Intelligence MEMOS

From: William B. P. Robson, Alexandre Laurin and Rosalie Wyonch

To: Bill Morneau, Minister of Finance

Date: February 26, 2018

Re: **BUDGET 2018: HERE'S HOW TO HELP SENIORS**

Our Shadow Budget for 2018 contains a basket of proposals for enhancing financial security for Canadian seniors. Among them:

Levelling the field for savers in group RRSPs

The majority of Canadians, and the vast majority who work in the private sector, do most of their retirement saving in RRSPs. Many employers support this saving by organizing group RRSPs, and many match at least part of their employees' contributions. Approximately 1.5 million Canadians participate in an employer-sponsored group RRSP. Defined contribution (DC) pension plans and pooled registered pension plans allow sponsors to deduct some administrative expenses from outside income. By contrast, participants in group RRSPs pay these expenses from plan assets, which reduces their ability to accumulate tax-deferred retirement wealth. We propose to let group RRSP sponsors and/or participants deduct some administrative expenses, currently levied against plan assets, from outside income.

Increasing age limits for tax-deferred saving

Life expectancy in Canada has been rising more than two years per decade since the 1960s, but current age limits related to retirement do not reflect this change. Canadians (and their employers) now must stop contributing to tax-deferred retirement saving plans at age 71, which is also the age at which contributors must start drawing down their wealth. We would increase that age to 72 next January 1. For every six months after that date, we propose adjusting the contribution time frame by one month. Among other advantages, this change should encourage older Canadians to stay in the workforce longer.

Raising the age of eligibility for public pension benefits

Canada's old-age dependency ratio is rising rapidly because low fertility rates, rising life expectancies and the aging of the baby boom. Other countries with aging populations, including Finland, Sweden, Norway, Poland and the United Kingdom, are raising the age of eligibility for social security benefits. As life expectancy rises, so should the normal age of eligibility. We suggest an increase in the age of eligibility from 65 to 66 in 2025, phased in from the beginning of 2023.

Increase in tax-deferred saving limits

Because people are living longer and, even more important, yields on investments suitable for retirement saving are now very low, the cost of obtaining a given level of retirement income has risen. The current rules for calculating equivalency between defined benefit and DC pension plans or limits for RRSPs are badly out of date, putting people with DC plans and/or RRSPs at a major disadvantage relative to those in DB plans. Accordingly, we suggest updating the assumptions underlying the equivalency factor to reflect current economic and demographic realities. As a result, the tax-deferred savings limit for capital accumulation plans should increase from its current 18-percent-of-income level to 30 percent.

An end to mandatory drawdowns from RRIFs

The 2015 federal budget's reduction of mandatory minimum withdrawals from registered retirement income funds (RRIFs) and similar tax-deferred accounts reduced the risk that many Canadians would outlive their savings. Yet with yields on safe investments as low as they now are, and longevity increasing, the risk is still material. The calculations of the new RRIF mandatory minimum withdrawal schedule's impact in the 2015 budget assumed real investment returns of 3 percent. Re-running those projections with real returns on safe investments closer to current levels suggests that most seniors still face a material risk of outliving their tax-deferred savings. The 2015 changes were only one step toward further liberalization. Therefore, we suggest launching a consultation on two options: more regular adjustments to keep the withdrawals aligned with returns and longevity; or eliminating minimum withdrawals entirely.

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