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January 31, 2018

Delivered By Email: bill.morneau@canada.ca,

The Honourable Bill Morneau, MP
Minister of Finance
90 Elgin
Ottawa, Ontario K1A 0G5
Canada

Dear Minister:

RE: Pre-Budget Consultations – 2018 Federal Budget

The Investment Funds Institute of Canada is the voice of Canada's investment funds industry. IFIC brings together 150 organizations, including mutual fund and ETF fund managers, distributors and industry service organizations, to foster a strong, stable investment sector where investors can realize their financial goals. By connecting Canada's savers to Canada's economy, our industry contributes significantly to Canadian economic growth and job creation. Total assets under management (AUM) for IFIC members at the end of December 2017 were $1.48 trillion.

This letter suggests measures for inclusion in the 2018/2019 federal budget to increase the ability of Canadians to contribute to the country's economic growth and to grow their economic potential.

1. Helping those with Disabilities Increase their Financial Security

Eligibility for the Registered Disability Savings Plan (RDSP) program is limited to a small portion of the population - an estimated 2 million people. However, based on statistics from Employment and Social Development Canada, only 123,020 RDSP contracts were opened from the inception of the program to the end of 2015. The low take-up rate can be attributed, in part, to the program's complexity; it is easily the most complex of the existing registered programs to explain to clients and to administer.

We recommend that the government work with the provinces, industry and other stakeholders to identify and eliminate some of these complexities. Some solutions we have identified include:

- Develop a link or document that an eligible beneficiary can present to his/her issuer of choice in order to confirm Disability Tax Credit eligibility.
- Improve communication with account holders regarding eligibility expiration dates.
- Clarify rules on contractual competency and expand the list of qualified family members who can act as account holders.

- Simplify withholding tax provisions so that issuers can set up standard payment schedules for beneficiaries.
- Permit more flexible and straightforward approaches to RDSP pay-outs
- Reduce the number of conditions required to administer a Specified Disability Savings Plan contract (for those who are medically determined to have a shortened life span)
- Remove the one account per beneficiary limitation to encourage access to the RDSP program.
- Increase awareness through collaboration with provincial governments and other stakeholders

An additional deterrent to the use of RDSPs is that funds contributed by family members and other third parties can be seized by a trustee in bankruptcy proceeding against the beneficiary.

As we indicated in our letter of January 5, 2018, we are requesting the same protection for RDSP beneficiaries that already exists for other registered plans. Government legislation provides annuitants of registered retirement savings plans and registered retirement income funds with creditor protection. We ask that the government amend the Canada Disability Savings Regulations to provide creditor protection for government contributions to an RDSP.

2. Increasing Education Savings

Canada's future economic growth will depend on a well-educated workforce. We recommend steps to improve awareness of available programs to pay for post-secondary education as well as improvements to several aspects of those programs.

Eliminate outdated rules

Outdated rules may create disincentives for some Canadians to opening an RESP. We recommend the following rules be removed:

- Eliminate the "16/17 year old rule" which limits Canada Education Savings Grants for some older teenagers. All children under the age of 18 should be eligible for all incentives.
- Eliminate yearly maximums for CESG. Families should be able to contribute up to the lifetime limit at any time before the child turns 18 and receive fully matched Canada Education Savings Grants.
- Remove the requirement for paper-based verification of student enrolment. Education Assistance Plan withdrawals should be permitted based on a request by the client. The validity of the request can be verified by matching the T4A for the withdrawal with the matching T2220A (tuition tax receipt) for that student.
- Remove the EAP Limit. Simplify and streamline the Education Assistance Plan by abolishing limits, such as the first 13 weeks rule that limits the amount of the payment during that period to $5000.00, and the formula for part-time studies.

Increase the RESP Contribution Limit and CESG Maximum

The RESP contribution limit and Canada Education Savings Grant limit have not been increased since their inception in 1998. By comparison, average tuition fees in Canada have risen from $1,464 in 1990-91 to $6,348 in 2012-13. The Canada Education Savings Grant lifetime grant maximum should be increased to $9000. Correspondingly, the $500 annual limit on the matching Canada Education Savings Grant will need to be revised.

3. Supporting Fair Tax Policy for Canada's Savers

Tax Deferred Retirement Savings

We support the recent recommendations contained in the November 2017 C.D. Howe Institute paper *"Rethinking Limits on Tax-Deferred Retirement Savings in Canada"*. The paper presents a very clear analysis and compelling case that urgent action is needed to address inadequacies in Canada's retirement savings tax deferral rules. As the paper notes, the assumptions behind the current Factor of Nine basis for determining tax-deferred limits are woefully out of date and have undermined the original policy objective of creating fairness across different retirement savings vehicles. Specifically, we ask that the government:

- Recommit to a clear public policy objective of fairness for Canadians saving for retirement
- Update the assumptions underlying the Factor of Nine to reflect current economic and demographic realities and commit to annual reviews
- Using the updated assumptions, immediately raise the current annual tax-deferred savings limit from the current 18%
- Refine the factors so that they escalate with age and/or reflect differences in pension plan design
- Recognize that set annual tax-deferral limits do not reflect the realities of individual savings patterns. Establish an inflation-indexed lifetime tax-deferred savings limit that will permit all savers to achieve pension wealth equal to that of participants in relatively comprehensive defined-benefit plans.

Tax Free Savings Accounts

Tax Free Savings Accounts (TFSAs) are an important alternative and adjunct to tax-deferred retirement savings plans for several demographic groups. Many older Canadians are choosing to work past the age of 71 in order to build additional savings to support today's extended lifespans. Young Canadian families in lower tax brackets may not benefit from the tax-deferral provisions of RRSPs. For these Canadians, the TFSA is a more advantageous savings vehicle. However, as with tax-deferred plans, the limits on TFSAs have not kept pace with the needs of the population. This is because the formula used to determine increases is based on the CPI rather than factors relevant to savings. As a result, 2018 TFSA limits did not increase over 2017 levels.

IFIC recommends that the federal government phase in an increase in the annual TFSA contribution limit over the next two years to bring it back up to ten thousand dollars. We also recommend that the formula for determining annual increases in TFSA limits not be based on CPI alone, but include assumptions relevant to savings, e.g. interest rates, average investment returns.

We would be pleased to provide additional details on any of the above recommendations.

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA

By: Paul C. Bourque, Q.C.
President & CEO