

# RRSPs: new rules, new growth

*Hubert Frenken and Karen Maser*

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In 1991, contributions to registered retirement savings plans (RRSPs) jumped 30% to \$14.6 billion, while the number of contributors increased 14% to 4.6 million. These increases occurred largely in response to new rules which standardized the tax treatment of all private retirement programs (see [Data source and definitions](#)) and increased RRSP contribution opportunities for many taxfilers. <sup>(1)</sup> The legislation also required employers to quantify the annual credits accrued by employees under employer-sponsored registered pension and deferred profit sharing plans (RPPs and DPSPs) and to report these values to Revenue Canada.

As a consequence of this legislation, information is now available, for the first time, on how much taxfilers could conceivably contribute to RRSPs in a given year, how much they actually contributed and how much unused "room" they left. Also, the linking of RPP/DPSP accruals with RRSP contributions provides a new measure of combined savings by participants in these programs.

There are many reasons why individuals might not use all the RRSP room available to them. Some may not have any funds left after meeting their expenses out of their current income.

Others, particularly those with relatively low incomes, may have little incentive to contribute to RRSPs, since they can expect the combined Canada and Quebec Pension Plan (C/QPP) and Old Age Security (OAS) benefits to generate income close to that earned previous to retirement. However, many taxfilers with unused room may need to be persuaded to take advantage of the opportunities available to them.

This article examines several dimensions of these data. Its focus, however, is on the RRSP room available and the amount not used by taxfilers.

## The role of earned income

In order to contribute, taxfilers must have RRSP room. To have such room in 1991, they had to have

"earned income" in the previous year. More than three in four taxfilers had such income in 1990 and, of these, one third - almost 4.5 million - contributed.

Taxfilers without earned income in 1990 were concentrated in two groups: those with low income and those aged 65 and over. Less than half the people with total income below \$5,000 had earned income in 1990, and of these under 16% contributed. [\(2\)](#)

A large portion of low-income individuals were under 25 and relatively few of them (less than 10%) made RRSP contributions, even if they had income that qualified for RRSP purposes. Many of these taxfilers were students working part time. Even among younger, full-time workers, relatively few contributed. Only 17% of seniors reported qualifying income and, of these, less than 22% contributed in 1991. [\(5\)](#) Obviously, RRSPs are not a significant concern for the under 25 and over 65 populations.

## 1991 deduction limit

The 1991 deduction limit or RRSP room [\(6\)](#) was \$42.9 billion, an average of \$3,010 per person. On average, the most room, \$3,460, was held by those aged 35 to 54. Nearly 83% of male and 70% of female taxfilers had RRSP room in 1991 with the average amount available being \$3,530 for men and \$2,390 for women ([Table 1](#)). Fewer women than men had earned income and their average earnings were lower as well (two-thirds of 1990 taxfilers with income below \$5,000 were women).



### Table 1 Taxfilers with 1991 RRSP room.

Source *RRSP room file*

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## Using up RRSP room

Taxfilers used up 28% of the \$42.9 billion RRSP room available in 1991, having contributed \$12.1 billion. The remainder was carried forward to the 1992 tax year. More than 31% of the nearly 14.3 million taxfilers with room made RRSP deposits. Who contributed and who (despite having RRSP room) did not?

## Age makes a difference

The likelihood of participating in an RRSP increases with age (at least up to age 60) ([Chart A](#)). Nearly half the taxfilers in their 50s with RRSP room contributed, using up 42% of their available room. This

age group has traditionally had the highest participation rate and some of the highest average contributions ([Frenken](#), 1990). Individuals in this group generally have higher earnings than they did at younger ages and typically find themselves in a family setting that permits the greatest opportunity for savings.



### **Chart A Taxfilers in their 50s were the most likely to contribute to RRSPs in 1991.**

*Source: RRSP room file*

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Only 24% of those aged 25 to 29 contributed. Financial conditions and other interests, more immediate than saving for retirement, might inhibit individuals in this age group from making RRSP deposits.

### **Income is a determining factor**

Not surprisingly, the higher the income, the higher the percentage of individuals with RRSP room who contributed. In 1991, over 80% of persons with more than \$80,000 in earned income [\(7\)](#) made RRSP contributions, using 77% of their available room ([Chart B](#)). Although contributors with earned income in excess of \$60,000 represented just 11% of all contributors, they deposited nearly one-fourth of the \$12.1 billion total. Their average contribution amounted to \$5,670, well over twice the average of contributors with earned income under \$60,000.



### **Chart B Both the likelihood of contributing and the use of RRSP room increased with income in 1991.**

*Source: RRSP room file*

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### **Women catching up with men**

In the last decade, the rate of growth in the number of women contributing to RRSPs outstripped that of men. In 1981, 31% of RRSP contributors were women; by 1991, that proportion had increased to 42%. At the same time, the amounts contributed by women also increased more rapidly. Women's contributions, 26% of the 1981 total, represented 34% of the \$12.1 billion contributed in 1991. [\(8\)](#)

# RRSPs and other retirement savings

Participation in an employer-sponsored registered pension plan (RPP) or deferred profit sharing plan (DPSP) affects RRSP contribution limits. Since 1957, when RRSPs were first introduced, the maximum RRSP contribution allowed to members of RPPs was always less than for non-members. This lower limit also has applied to members of DPSPs since 1975. The new legislation not only continued this practice, but also addressed some former inequities in the amount of tax assistance available to members of different plans. The current reduction in RRSP room, called the pension adjustment (PA), is a measure of tax-assisted savings under the two other programs (see [Data source and definitions](#) for further information). [\(9\)](#)

The file contains data on not just the taxfilers who contributed to RRSPs, but also those with a PA and those with both RRSP contributions and a PA. Thus the file yields data on all individuals with some form of retirement savings, as well as those without any coverage under the three programs (RPPs, DPSPs and RRSPs).

## Membership in pension plans increases RRSP participation

RRSPs were established partially to provide equal opportunity for the accumulation of tax-assisted retirement savings to individuals not in an RPP. Yet, only 25% of taxfilers with RRSP room and no PA made RRSP contributions in 1991, while nearly 45% of the 4.8 million with a PA contributed. [\(10\)](#)

Taxfilers without a PA contributed \$3,170 on average, while those with a PA supplemented their average \$3,830 PA with \$2,200 in RRSP contributions, for a total of \$6,030. Those with a PA, who either had no remaining RRSP room or elected not to use their available room had an average PA of \$2,850.

## Accumulation of retirement savings varies

Half the taxfilers with RRSP room accumulated savings in at least one RPP, DPSP or RRSP in 1991. Their average savings, consisting of the reported PAs and their RRSP contributions, amounted to \$3,910. Participation in the three programs varied extensively with age and income. Nearly two-thirds of taxfilers in the 50 to 54 age group with RRSP room participated in 1991 and an amazing 95% of those with earned income between \$60,000 and \$79,999 did so as well. In a fashion similar to just RRSP participation, younger individuals and persons with low income were the least likely to accumulate savings in an RPP, DPSP or RRSP. [\(11\)](#)

## Fewer pensions for women

Not only were women less apt than men to have a PA, they also were slightly less likely to contribute to

an RRSP in the absence of a PA. Their participation in pension and profit sharing plans continued to lag behind that of men in 1991 (31% versus 36% of those with RRSP room). Even though this situation might provide greater incentives for women to contribute to RRSPs, women's lower average earned income (\$18,360 versus \$30,000 in 1991) seemed to inhibit them from doing so. In fact, 27% of men with room and no PA contributed to RRSPs, compared with 22% of women.



## Table 2 RRSP contributors and contributions, 1991.

Source: RRSP room file



## Chart C Nearly 60% of taxfilers aged 45 to 49 accumulated some form of retirement savings in 1991.\*

Source: RRSP room file

\* Savings in at least one of the following: registered pension plan (RPP), deferred profit sharing plan (DPSP) RRSP.

As a result of their lower RPP and DPSP coverage rates and their lower RRSP participation, a larger portion of women than men were not accumulating savings in these programs. While 47% of men with RRSP room lacked RPP, DPSP or RRSP savings in 1991, nearly 54% of women did not report any such savings on their tax returns that year.

## Retirement savings of the 18 to 64 year-old population

To determine more accurately the extent to which the working age population is saving for retirement, taxfilers aged 65 and over were excluded. In 1991, 44% of taxfilers 18 to 64 years of age reported a pension adjustment, RRSP contributions, or both ([Table 3](#)). Therefore, 44% of working age taxfilers had some form of retirement savings that year. Their average savings, through both pension and profit sharing plans and RRSPs, were \$3,910.



## Table 3 Taxfilers aged 18 to 64 with and without retirement savings, 1991.

Source: RRSP room file

Exactly one half of male taxfilers aged 18 to 64 accumulated retirement savings in 1991, compared with only 38% of their female counterparts. As well, average savings for men exceeded those for women: \$4,510 versus \$3,110.



## Diagram Retirement savings options for Canadian taxfilers

# 1992 RRSP opportunities

The 1991 RRSP room file provides data not only on the utilization of the available room by taxfilers that year, but also on the RRSP room or deduction limit for 1992. In 1992, nearly 15.2 million persons were eligible to contribute \$72.7 billion to RRSPs. Since this amount included unused room from 1991 as well as newly created room in 1992, it was much higher (69%) than the \$42.9 billion available in 1991. Nearly \$31 billion of the \$72.7 billion was unused room from the previous year ([Table 4](#)).



## Table 4 1992 RRSP Room.

Source: RRSP room file

The 15.2 million individuals with 1992 RRSP room represented a 6% increase from the previous year. Although men accounted for less than 54% of the 15.2 million, they had nearly 63% of the \$72.7 billion. ([12](#))

## Unused 1991 room

Unused room from 1991 made up 42% of the total 1992 deduction limit. This percentage varied extensively for different groups of taxfilers. Since few low-income individuals used all or any of their

available room in 1991, their unused room represented a much larger share of the 1992 deduction limit than it did for persons with higher incomes. Nearly 67% of the 1992 room for those with earned income under \$10,000 was unused 1991 room, while for those earning \$80,000 or more it was only 17%.

## PA reduces RRSP room

The \$57.6 billion RRSP room created for 1992 was reduced by the nearly \$16 billion of benefits accrued under RPPs and DPSPs, namely the pension adjustment (PA). The proportion of individuals having a PA increased as earned income increased, from 5% of those earning less than \$10,000 to 77% of those in the \$50,000 to \$59,999 range, reflecting the extent to which pension plan membership varies by income. Pension adjustments reduced RRSP room for those earning less than \$10,000 by only 3% but by 42% for those earning \$50,000 or more.

## Average room for 1992

The average 1992 deduction limit was \$4,800. The higher the earned income, the higher the available room: average room ranged from \$1,860 for those earning under \$10,000, to \$10,170 if earned income was \$80,000 or more. Because of the lower earnings of women in general, the room was a good deal higher for men (\$5,600 versus \$3,860).

Average room does not vary significantly by age. [\(13\)](#) It was between \$4,720 and \$5,590 for all age groups from 25 to 59, with those aged 35 to 44 at the top of the range.

## Conclusion

RRSP contributors and contributions increased 14% and 30%, respectively in 1991, primarily because of new and increased contribution limits. Many high-income taxfilers, who have traditionally had the highest rates of participation and have maximized their contributions, could therefore secure additional tax-assisted savings.

Almost 50% of taxfilers in their 50s with an RRSP deduction opportunity used all or part of their potential. This age group has traditionally participated to the greatest extent and made some of the highest average contributions. With the first members of the baby boom generation entering this age group in 1996, RRSPs will likely continue to grow well into the next century, assuming no change in legislation or other factors.

For the 1992 taxation year, the sum of unused 1991 room and the newly created room totalled almost \$73 billion. Based on the utilization of the 1991 room, possibly only a quarter of that amount may have been used up by fewer than 5 million taxfilers. Many potential contributors either elected not to do so or were unable to because of financial limitations.

But RRSPs are not the only retirement savings opportunity. The linking of pension and profit sharing plan membership with RRSP participation shows that in 1991, 44% of all taxfilers aged 18 to 64 accumulated some form of retirement savings. The percentage is lowered considerably by the inclusion of younger taxfilers (less than 17% of those under 25 participated). The rate exceeded 52% for those aged 35 to 54, with nearly 60% of 45 to 49 year-olds accumulating benefits under an RPP, DPSP or RRSP.

The data do not show the extent to which individuals in different age groups have accumulated retirement savings in tax-assisted retirement programs over the years. However, with the mandatory locking-in of RPP accruals after two years of membership (now required in nearly all provinces), and with the bulk of RRSP deposits remaining till retirement age, (14) a growing number of Canadians are accumulating more and more retirement savings in one form or another.

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## Data source and definitions

This article uses data generated by Revenue Canada in response to the new legislation (Bill C-52) implemented in January 1991. This legislation introduced a comprehensive limit on tax assistance to members of employer-sponsored registered pension plans (RPPs) and deferred profit sharing plans (DPSPs) and to participants in both personal and employer-sponsored registered retirement savings plans (RRSPs).

For each taxfiler having income that qualifies for RRSP contribution purposes, the system records each year's qualifying income, contribution limits, actual contributions made, and unused amounts carried forward to the following year. The file also yields data on the taxfiler's sex and date of birth. For this analysis, taxfilers whose unused 1991 room and 1992 deduction limit were non-existent and those under 18 were removed from the file.

Since one objective of the legislation was to standardize the treatment of all tax-assisted retirement programs, participation in RPPs and DPSPs affects RRSP contribution opportunities. The new administrative file identifies RRSP contributors who also participate in RPPs or DPSPs. This permits a much more precise identification of both those individuals who are saving for their retirement and those who are not. (3)

Not all of the \$14.6 billion deposited into RRSPs in 1991 was subject to the deduction limits stipulated by the new legislation. Included in the total were more than \$2.2 billion in rollovers of retiring allowances and nearly \$400 million in pension payments rolled over into spousal RRSPs. (4) Thus, the amount subject to the deduction limits, i.e. "normal" contributions, was \$12.1 billion.

For further information on these data, contact Karen Maser.

**Earned income:** Income that qualifies for RRSP contribution purposes. It comprises income from employment (both paid work and self-employment), net rental income, alimony received, and benefits from certain loss-of-income or disability plans. Alimony paid is deducted from earned income for taxfilers claiming such payments. Specifically excluded are investment and pension income, and government transfer payments. The previous year's earned income is used to calculate current RRSP contribution limits. For example, earned income in 1990 determined 1991 limits.

**RRSP room or deduction limit:** The maximum a taxfiler is allowed to contribute in a specific year. It includes unused room from previous years and created room in the current year. Created room is 18% of the previous year's earned income up to a maximum dollar amount (\$11,500 in 1991). Taxfilers who belong to an RPP or DPSP have their created room reduced to reflect the benefit earned under these programs. The 1992 deduction limit includes unused 1991 room and the amount created based on 1991 earned income.

**Unused room:** The amount remaining after subtracting actual contributions claimed on the tax return from that year's contribution room. Unused RRSP room can be carried forward to future years.

**Pension adjustment (PA):** A deemed value of annual benefits accrued under an RPP or DPSP that reduces the RRSP room. It varies from one plan to another and is subject to certain limitations. For a participant in a money purchase RPP or a DPSP, the PA equals the year's total employer and employee (if any) contributions. For defined benefit RPPs, it is a measure of the year's pension benefits accrued under the plan. The type of plan generating the PA cannot be identified from the data.

**RRSP rollovers:** Transfers of eligible income to RRSPs, not subject to the annual or accumulated deduction limits. In 1991, taxfilers could roll over retiring allowances or severance pay into their own RRSPs, within certain limits. Also, periodic payments from RPPs and DPSPs could be rolled over into spousal RRSPs, up to a maximum of \$6,000. Since these rollovers did not have to be applied towards the annual contribution deduction limits, they are not included in the analysis.

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## Notes

### *Note 1*

Taxfilers with increased deduction limits included members of employer-sponsored registered pension plans (RPPs) with high contribution requirements and non-members of RPPs with high income. The former, under the previous rules, had a \$3,500 maximum limit reduced by their RPP contributions,

frequently resulting in little or no RRSP contribution opportunity. The latter had the previous ceiling of \$7,500 raised to \$11,500 in 1991.

On the other hand, contribution opportunities were reduced for some other taxfilers, particularly low-income individuals, through the lowering of the ceiling from 20% of earnings to 18%. Also, some high-income members of non-contributory RPPs may have seen their RRSP room reduced from the previous \$3,500.

### ***Note 2***

In general, taxfilers without earned income had much lower total income. In 1990, filers with earned income averaged \$28,100 in total income, \$23,700 of which was earned income. Those without earned income averaged only \$13,600 in total income.

### ***Note 3***

RPPs, DPSPs and RRSPs are not the only means of saving for retirement. The government-administered Canada and Quebec Pension Plan provides earnings-related retirement pensions and covers all workers 18 years of age and over.

### ***Note 4***

Retiring allowances are lump sum payments received by employees on retirement or loss of job. They may include settlements for unused sick leave, payments in recognition of long service or compensation for loss of employment. The total amount rolled over to RRSPs was unusually high in 1991 - 32% more than in 1990. The recession and the large number of layoffs may have been a factor. Rollovers of pension payments into spousal RRSPs will be disallowed following the 1994 tax year.

### ***Note 5***

Less than 7% of the population 65 and over were still in the labour force in 1991, and few of the rest had RRSP-qualifying income from other sources. Those that did, but were over 71, could no longer contribute to their own RRSP. (They could contribute to a spousal RRSP if their spouse was still not over 71.)

### ***Note 6***

The 1991 limit was based on 1990 earned income. Since 1991 was the implementation year of the new legislation, no unused room existed from previous years.

### ***Note 7***

Since total income was not available on the RRSP room file, analysis is limited to earned income only.

### ***Note 8***

The data exclude payments made by men to spousal RRSPs. In 1991, nearly 179,000 taxfilers (virtually all men) deposited \$872 million into spousal RRSPs. Part of that amount was subject to the husbands' deduction limits. For information on the role played by spousal RRSPs in the accumulation of RRSP

savings by women, the growth of women's RRSP participation, and the role of family income in these contributions, see [Frenken](#) (1991).

### ***Note 9***

Deferred profit sharing plans (DPSPs), though not necessarily designed for retirement income purposes, serve that purpose to a large extent. Unlike members of pension plans, DPSP participants can receive lump sum distributions from their plans on retirement. To avoid tax deduction at source from these distributions, they have the option of transferring the amounts to an RRSP or other registered plan, or purchasing an annuity.

There are no data on the number of DPSPs active in Canada, nor on the number of employees covered by them. However, probably only a relatively small portion of the 4.8 million 1991 taxfilers with a PA had accrued benefits under DPSPs rather than RPPs.

### ***Note 10***

A few of those with a PA and no RRSP contributions may have had a PA so large as to leave no RRSP room. However, the low income of many non-members of RPPs/DPSPs may be the major determining factor. RPP and DPSP participants have relatively high disposable incomes since they are generally employed in industries with the highest wages and are nearly all full-time workers. For detailed analysis of RPP participation see [Frenken and Maser](#) (1992).

### ***Note 11***

Just over 19% of those under 25 with RRSP room and only 11% of those with earnings below \$10,000 accumulated savings in these programs.

### ***Note 12***

These percentages were almost identical in 1991, when men accounted for just over 54% of the 14.3 million taxfilers with room and had slightly below 64% of the deduction limit.

### ***Note 13***

Those under 25 years and those aged 65 and older are exceptions. Their room was considerably less than the \$4,800 average. However, saving for retirement is not a serious concern for these population groups.

### ***Note 14***

Although many contributors cash in all or part of their RRSP savings long before retirement, total RRSP assets have been growing at an annual rate of about 17% in recent years. For detailed analyses on the incidence of cashing in RRSPs and on the growth of RRSP assets, see Frenken ([1992](#) and [1993](#)).

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# Source

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Table 1

**Taxfilers with 1991 RRSP room**

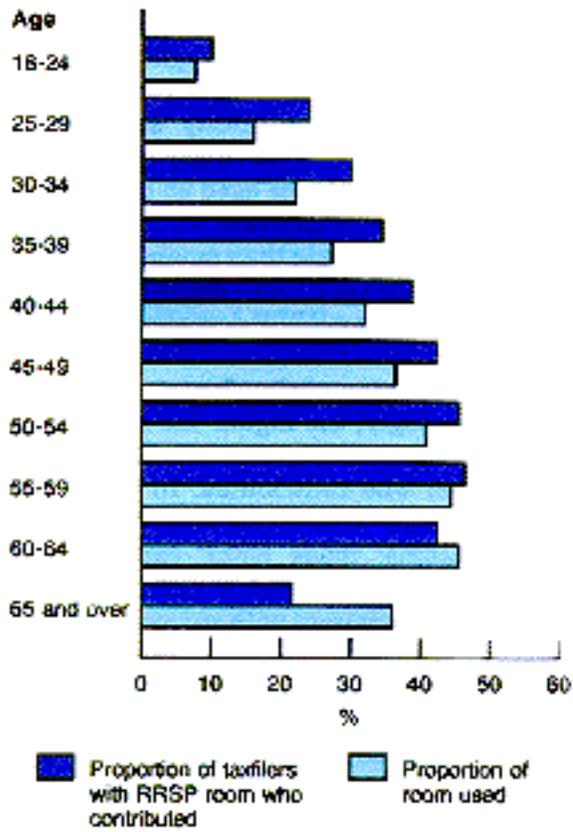
	Number	Percent of all taxfilers	Average room
	'000	%	\$
<b>Both sexes*</b>	<b>14,259</b>	<b>77</b>	<b>3,010</b>
18-24 years	2,058	87	1,620
25-34 years	4,150	90	3,090
35-44 years	3,714	90	3,460
45-54 years	2,423	89	3,460
55-64 years	1,416	70	3,190
65 years and over	478	17	2,070
<b>Men</b>	<b>7,746</b>	<b>83</b>	<b>3,530</b>
18-24 years	1,074	91	1,770
25-34 years	2,204	97	3,610
35-44 years	1,973	96	4,120
45-54 years	1,328	93	4,100
55-64 years	857	76	3,720
65 years and over	300	24	2,370
<b>Women</b>	<b>6,507</b>	<b>70</b>	<b>2,390</b>
18-24 years	983	83	1,460
25-34 years	1,944	83	2,510
35-44 years	1,740	84	2,710
45-54 years	1,094	84	2,680
55-64 years	559	61	2,360
65 years and over	178	12	1,560

*Source: RRSP room file*

*\* The age and sex identifiers were not available for a small number of taxfilers. Therefore, the numbers may not add to the totals.*

Chart A

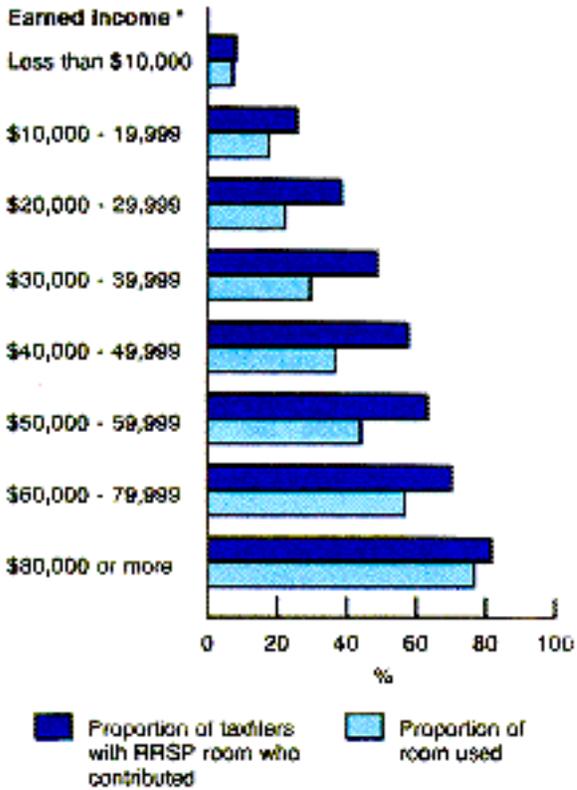
**Taxfilers in their 50s were the most likely to contribute to RRSPs in 1991.**



Source: RRSP room file

**Chart B**

**Both the likelihood of contributing and the use of RRSP room increased with income in 1991.**



Source: RRSP room file  
\* RRSP qualifying income

Table 2

**RRSP contributors and contributions, 1991**

	Contributors		Contributions*		
	'000	%	Total		Average
			\$millions	%	\$
<b>Both sexes**</b>	<b>4,478</b>	<b>100</b>	<b>12,113</b>	<b>100</b>	<b>2,710</b>
18-24 years	203	5	257	2	1,270
25-34 years	1,126	25	2,472	20	2,190
35-44 years	1,353	30	3,793	31	2,800
45-54 years	1,058	24	3,203	26	3,030
55-64 years	633	14	2,026	17	3,200
65 years and over	103	2	358	3	3,490
<b>Men</b>	<b>2,579</b>	<b>100</b>	<b>7,970</b>	<b>100</b>	<b>3,090</b>
18-24 years	110	4	151	2	1,380
25-34 years	635	25	1,552	19	2,440
35-44 years	771	30	2,470	31	3,210
45-54 years	601	23	2,094	26	3,480
55-64 years	393	15	1,431	18	3,650
65 years and over	69	3	270	3	3,930
<b>Women</b>	<b>1,899</b>	<b>100</b>	<b>4,142</b>	<b>100</b>	<b>2,180</b>
18-24 years	93	5	106	3	1,140
25-34 years	491	26	920	22	1,870
35-44 years	582	31	1,323	32	2,270
45-54 years	457	24	1,109	27	2,430
55-64 years	240	13	595	14	2,470
65 years and over	34	2	88	2	2,590

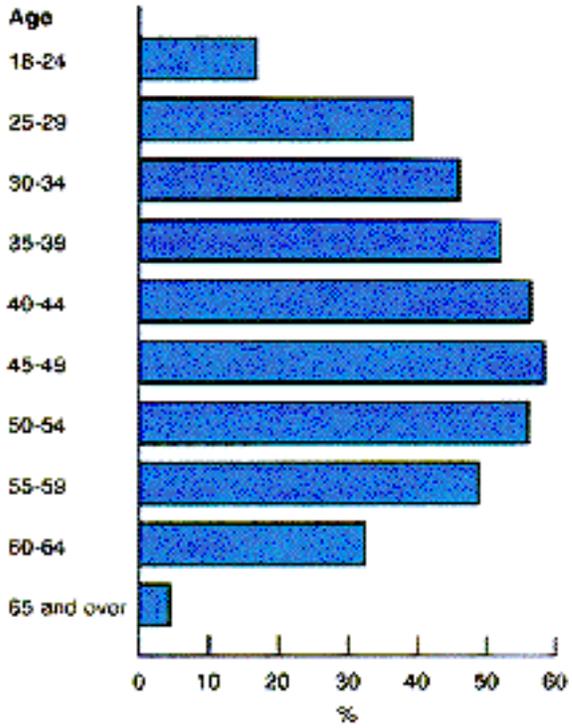
Source: RRSP room file

\* Excludes rollovers

\*\* The age and sex identifiers were not available for a small number of contributors. Therefore, the numbers may not add to the totals.

Chart C

**Nearly 60% of taxfilers aged 45 to 49 accumulated some form of retirement savings in 1991. \***



Source: RRSP room file  
\* Savings in at least one of the following: registered pension plan (RPP), deferred profit sharing plan (DPSP), RRSP

Table 3

**Taxfilers aged 18 to 64 with and without retirement savings, 1991**

	'000	%
<b>Total</b>	<b>15,867</b>	<b>100</b>
Without RRSP room	2,086	13
With RRSP room	13,780	87
With PA only	2,615	16
With RRSP contributions only	2,252	14
With both PA and RRSP contributions	2,123	13
With neither PA nor RRSP contributions	6,790	43
With retirement savings in 1991*	6,990	44
Without retirement savings in 1991**	8,877	56

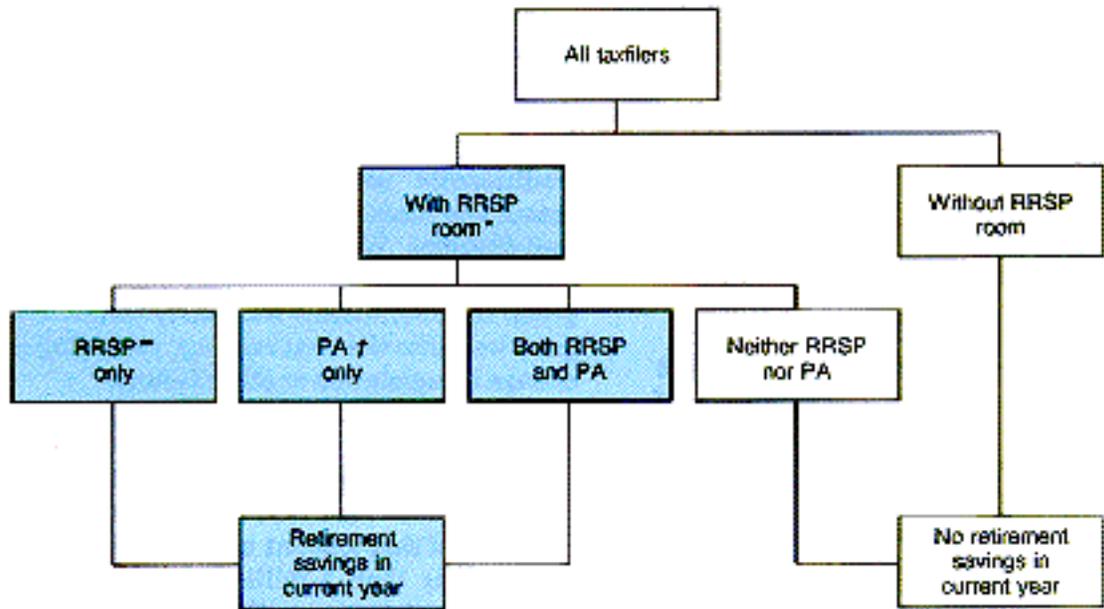
*Source: RRSP room file*

\* *Includes all taxfilers with a PA and/or RRSP contributions.*

\*\* *Includes taxfilers without RRSP room and those with room but no PA or RRSP contributions.*

## Retirement savings options for Canadian taxfilers

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\* Taxfilers with earned income in current year or unused room from previous years

\*\* Taxfilers with RRSP contributions in current year

† Taxfilers with a pension adjustment (PA): the deemed value of benefits accrued under an employer-sponsored registered pension plan (RPP) or deferred profit sharing plan (DPSP)

Table 4

**1992 RRSP Room**

	\$millions		% of 1992 room
Unused room from 1991		30,816	42
Plus: 18% of 1991 earned income*	57,568		
Minus: 1991 pension adjustment	15,678	41,890	58
<b>Total 1992 room</b>		<b>72,706</b>	<b>100</b>

*Source: RRSP room file*

*\* Up to a maximum of \$12,500 per taxfiler*