pre-retirement earnings is generally considered to be enough to avoid serious disruption of living standards.

The present system of limits on tax-assisted savings is not well structured to help Canadians build target pensions. It provides widely different savings limits for individuals in different employment situations; it provides few opportunities for individuals to make up for saving shortfalls in prior years; and it provides some taxpayers the ability to obtain excessive tax deferrals by using various tax planning techniques.

In short, the existing limits are both unfair and inflexible. The result is that they deny many Canadians reasonable opportunities to build a target pension while permitting others to enjoy excessive tax benefits.

Just to demonstrate how the proposed changes will introduce a fair system of limits in place of an unfair one, I must first explain one or two things about retirement savings plans and the existing limits that apply to them.

There are two basic types of plans. Most pension plan members belong to the defined benefit plans. These plans are subject to limits on the benefits they can provide, but no direct limit on their contributions which can vary from year to year depending on investment returns.

The other basic type of a plan is a money purchase plan which has a defined level of contributions, but no fixed level of benefits. Some pension plans, all deferred profit-sharing plans and all registered retirement savings plans, RRSPs, as we commonly refer to them, are money purchase type plans. These plans are subject to contribution limits.

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One of the main problems with the existing tax assistance limits is that the contribution limits on money purchase plans do not correspond at all closely to the benefit limits on the defined benefit plans.

As an example, consider the limit of $7,500 on RRSP contributions for someone who has no pension plan at all. In terms of the pension that this level of contributions will buy, it is less than half as generous as the $60,000 limit on pension benefits under a defined benefit plan. Moreover, for anyone with earnings above about $40,000, a lifetime of contributions at this RRSP limit will not be sufficient to build the target pension.

Thus, the current limits place many Canadians at a serious disadvantage in savings for retirement. This includes many of those who are dependent on RRSPs, a group that includes the self-employed and employees without pension coverage.

For employees covered by money purchase plans, the situation is no better. For these plans, a limit of $7,000 applies to the total of employer and employee contributions including supplementary RRSP contributions. In contrast, a high income member of a defined benefit plan yielding a pension of up to $60,000 can supplement this pension by making annual RRSP contributions of up to $3,500. And, as I will elaborate in a moment, some taxpayers have been able to do considerably better than this.

A second key problem with the limits is that individuals with low levels of saving in employer-sponsored plans, whether they be money purchase or defined benefit type plans, often have little opportunity to compensate by saving more on their own behalf. Where an employer contributes only $500 to a money purchase plan, for example, the employees total contribution limit becomes $4,000 instead of $7,000.

The way to overcome these problems is obvious: put everyone on an equal footing. That is what the new system does by establishing uniform limits on tax assistance, whether pension saving is measured in terms of contributions or promised benefits and whether it takes place in one plan or more than one.

Over a career, the saving of 18 per cent of earnings a year should produce a pension equal to 2 per cent of earnings for each year of pensionable service. Over a full career of 30 to 35 years, that level of saving—free of taxation—will therefore build the target pension of 60 to 70 per cent of earnings. Accordingly, the new system limits retirement savings and tax assistance plans to this level, 18 per cent of earnings.

Just as important, the new system ensures that the 18 per cent limit is available to Canadians regardless of their employment situations or employer-sponsored pension arrangements. It does this by setting annual RRSP limits equal to 18 per cent of earnings minus the level of saving in employer-sponsored plans. In this way it permits taxpayers to use RRSP contributions to sup-