



RBC Wealth Management

Securing Our Future: How Canada's Retirement System Can Be a Role Model

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Check Against Delivery

I want to begin my remarks by talking about something different than finances. I'd like to talk about hurricanes.

It can be argued that meteorologists and bankers have a lot in common.

We both face storms. We both know the importance of being prepared. And we both operate in environments with a significant number of knowns, known unknowns, and that really challenging category, of unknown unknowns.

And, from the very beginning meteorologists have struggled to really understand storms. How do they start? Why do they choose one path instead of another? And why does one storm fade away while another one gathers force to become a destructive hurricane?

For bankers it is much the same because in some ways trying to understand the economy is like trying to predict the weather. Both challenges are enormously complex. Daily outcomes are impacted by variables from around the world. And while we know a lot about the science of each, unexpected events can tip matters beyond our control or even our immediate understanding.

A big storm can escalate into a hurricane through sudden shifts in wind and pressure just as an economy can tumble into recession when a bubble bursts because of financial vulnerability.

That is why it's important that meteorologists and bankers understand the importance of managing risks during periods of calm when the weather is clear and the economy is sound, so we turn financial firewalls into seawalls to meet challenges before the worst arrives if unavoidable, or avoid the path of the storm all together.

Now Canada's economy is in a strong position. We were better prepared for and have recovered well from the global recession of 2008/2009. We are in many ways the envy of the world - certainly right now by our peers in Europe and the United States.

Canada was better prepared for the downturn and as a result we had a better recovery.

Canada managed the financial storm of 2008 better than others because we anticipated risks and acted proactively with public policy foresight, responsible oversight of our financial industry, and better decisions and performance by financial service providers and our clients than was the case in other countries.

So we have much to be proud of but we cannot rest on our laurels because a new, longer-term global storm is gathering in the shape of under funded retirement obligations around for millions of people in the developed world.

Again, Canada is in a much better position on this issue than many other countries. We have a relatively robust savings and pension regime. We have been ahead of the curve on retirement planning for nearly two decades. And we have identified and filled many gaps in our retirement system.

But our work is not done and we need to act to shore up our defenses and complete this project before this new storm fully arrives.

Now, I have used the storm analogy to describe the challenge in front of us because it really illustrates clearly the risks of complacency and what we must do today to secure a sound financial tomorrow for all Canadians.

No one knows exactly what happens in the cradle of a hurricane but we do know that often the smallest of factors can act as a catalyst to a storm that builds in intensity as it crosses the Atlantic and crashes ashore in North America.

We cannot control every aspect of our environment, but we do know that managing known risks - managing known risks - is the best way to prevent poor outcomes.

Consider the destruction of the City of Galveston, Texas back on September 8, 1900. Galveston - for those of you who are students of history - was the jewel of the Texas coast and a potential gateway city for the southern United States to the world. The city was on an island surrounded by the Gulf of Mexico. It was dynamic. It was beautiful.

The City had plans to build a protective seawall around the island but deferred them in the belief that what had always been, would always be. But all that changed one morning when the winds gathered force, the tides rose and a huge storm swept the city and its spectacular future into the sea.

So, a risk management plan that ignored an emerging threat led to the destruction of Galveston's economic power. A similar risk is at large today in a world where many countries are unprepared to meet their demographics future in the form of the retirement needs of an aging population.

The current shift of the Baby Boomer bulge from work to retirement presents a huge challenge to the world's policy makers and the world needs to build its own financial seawall - a retirement seawall -- to manage this issue.

It's been a century since Galveston had its reckoning with fate but all of us here are keenly aware what a financial storm can do and the long road to recovery after.

The world financial crisis triggered in 2008 demonstrated clearly that reversals come suddenly and those left standing will be those who were the best prepared. In Canada our prudent approach to financial management protected us from the worst.

Canadian financial institutions came through the financial storm extremely well.

There were no bailouts, no bank failures and we continued to lend to Canadian businesses and consumers throughout the crisis. We continued to manage clients' investment portfolios and provide advice to focus on long-term returns and objectives, rather than short-term fear.

As a result there was actually a relatively low rate of client redemptions, especially relative to the tech bubble of 2000, and importantly, clients participated in the subsequent increase in the value of their investment portfolios by staying invested as markets recovered.

In fact, over the past few years the stature of Canadian banks has risen to a position of leadership in the Western world. In 2012 the World Economic Forum recognized Canada's financial services sector for the fifth year in a row as the safest and soundest in the world.

The good news is our good fortune is not a matter of luck but the result of good planning, strong oversight, solid well-managed banks and wise decisions by our clients. As a result, our economy is sound.

That's the good news.

The less good news is that when lightning struck during the global financial storm it illuminated a financial landscape that raised troubling questions about our ability to weather the next storm that is quickly emerging driven by demographics.

The silver lining in all this, however, is we know what needs to be done.

Canada has a solid head start in building its own retirement seawall to prepare for the coming surge in entitlements and obligations. Our seawall is thick and has a solid foundation but it is not quite high enough yet to meet our future needs... and that must be addressed now.

So what did we see when the lightning struck in 2008?

We saw that critical key indicators did not line up properly to permit Canadians to treat retirement planning the same way as their parents and their parents' parents did.

The days are gone when family breadwinners could expect to work for one employer throughout their entire career, retire on generous defined benefit pensions provided by that employer, with the comfort of knowing that expenses in their golden years would be securely funded by the deep pockets of government.

The new reality is a self-directed career with multiple employers, personal responsibility to save adequately for retirement and future living expenses in an extended retirement period with less and less provided by government.

So the first critical key indicator we need to be aware of is demographics. The Baby Boomer bulge that has defined so many cultural and political milestones in our lives is now about to really redefine retirement in a big way.

Look at the numbers.

Statistics Canada reports the number of people aged 65 and older doubled between 1981 and 2009 and will double again by 2036. The average 65 year old will live to age 84 and there is a 40 per cent chance for married couples of that age that one spouse will survive into their '90s.

In the next 10 years 4.4 million Canadians will graduate into retirement, and 5.4 million more will retire in the decade that follows. That means an average of 1,200 new retirees... every day... for the next 20 years.

And furthermore, Canadians can expect to live 20 to 30 years or more in retirement.

Sounds wonderful, but it should also be no surprise that many Canadians believe living longer is their No. 1 financial risk. They know they are not saving enough to retire at 65 and there is a real risk that many will outlive their savings. But more concerning, and the principal target really for any enhanced retirement system, is the relatively lower savings rate and use of existing retirement vehicles by young and middle-aged Canadians.

RBC's Canadian Consumer Outlook Index found in 2012 that 37 per cent of Canadians are worried they won't have enough money saved to be financially secure in retirement. The solution for many will be to keep working, so it is no surprise that 26 per cent of Canadians believe they will have to work past normal retirement age to make enough money to live.

Our RBC RRSP poll in 2011 determined that only half -- about 51 per cent -- of Canadians believe they are on target or ahead of where they need to be in terms of retirement savings. And that is lower than the level before the economic downturn in 2008 when almost two-thirds -- 63 per cent -- felt secure about their retirement savings.

Importantly the poll also found that Canadians aged 18-34 actually trail Baby Boomers in RRSP ownership and contribution rates with only 43 per cent of young people holding RRSPs compared to 69 per cent of older Canadians, so there is an urgent need to encourage and empower younger Canadians to start saving.

Now Canada is not Galveston without a seawall to provide protection from the storm.

We have a retirement seawall in place - but we need to enhance it - by giving Canadians the tools they require to fill the savings gap and build the wall higher.

The Canadian retirement seawall has four key layers of bricks - or levels -- that make up the wall:

First and foremost level One is the Old Age Security program including the Guaranteed Income Supplement -- a means tested program financed out of general tax revenues.

Level Two is the Canada Pension Plan, or the QPP in Quebec, a universal savings program with compulsory contributions by workers and employers.

Level Three is composed of workplace savings plans such as defined benefit or defined contribution plans.

And finally, level Four is private individual savings through tax-assisted vehicles like RRSPs and Tax-Free Savings Accounts and other non-registered savings such as personal investments and inheritances.

The Old Age Security and CPP are the responsibility of government and we are fortunate that the Canadian government has been farsighted and proactive in addressing its role in building our retirement seawall.

However, the first level of that wall -- Old Age Security -- already represents the federal government's largest single expenditure. In the coming years the cost of OAS will increase from \$36 billion dollars a year today to a peak of \$142 billion a year in 2036.

So the next 25 years will create considerable stress on OAS. And the federal government is actively looking at solutions to ease the pressure. There is work to be done to strengthen Old Age Security, but that is ultimately already underway.

In 1997 the federal government raised CPP contribution rates to meet the challenge of paying a pension when there are fewer Canadians paying into the fund. It was a really forward thinking decision at the time - one that other governments didn't follow - as the number of Canadians receiving retirement benefits from the government will more than double between 2003 and 2030.

Now, David Denison and his team of professional managers at CPP have done a great job building and managing the fund and we have every confidence that distinguished track record will continue under the new leadership of Mark Wiseman.

The CPP is solid and sound, but layering additional responsibilities on what is already a large load on the retirement seawall is not the right answer.

Contrast Canada with the United States where needed changes to Social Security and other entitlement programs are held hostage to ongoing political gridlock. Our country - with respect to other government programs - looks like an oasis of responsible and enlightened policy.

Canada is in better shape but government pensions are only part of the picture.

The third and fourth levels of our retirement seawall need attention.

Pressure is building in the private sector over the sustainability of traditional workplace pension plans.

Interestingly, a recent study by the Canadian Institute of Actuaries estimates that 11 million Canadians have no access to a workplace pension plan. Furthermore, the percentage of employees with workplace pension plans has actually declined from 41 per cent to 34 per cent from 1991 to 2007.

In the latest figures from the Office of the Chief Actuary the number of Canadians enrolled in a workplace pension plan declined further from 34 per cent to 32 per cent by 2010. In the case of private sector workers, the decline is even more severe from just 28 per cent with an RPP in 2000 to 24 per cent in 2010.

It is critical we act now to stop this slide and rebuild participation in workplace Registered Pension Plans, through the introduction in all provinces of a Pooled Registered Pension Plan or "PRPP". More on this later, but we need to first reflect on the successes and challenges of the voluntary individual retirement plan pillar to determine if the workplace pillar is required.

The introduction of RRSPs in 1957 - yes, 1957 - was the first big step in providing Canadians with investment tools to prepare for their retirement and our current situation would be so much the worse without them.

RRSPs are a wonderful tool but they are voluntary in nature and require people to take positive action to save for retirement. Now the program is a success, driven in part, by the provision of financial advice by the private sector that has encouraged savings and broadened access to long-term investment solutions. Many Canadians - I mentioned 69 per cent of older Canadians - have effectively used RRSPs to save and invest for their retirement, and then effectively used the companion vehicle of a Retirement Income Fund or "RIF" to fund their retirement lifestyles.

But RRSPs alone, in our view, are not the solution, principally because they are underutilized and their utilization is declining. Again, latest figures from the Office of the Chief Actuary show that the number of Canadians who contributed to their RRSP has decreased from 29 per cent in 2000 to 24 per cent in 2010.

That is why we support the initiative of the federal government to develop a new pension reform and retirement savings instrument called Pooled Registered Pension Plans or PRPPs. Bill C-25 which was created especially to help middle income Canadians save for retirement received Royal Assent and will soon be enacted into law.

We believe PRPPs are an essential new tool that can help employers and individuals partner together to meet retirement goals and we applaud the federal government for its leadership on this issue.

PRPPs are designed to help Canadians who do not have access to an existing workplace pension plan save for their retirement. They allow employees (and employers if they choose) to contribute to a pooled pension fund administered by a private sector financial institution. It is an important evolution of RRSPs and RPPs and a very welcome new layer needed to strengthen and raise the third and fourth levels of the retirement seawall.

A Pooled Registered Pension Plan is designed to provide a workplace savings vehicle with contributions flowing automatically into a locked-in RRSP.

With PRPPs, employees may be automatically enrolled in the savings plan and assigned a default contribution rate by the financial institution administering the plan. The advantage of PRPPs over RRSPs is the investment is automatically taken off the top before an employee receives their pay. The asset mix will evolve over time in agreement with the employee based on a limited number of low-cost portfolio investment solutions, and contributions are locked in until retirement.

Now employees will have the ability to "opt-out" but studies show that once an individual is enrolled in a program and forms that savings habit, they make adjustments in their lifestyle and stick with the plan.

The bottom line is any new tool that helps Canadians build their retirement nest eggs through convenient and systematic savings through payroll deductions can have a powerful impact on the eventual levels of retirement income and importantly, the overall strength and stability of our economy and society in Canada.

The decision to save for retirement needs to be simplified by providing workplace plans that are portable, low cost, easy to manage and most importantly make saving the favoured option the easy option unless an individual chooses clearly not to save.

And PRPPs deliver on this strategic imperative.

The presence of PRPPs in the workplace imply that saving is good, that we have a shared commitment to each other to encourage saving and a personal responsibility to contribute to a secure future for our families and ourselves.

There are two opportunities implicit in the federal strategy for PRPPs, one for us as financial institutions and one for us as business owners:

The government is looking to financial institutions to create a low-cost investment vehicle and leverage our relationships with business owners to inform, market and provide this new service.

Business owners can participate in a PRPP and then choose a financial partner to provide it.

Importantly, the operating environment envisioned by Bill C-25 makes it clear employers have few obligations under the PRPP program and the administrative and fiduciary obligations will be borne by the plan administrators - financial institutions that have the experience in managing these risks and delivering world-class investment solutions. So PRPPs offer an easy and effective way for employers to enable employees to provide for their retirement.

But three key factors need to be in place for PRPPs to be successful:

Regulations need to impose few costs;

The legislation and regulatory regime needs to be harmonized across all the provinces;

And, employers and employees need to get behind this program.

The federal government is clearly headed down this path with the introduction of Bill C-25 and actually, the Quebec government had joined the road forward with the creation of new VRSPs - another acronym that simply means Voluntary Registered Savings Plans - similar to the PRPP model. But the legislation died when the recent election was called in that province. We do not know at this point what the new Quebec government's intentions are with the VRSP concept but we hope they will move forward as it was on the leading edge of efforts in this regard. Importantly, the VRSP included a provision for automatic enrolment and portability, two key features that are important to enable a low-cost investment solution.

But the big question is how many provinces will join in. Ontario did not act on the opportunity to mandate PRPPs in its 2012 budget and eight other provinces are yet to state their intention.

So as we get closer to decision time on the PRPP opportunity we are seeing the emergence of a healthy debate about the focus on PRPPs in the context of other options. RBC clearly is supportive of the government's efforts to deliver a low-cost investment solution to participants and for our part, a zero-cost solution to employers under a PRPP. As Canada's largest private sector asset manager and largest commercial banker, we are conscious of our ability and responsibility to make this program a policy and practical success for Canadian governments and Canadians.

So there are four levels in our retirement seawall.

They are interconnected as essential building blocks for the future security of Canadians. The Canada Pension Plan is strong and the federal government is strengthening Old Age Security. Workplace and individual savings plans are areas for improvement. They must be addressed and we believe PRPPs are the solution.

PRPPs will provide Canada with a balanced, diversified approach that does not put all of our retirement eggs into the CPP and OAS basket;

PRPPs make it easier for individuals to take control over their financial futures at the place they work where defined benefit plans may no longer be available;

PRPPs can be effectively administered and marketed by the world's leading financial industry - Canada's. So why not leverage a well-performing, well-respected private sector recognized around the world?

We hope the provinces support this important national priority and pass legislation enabling PRPPs as another vehicle to enhance retirement savings strategies across Canada.

The need to introduce these plans as an essential and immediate step required to strengthen our retirement plans.

We are world leaders among nations in identifying issues and solutions required to provide a sound and secure retirement system for our citizens.

But we can and need to do more.

Now it's interesting that Canada's international "Brand" has evolved over recent years to increasingly incorporate the attributes of a strong financial services sector and responsible forward thinking public policy.

Canada's image on the world stage has grown considerably in recent years and our actions in specific aspects of economic policy are considered by many non-Canadians to be a role model for other nations.

We work together in the public, private and personal sectors to solve problems.

Our heritage and our geography have by necessity made us more collaborative as people. We are a large country with a small population. We have always had to work hard to keep it together, protect it from threats and keep it sound. Collaboration is part of our character and an attribute in our international identity.

The road forward to secure the Canadian retirement system will require the same engagement by all three stakeholders in this issue - public, private and personal - to embrace new responsibilities to meet the challenge.

Governments need to remain farsighted in policy decisions, the private sector needs to provide access to new investment tools for employees and individual Canadians need to start saving more.

And Canadians want to do their part.

Earlier this year in our Consumer Outlook poll, we asked Canadians "who is primarily responsible for ensuring your financial security in retirement?" and the answer was: we are. Fifty-nine per cent of Canadians said the responsibility belonged to the individual with 19 per cent saying it was government and 10 per cent saying it was their employer.

The fact is all three have a role to play and the immediate opportunity for all of us is to get together as partners in building our retirement seawall is the introduction and implementation of PRPPs as the single most important addition and solution to Canada's retirement savings shortfall.

Employers can lead by making their support clear.

A PRPP is far easier to manage and administer than a defined benefit or defined contribution plan and can provide employers with flexibility to determine if they would like to contribute to their employees' plans as part of an overall compensation package. That's simply enabling access to a portable, workplace pension plan will be an important contribution by employers, one that RBC is prepared to enable, in turn, at zero financial cost to employers of all sizes.

Employers need to join together with the federal government and the financial industry to encourage the provinces to act by stepping up to the challenge and enacting enabling legislation across the country.

We're fortunate to have a strong financial industry with many credible players who are prepared and capable to work with governments at the federal and provincial level to implement a solid PRPP program across the country.

We have been a world leader in retirement planning. We have always been one step ahead of the curve. It's time for each of us - policy makers, providers and businesses - to do our part to help Canadians keep it that way.

Thanks very much for your attention this morning.