workers. Reducing a worker's financial vulnerability through short- and long-term savings also has positive implications on both physical and mental health.

Back to Our Roots

Implementing the proposed TFPP precisely embodies the objectives of the Canadian retirement savings system, as presented by major government reforms 30 years ago. Under these new plans:

"Canadians will have increased opportunities to save on a tax-assisted basis. The proposed system sets fairer, clearer and more consistent limits on tax assistance for retirement saving. It will provide Canadians with better opportunities to achieve income security in retirement…regardless of their employment situations or the nature of their savings arrangements."[5]

By improving the attractiveness of workplace plans, and offering better value to both workers and plan sponsors, TFPPs have the potential to raise pension coverage in Canada, and ultimately improve the retirement income adequacy of Canadians and empower employers while protecting the public purse.

Background and Context

Canadians are financially diverse – not just between one Canadian and the next, but also for each individual, from one year of life to the next. Canadians move between low- and high-income jobs over the course of their careers, marry spouses with different income levels, have varying housing costs, move between cheaper and more expensive communities, provide support to children and possibly parents, and so on. This diversity makes it very difficult to classify, in broad strokes, how much Canadians should be saving for retirement.

Having said that, Canada's working poor are often advised not to save for retirement, with the implication that it is not feasible and/or will not benefit them financially. For example, Shillington (2003) asserted that low-income individuals may well be "futile savers", since existing government pension and income support programs will likely provide them with income that is higher and more stable than they have enjoyed prior to retirement, and they will see little increase in their retirement income in return for their sacrifices while saving. In fact, because of senior social programs, such as Old Age Security (OAS) and the Guaranteed Income Supplement (GIS), Canada's lowest-income workers often experience an improvement in their living standards after they retire.[6] Overall, for workers who are "living hand-to-mouth" and need every dollar of their take-home pay, giving up wages for greater retirement savings is not in their best interests.

But between the working poor and Canada's high earners, there are many types of workers who could – and would like to – save for their financial future yet are not encouraged to do so within the current pension system. The workplace Tax-Free Pension Plan (TFPP), as outlined in this paper, is one promising solution to help employers better support these workers in saving for a secure retirement.

Caveat: The Canadian system of taxes and social benefits is complex, and financial planning decisions are best arrived at on an individual case basis, with a detailed cash-flow analysis to understand the full implications of alternative strategies. For the sake of brevity, therefore, this paper does not address the myriad complicating details and exceptions to more general statements on the Canadian tax and retirement income systems. A notable exclusion is the income test on OAS benefits that affects approximately the top 7% of Canadian seniors.[7] This "OAS recovery tax" raises the effective marginal tax rate for the highest-income seniors compared to workers earning equivalent income, thus creating a degree of financial penalty in saving for retirement. Although this certainly adds a layer of complexity for high-earning Canadians in their choices to save for retirement while maximizing their take-home income, this consideration is treated as outside the scope of this paper.

Between the working poor and Canada's high earners, there are many types of workers who could - and would like to save - yet are not encouraged to do so within the current Canadian workplace pension system

58% The proportion of employed Canadian nearing retirement not covered by a workplace pension plan.[8]

9x The greater likelihood of a high-income female worker, compared with a low-income female, to be covered by a traditional workplace pension plan.[9]

72% The proportion of Canadian employees who report having saved less than a quarter of what they feel they will need in retirement.[10]

$3,000 The median retirement savings of Canadian families who are nearing retirement without workplace pensions.[11]

What are the Issues?

Overview

- Canada's higher-paid workers are much more likely to be covered by a workplace pension plan than the rest of the workforce . There are several reasons for this, including the fact that the tax deferral on income underlying pension plans leads to financial rewards that are most attractive to higher earners, making workplace pension plans a cost-effective part of their compensation package.

- Not only are financial nudges less pronounced for the rest of Canadians, but there can even be financial penalties for less affluent workers for participating in workplace pension plans.

- There are a variety of reasons employers choose not to provide pension plans. Some employers determine the cost, administrative and governance burden is too high for them. Others recognize that, for their workers, having cash today is viewed as much more valuable than additional financial security in the future, and their business objectives may be better met by not offering a pension plan. But there are also employers who understand that providing a registered pension plan does not significantly benefit parts of their workforce due to the current Canadian senior social benefits and tax system, and there are no alternative tax-assisted programs that would reward their efforts to help these workers retire with greater financial security.

- Better options are needed to support employers' efforts to offer pension plans that help their entire workforce – benefiting not only workers, but also employers' business objectives. For example, financially secure employees are better positioned to meet their retirement goals and retire on time, which supports employers' succession planning needs.

Today's Challenges

Canada's current registered retirement savings system can pose disincentives for Canadians and their employers to save for retirement

The tax deferral on income – the cornerstone of registered retirement savings plans (RRSPs) and registered pension plans (RPPs) is intended to "encourage and assist Canadians to save for retirement." (See Box A). However, this tax deferral can create financial penalties for non-affluent workers participating in workplace pension plans due to the Canadian progressive tax system and the income test underlying seniors' social benefits.

When Canadians make an RRSP contribution, they deduct that amount from their taxable income. The investments inside the RRSP grow tax-free while they remain in the plan. When money is withdrawn directly from the RRSP – or from the registered retirement income fund (RRIF) or annuity to which the RRSP has been converted – it is taxable as ordinary income and triggers a reduction in GIS benefits ($0.50 for every dollar of taxable income), as well as reductions on other provincial income-tested subsidies.[12]

Workplace RPPs function much like RRSPs: contributions are tax-deductible (for both employers and employees), pension income is taxable – and, more important, the income reduces GIS and provincial income-tested subsidies.

Higher-earning Canadians have the most to gain from the registered savings system as it enables them to defer income while working to a time when they are likely in a lower marginal tax bracket (i.e., retirement).[13] In addition to the regular tax incentives within this structure to save for retirement, affluent Canadians often have better financial capacity to employ registered savings more generally so as to "time" receipt of their taxable income to minimize tax impacts.

The value of participating in a workplace pension plan for Canadians who are not high earners is less clear. For example, Canadians can be in a lower tax bracket before retirement and end up taking out the money at a higher marginal tax rate after retirement – so they could actually lose money by using the tax deduction associated with contributions prior to retirement.

There are also severe financial disincentives for the nearly one-third of Canadians who receive GIS and provincial top-ups. Due to the income test in GIS calculations, Canadians who are eligible for these benefits face an effective tax rate of 50% (or more).[14] Stacked on this are the clawbacks under provincial GIS supplements in the seven provinces that offer top-ups. In addition, provincial seniors' subsidies (such as home care support) further compound the penalty for saving in an RPP, since every dollar of registered pension income reduces eligibility for these income-tested benefits.[15]

The challenge is a longstanding one: the inherent trade-offs between fostering incentives for Canadians to save for retirement, and protecting seniors who are less well-off. And it leaves many Canadians (and the employers considering RPP contributions on their behalf) facing a perplexing result: forgoing government support and potentially paying higher taxes in exchange for private savings that reduce current living standards, with little improvement in the worker's overall financial status in retirement.

Why TFSAs Aren't the Full Solution

By replacing the tax deferral with "pre-paid taxes" on savings, the introduction of TFSAs has partly addressed the challenges of the current system,[16] but there are barriers that limit their effectiveness.

A TFSA is the mirror image of an RRSP, except the individual contributes after-tax dollars and therefore does not receive a tax deduction. But once the money is in the plan, not only does it grow free of investment income tax, but withdrawals are not taxed or added to taxable income. Since they don't count as income, TFSA withdrawals are not considered when determining eligibility for federal or provincial income-tested benefits, credits and subsidies.[17]

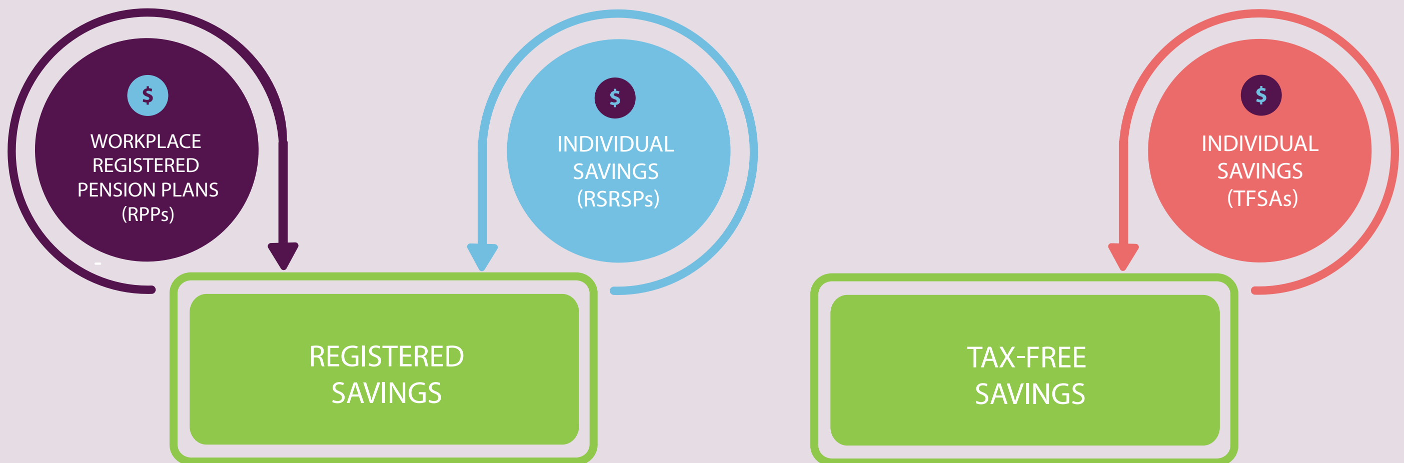
As a result, many Canadians - particularly those with modest income - are advised to save for retirement in a TFSA.[18] However, there are some practical barriers:

1. Canadians often feel they do not have the financial capacity to save, and if their savings are accessible (i.e., can be easily withdrawn), then they are unlikely to last long.

2. Employer-provided TFSAs are not widely considered a "retirement savings" vehicle – especially for workers who are not high earners and therefore more apt to tap into their savings to finance an unanticipated expense (e.g., a leaky roof).

3. Even when administered by employers, TFSAs (like RRSPs) are not pension plans and therefore do not fall under pension legislation. As discussed below, pension plans are best suited for retirement savings, with regulations offering advantages to both employees and employers.

Box A: Canada's Two Broad Categories of Tax-Assisted Savings Vehicles



Registered Retirement Savings

Otherwise known as tax-deferred savings, Registered Retirement Savings Plans (RRSPs) and workplace Registered Pension Plans (RPPs) exist "in order to encourage and assist Canadians to save for retirement. Contributions to these plans are deductible from income, investment income is not taxed as it accrues in the plan and withdrawals are included in income for tax purposes."[19]

Tax-Free Savings

Contributions to Tax-Free Savings Accounts (TFSAs) "are not deductible, but investment income earned in the account and amounts withdrawn are not included in income for tax purposes or taken into account in determining eligibility for federal income-tested benefits and credits."[20]

The Solution

Clear and Consistent Financial Incentives

Tax-free savings (which underlie TFSAs) provide a natural and practical basis to create a new type of workplace pension plan that equitably extends the financial incentives to save for retirement to workers across the earnings spectrum.

With this background, I propose a new class of workplace pension plans: the workplace Tax-Free Pension Plan (TFPP).

Rather than operating in a "registered savings" environment, this new class of pension plan would operate in a "tax-free savings" environment: after-tax contributions during working years would accumulate with no further taxes, and pensions would not count as income after retirement.

This key difference would provide clear and consistent financial incentives for Canadian workers across the earnings spectrum.

Why Not Just Group TFSAs?

Group TFSAs are not pension plans and therefore are not regulated by pension plan legislation. Regulated workplace pension plans come in many shapes and sizes but essentially fall into these basic categories: Defined Contribution (DC) Plans, Defined Benefit (DB) Plans, and Target Benefit Plans (TBPs).

Each pension plan type offers different advantages, but they share important features that support working Canadians in saving for retirement.

Workplace Pension Plans

Defined Contribution (DC) Plans: Workplace pension plans in which individual accounts are set up for participants, and benefits are based on amounts accumulated over working years (through employee and employer contributions) plus any investment earnings.

Defined Benefit (DB) Plans: Workplace pension plans in which the employee's pension payments are calculated according to a formula based on length of service and, in many cases, salary earned during working years (depending on the details of the plan design). Employers (and possibly employees) fund the cost of the promised pension benefits through annual contributions.

Target Benefit Plans (TBPs): Workplace pension plans that aim to provide a predictable benefit, based on predictable contributions.

Financial gains

Workplace pension plans can significantly improve the ability to turn savings accumulated while working into meaningful lifetime pensions, due to features like automatic savings, employer contributions, substantial fee reductions via economies of scale, potentially higher risk-adjusted investment returns, and possible pooling of longevity and other risks. These cost efficiencies are important for all Canadians but particularly those who are not high earners, since they have a higher relative need to reduce the "cost" of each dollar of pension.

Peace of mind

The financial security provided by workplace pension plans can enhance the mental well-being of Canada's seniors, as well as their family and friends.

The plan administrator has a fiduciary obligation to work in the member's best interests, which is valuable in the retirement planning space, since conflicts of interest may arise with sales representatives in the individual retail market. Members may also benefit from financial planning services and in-house retirement education sessions, along with other options and services, both before and after retirement.

From the employer's perspective, workplace pension plans offering more predictable, secure retirement income and can improve overall

Box B: How TFPPs Would Fit Into Canada's Tax-Assisted Retirement Savings Vehicles

workplace health and financial wellness, increasing employee engagement, loyalty and productivity.[21]

Realistic way to save

Nearly half of Canadians are living pay cheque to pay cheque.[22] When people are challenged to meet their current financial obligations, then taking the initiative to save for retirement – whether in TFSAs or elsewhere – often loses priority, leading to lost opportunities to save earlier with greater consistency.

Although workplace pension plan benefits come at a price (likely in the form of reduced wages), having an employer consistently save on a worker's behalf is still a more realistic and effective option to build additional retirement financial security for Canadians who want to save more. That is because behavioural economic biases show that people become accustomed to a certain level of take-home pay and adjust their lifestyle accordingly.[23] Having the employer automatically deduct savings for a workplace pension plan helps establish a person's "normative benchmark" lifestyle and can nudge him or her to plan the household budget accordingly. In other words, workplace plans can help people save while living within their means, making them an efficient and effective approach to building short- and long-term financial savings.

Locked-in savings
When an employer makes contributions to a pension plan, they are generally locked-in until the member turns age 55 – at which time, there are rules on how much can be withdrawn each year (depending on the plan type). Drawing on retirement savings is a temptation for everyone on account of the unexpected financial needs that inevitably arise.

If the goal is to achieve financial security in retirement, however, then "locking in" is valuable. Not only does it protect individuals, but employers are also much more motivated to contribute on employees' behalf, knowing it will help them meet their business and succession planning objectives of supporting a workforce with the financial capacity to retire.

Continued accrual while on disability
Entitlements for members of workplace pension plans often continue to accrue if the member is unable to work due to prolonged illness or serious injury. Disability has long-term impacts on finances in general – from both an income and an expense perspective – so, from the individual's perspective, this safeguard can be an attractive feature.

Protection from creditors
Workplace pension plan savings are exempt from creditors' claims in a bankruptcy situation and continue to be paid to the bankrupt individual.[24]

This protective provision benefits all Canadians; however, it is even more valuable for low- and moderate-income Canadians, since they are more likely to become financially overextended and then hit by an event that disrupts their income (which is often what leads to bankruptcy).[25] TFSAs, in contrast, are not exempt from creditors.

Workplace Tax-Free Pension Plans (TFPPs) would tap into all these benefits, within the structure of the current system. Just as RPPs fall into three types (DB, DC and TBP), each with corresponding legislation, so would TFPPs fall into the same three types, with mirrored legislation but in an after-tax savings model. In addition, just as RPP contributions will reduce a person's RRSP room, so would TFPP contributions reduce a person's TFSA room.

Additional Benefits of TFPPs

TFPPs would also offer other broader advantages, as follows.

Business objectives
TFPPs would help employers looking to attract and retain workers across the earnings spectrum, fostering stronger employee/employer connections and

achieving the benefits of a loyal workforce. Providing retirement income to seniors, and supporting their retirement readiness and financial well-being, is valuable for an employer's reputation – particularly those operating in small towns where they are a major employer or retailer.

Longer voluntary employment
With extended life expectancies and an aging population, longer workforce participation can be beneficial for both the worker (his/her wealth and potentially health) and the Canadian economy.[26] However, in the current system, low- to moderate-income Canadians face significant financial disincentives for working beyond age 65, due to the loss of GIS benefits.[27] This financial penalty is compounded when accruing RPP benefits, which would reduce future GIS benefits even further. TFPPs would help equitably reward all Canadians who work past age 65 through higher pension benefits that do not ultimately trigger even greater GIS clawbacks when the benefits are paid.

Better access to TFSA savings
The TFPP solution would also create a more accessible and equitable tax-free savings program. In the current system, individual RRSP contribution room is filled in two ways: through individual contributions and accrued workplace pension plan benefits. TFSA contribution room, however, can't be filled by accrued workplace pension plan benefits. As a type of pension plan, the TFPP would encourage employers to make use of TFSA room on behalf, and for the benefit of, less-affluent workers who are unlikely to use it.

A possible criticism of the TFPP is that it would further water down the efficacy of targeting the GIS. With some pensions being exempt from the GIS clawback but not others, we could end up with a system in which similar people with similar retirement income end up with very different GIS entitlements. This was a main criticism of the TFSA as well. On the other hand, if enabling TFPPs creates new savings among low earners, then the argument for TFPPs becomes even stronger.[28]

Opening the Door to Innovation

TFPPs would open the workplace pension plan world to more Canadians. Feedback from industry leaders suggests there would be meaningful uptake among employers who want more value from their pension plan offerings across the earnings distribution. As a standalone plan, or as a sister plan to an existing RPP, the TFPP would spur innovation across the retirement industry.

The most practical application would be an employer DC TFPP. Employees could benefit from a DC TFPP in the early years of their career and a DC RPP in their later years, when their income is higher. Consider, for example, a DC plan with both an RPP and a TFPP provision, where members could move between the two based on the income level/tax rate that works with their projected working and retirement income. At the end of their career, this solution would give them a pool of funds that is partially tax-free, and partially taxed when withdrawn – the best of both worlds.

Benefits of Adding a Rainy-Day TFSA

While people may want to save for retirement, the tendency is to spend what they earn – so, from the perspective of building greater financial security in retirement, automatic, locked-in savings are attractive. But even with disciplined spending, people experience financial shocks that require capital: the roof still needs fixing, and a savings withdrawal may be a better option than taking on more debt.

A valuable TFPP feature would be to include, therefore, a "rainy-day" account from which workers could withdraw limited amounts of money in emergencies.[29] Here's how it would work: the less an employee has in rainy-day savings, the more of his or her early contributions would go into the "rainy-day" account. As those savings build, over time, more of the total contributions would automatically be added to the locked-in retirement savings bucket.
The "rainy-day" TFSA account structure works nicely with the already-existing rule that TFSA room is restored when funds are withdrawn, giving members the flexibility to withdraw and re-contribute from one year to the next (unlike an RRSP account, in which lost contribution room is not restored).

Not only is having a savings buffer useful for emergency short-term needs, but it can also improve employees' mental health, just from knowing it's there if they need it. Research (and reason) establishes that the financial insecurity of not having a buffer can have negative consequences for both mental and physical health – not just for the poor, but for anyone facing the prospect of inadequate finances.[30]

By balancing the availability of liquid assets with protected, locked-in assets, pairing a TFPP with a rainy-day TFSA could help workers strike the right balance between short- and long-term financial needs.

Conclusion

With the considerable financial challenges facing Canadians today, we need better solutions for providing seniors with affordable, secure retirement income when they need it – without shifting the cost and risk burden to other working Canadians and our system of senior social supports.

Members of today's workforce need to plan for longer lives, in an environment of less secure retirement income from workplace pension plans, lower anticipated financial market returns, and higher projected costs for healthcare and caregiving support. Similarly, Canadian employers are operating in a volatile financial landscape, with evolving workplace expectations and practices. Within this shifting environment, pension plan sponsors are challenged to develop solutions that manage plan costs and risks, and ensure an orderly workforce transition, while also attracting, engaging and retaining employees.

TFSAs are gaining popularity, with nearly half of Canadians adopting them only a decade after their introduction (12.7 million from 27.2 tax-filers, as of the end of 2015).[31] TFPPs would help take advantage of this widespread savings vehicle to benefit more workers, including those at risk of becoming Canada's more vulnerable seniors in the future.

Further investigation and detailed analysis are needed to better define the implementation and regulation details of TFPPs, as well as the financial implications, including long-term fiscal impacts on income tax revenue and senior social benefit costs. Wider consultation with stakeholders and comprehensive modelling at the individual and population levels would help address some of these considerations.

With that in mind, TFPPs would encourage and enable many Canadians to benefit from the substantial advantages of workplace pension plans without the sub-par (or even punitive) financial aspects of the existing registered system, while also supporting employers in their desire to offer valuable and attractive pension plans that meet their business objectives.

Endnotes

[1] An earlier version of this report was submitted to the Consultations on Enhancing Retirement Security, Department of Innovation, Science and Economic Development Canada on December 21, 2018.

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[7] *Office of the Chief Actuary, 14th Actuarial Report on the Old Age Security Program as at 31 December 2015. (2015)*. Retrieved from http://www.osfi-bsif.gc.ca/Eng/Docs/oas14.pdf

[8] See Figure 4 in: Milligan, K., & Schirle, T., *Simulated Replacement Rates For CPP Reform Options*. (March 2014). Retrieved from https://www.tammyschirle.org/research/milligan-schirle-cpp-spp2014.pdf

[9] Drolet, M., & Morissette, R., *Insights on Canadian Society: New facts on pension coverage in Canada(Rep.)*. Statistics Canada. (2014). Retrieved from https://www150.statcan.gc.ca/n1/en/pub/75-006-x/2014001/article/14120-eng.pdf?st=Lr585YlU

[10] The Canadian Payroll Association, *2018 Survey of Employees*. (2018). Retrieved from https://payroll.ca/PDF/NPW/2018/Survey/180820-CPA-NPW-Survey-National-News-Release-FINAL.aspx

[11] Shillington, R., *An Analysis of the Economic Circumstances of Canadian Seniors (Rep.)*. Broadbent Institute. (2016). Retrieved from https://www.broadbentinstitute.ca/an_analysis_of_the_economic_circumstances_of_canadian_seniors

[12] This simplified explanation was adapted from: Chilton, D. B., *The wealthy barber returns: Significantly older and marginally wiser, Dave Chilton offers his unique perspectives on the world of money*. Financial Awareness, Kitchener, Ont. (2011).

[13] Please see earlier caveat the OAS clawback for high earners.

[14] For discussion see: Baldwin, Bob, and Richard Shillington, *Unfinished Business: Pension Reform in Canada*. IRPP. (2017). Retrieved from http://irpp.org/research-studies/study-no64/

As well as:
Chisholm, Diana, and Rob Brown. "Negative Effects of the Canadian GIS Clawback and Possible Mitigating Alternatives." *North American Actuarial Journal* 12, no. 4 (October 1, 2008): 372–83. https://doi.org/10.1080/10920277.2008.10597530

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[15] Provincial income-tested programs can include additional top-ups to GIS, tax credits for public transit and home renovations, as well as programs for drugs, dental, housing, home care and nursing home care.

[16] For a thorough review of the motivation behind the introduction of TFSAs in Canada, see Kesselman, Jonathan and Finn Poschmann, *A New Option for Retirement Savings: Tax-Prepaid Savings Plans*. C.D. Howe Institute Commentary 149. Toronto: C.D. Howe Institute. (February 2007). Retrieved from https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/kesselman_%26_poschmann2.pdf

[17]A third savings vehicle is non-registered savings. Although rarely discussed in the context of retirement savings, there are tax advantages. For example, the tax rate on Canadian dividends is negative in most parts of Canada for workers in lower tax brackets, which is even better than tax-free. Capital gains are taxed, but at a reduced rate and not until investments are sold. (Insights provided by Doug Chandler through personal correspondence).

[18] Stapleton, J. (n.d.). *Low Income Retirement Planning Four things to think about and maximizing GIS*. (2016). Retrieved from https://openpolicyontario.s3.amazonaws.com/uploads/2017/04/LowIncome-GIS-booklet-Final_web.pdf

[19] (Pg. 244). Finance Canada, *Report on Federal Tax Expenditures - Concepts, Estimates and Evaluations*. (2018). Retrieved from https://www.fin.gc.ca/taxexp-depfisc/2018/taxexp18-eng.asp

[20] (Pg. 268, ibid.).

[21] For discussion of evidence, see Dobson, Derek, *Can pension plans boost productivity?" Canadian HR Reporter*. (October 2017). Retrieved from https://www.hrreporter.com/compensation-and-benefits/34990-can-pension-plans-boost-productivity/

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[22] The Canadian Payroll Association, *2018 Survey of Employees*. (2018). Retrieved from https://payroll.ca/PDF/NPW/2018/Survey/180820-CPA-NPW-Survey-National-News-Release-FINAL.aspx

[23] Beshears, J., Choi, J. J., Iwry, J. M., John, D. C., Laibson, D., & Madrian, B. C., *Building Emergency Savings Through Employer-Sponsored Rainy Day Savings Accounts*. (October 2017). Retrieved from https://scholar.harvard.edu/files/laibson/files/2017-10-25_rainy_day_paper_final_2.pdf

[24] It should be noted, however, the challenges associated with protecting pension plan assets on employer bankruptcy, as exhibited by the Sears pension plan experience. The recently released 2019 Federal Budget announced a series of upcoming measures designed to enhance this protection.

[25] Statistics Canada, *How does personal bankruptcy affect retirement plans?* (March 2011). Retrieved from https://www150.statcan.gc.ca/n1/pub/11-008-x/2011001/article/11431-eng.htm#n14

[26] Butrica, Barbara, *Making a Case for Working Longer at Older Ages*. Public Policy & Aging Report , Volume 21, Issue 2. (Spring 2011).

[27] The recently released 2019 Federal Budget included valuable changes to improve this strong disincentive by moving the full exemption from $3,500 to $5,000, and creating a partial 50% exemption for on up to $10,000 of income beyond the new $5,000 threshold.

For discussion see:
Laurin, A., Milligan, K., & Schirle, T., *Comparing Nest Eggs: How CPP Reform Affects Retirement Choices*. C.D. Howe Institute, Commentary (352). Retrieved from https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Commentary_352_0.pdf

[28] This insight was provided by Kevin Milligan through personal correspondence.

29 Beshears et al, 2017.

30 Rohde, Nick., Rao, Prasada., Osberg, Lars., Tang, K.K., *Is It Vulnerability or Economic Insecurity that matters for Health?* Journal of Economic Behavior & Organization 134. (2017).

31 Finance Canada. (2018).

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