INVESTMENT INDUSTRY ASSOCIATION OF CANADA

Letter from the President

Remarks to the Roundtable on the Canadian Retirement System

St. John's, Newfoundland and Labrador – April 7, 2010

It is a pleasure to participate in this roundtable on the retirement savings system here in St. John's this afternoon. My name is Ian Russell and I am President and CEO of the Investment Industry Association of Canada, the national association that represents the interests of more than 200 Canadian investment dealers serving investors, corporations and governments across the country. The Canadian securities industry is integral to the savings-investment process, providing financial advice to Canadians to help them build savings and facilitate investment and retirement decisions.

How well Canadians build their savings today will determine the standard of living for a large segment of the Canadian public in the future.

Canadians' Retirement Savings: In Better Shape Than We Thought

We applaud the Federal government initiative to engage in cross-country consultations on this subject, to obtain input from stakeholders on policy ideas that can improve the effectiveness of our retirement savings system. This policy focus was triggered a little more than a year ago, mainly in response to the financial crisis in 2008. In retrospect, we have seen stability return to global and domestic markets and significant recovery in financial asset values. Further, recent research on the retirement savings system has indicated that Canadians' retirement savings are generally in good shape and concerns about a crisis in the system were overstated.

The IIAC agrees with the Mintz Report that the three pillars of the retirement system – the OAS and GIS pension programs funded by government, the compulsory CPP/QPP and the voluntary tax-assisted retirement programs including RRSPs and RRIFs – have performed well in terms of meeting retirement savings objectives, particularly compared to international norms. Studies demonstrate that, on average, retirees require 60 to 70% of income replacement through their retirement years. It is estimated that 70% of Canadian households achieve 100% of replacement income at retirement and 78% of these households achieve 90% of replacement income. We also know the CPP/QPP and supplemental programs provide many low-income Canadians with roughly the same income as before retirement.

The Voluntary System: Lots of Choice in Advisors and Brokers

I want to focus my comments this afternoon on the voluntary system, that component of the retirement system where the Canadian securities industry plays a leading and effective role. It is important to recognize that the voluntary tax-assisted retirement system is an integral part of the markets and the private-sector wealth management business in Canada. These markets and businesses catering to individual Canadians are highly competitive. Competition has stimulated a wide range of investment products. That includes the full range of stocks, bonds, ETFs, mutual funds, segregated funds, wrap products and other structural and derivative investments, offered at competitive prices; a wide array of professional financial advice to serve individual Canadians; and a spectrum of different investment mechanisms, ranging from traditional advisory brokerage, discretionary money management to discount or "do it yourself" brokerage.

The Canadian securities industry has about 200 registered IIROC (Investment Industry Regulatory

Organization of Canada) investment dealers and nearly 13,000 registered investment advisors to meet the retirement objectives of individual Canadians. These dealers and advisors operate through the offices and branches of nine national full service retail dealers, and the offices of about 140 smaller independent firms located across the country. The securities industry holds about $900 billion in client assets, which includes over $200 billion in RRSP assets.

These investment dealer registrants in the securities industry are complemented in the wealth management marketplace by registered mutual fund dealers, including the subsidiaries of banks and independent firms distributing a wide array of indexed and actively managed mutual fund products, many independent registered investment counsels and portfolio managers offering discretionary management services, and the chartered banks and insurance companies that offer insurance products, annuities and segregated funds.

Financial Advice and Mutual Funds

But we must improve the financial literacy of individual Canadians of all ages so they have the knowledge to navigate it and take full advantage of those opportunities.

First and foremost, Canadians must understand the importance of building retirement savings to supplement existing pension benefits. And they must gain that understanding in their early working years. Ultimately, how big an individual's portfolio will grow depends on how much they put into it in the first place. Saving for retirement may be the last thing on a young person's mind. But it will be their top priority when their working years draw to a close, and the only way to ensure a secure retirement is by starting early.

Second, Canadians need to recognize the value of financial advice from qualified regulated advisors in helping to make decisions. When you are concerned about your physical health you see a doctor. When you have a legal problem you see a lawyer. Decisions about how to maximize your retirement nest egg are just as complex and require professional advice.

Third, Canadians need sufficient knowledge to understand the advice that is offered to them, and to recognize egregious investment scams and Ponzi schemes. They have to know the questions to ask, and how to evaluate the answers and the advice they get.

Fourth, nearly all scandals and financial losses have occurred outside the regulated markets. We recommend Canadian investors deal with an IIROC-registered firm and registered investment advisors to ensure proper standards of proficiency and professionalism. The IIROC registered broker has the professional responsibility to deal honestly, fairly and in good faith with the client, to carry out the "know-your-client rule" and suitability obligations and to manage conflicts effectively. An IIROC advisor can bring the full breadth of market experience to bear out financial obligations, and can advise and execute transactions across the full line of investment products, including stocks, bonds, ETFs, mutual funds, and discretionary money management. IIROC advisors and their firms are subject to strict standards of regulation and supervisory oversight within the firm, ongoing oversight of the registered firm and broker by the self-regulator, custody rules for the safekeeping of client assets and protection of these assets from firm bankruptcy.

Need to Achieve Maximum Returns in a Mini-Recovery

Good advice will also help investors understand financial statements to avoid misconceptions and misunderstandings. Let me give you an example. Dividends earned on mutual funds are reinvested in these funds and shown as restated higher book values, sometimes leaving the perception that returns are less than they actually are. Investors need to understand that. Further, advice is important to make decisions on the purchase of individual stocks and bonds, as well as the portfolio allocation of these assets in a way that is consistent with the investment objectives and risk profile of the client.

Investment funds are an example of the importance of financial advice. There are more than 12,000 actively managed and indexed mutual funds in the Canadian marketplace. Proper financial advice is needed to purchase actively managed funds. Investors need to ensure they select those funds that meet their portfolio allocation requirements and demonstrate consistency of performance based on sophisticated trading data. The marketplace for indexed funds has become intensely competitive, reflecting the proliferation of ETF traded shares (with the ETF representing a particular basket of shares).

A Secure Safety Net and Sound Regulation

Above and beyond the importance of ensuring investor obtain quality advice, governments have a responsibility to strengthen the caliber of the retirement savings system. The first priority must be to ensure that the social safety net remains in place for retiring Canadians.

Health care is especially important. The adequacy of retirement income for Canadians is premised on continued access to affordable health care. Further, the federal government should improve access to tax-assisted retirement programs to boost retirement savings and eliminate the wide disparity between private-sector retirement plans and public-sector defined benefit plans. Finally, governments should improve regulatory efficiencies in capital markets. In this regard, governments must continue efforts to build a single regulator for Canadian capital markets.

Conclusion: Improve, Don't Overhaul

Based on recent analysis, Canada's retirement system is not in crisis. It stands up well in international comparisons. But no system is perfect. Our retirement system can and must be improved, particularly strengthening the financial literacy of Canadians. The security and growth of their retirement portfolio depends on the quality of important investment decisions and the adequacy of support for tax-assisted retirement savings programs. The evidence suggests the retirement savings systems in Canada needs important improvements, not a major structural overhaul.

Yours sincerely,

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