

Update on RRSP contributions

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The number of RRSP contributors and the amount invested in this tax-assisted retirement savings program are growing annually at dramatic rates. In 1993, 5.1 million Canadians claimed \$19.2 billion as RRSP deductions on their tax returns, an increase of 7% in contributors and 20% in contributions over the previous year. But despite these increases, taxfilers as a whole continue to use only a small fraction of the opportunities available to them.

To be eligible to contribute to RRSPs, individuals must have income that qualifies for RRSP purposes, and the amount that they can claim as a deduction on their tax returns is limited. Each year, Revenue Canada calculates an RRSP deduction limit (or room) for each eligible taxfiler. Any room not used in a given year can be carried forward to future years. In addition, some taxfilers may have certain types of income that qualify for transfer or rollover to RRSPs, over and above these limits.¹

Room to grow

In 1993, the total room available to eligible taxfilers (excluding the rollover opportunities) was almost \$98 billion. Of this, \$42 billion was new room, based on information provided on 1992 tax returns, and the remainder, unused room from the previous year. Only a small fraction of this total room was used, however.

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Considering that \$15.6 billion of the \$19.2 billion contributed in 1993 was subject to the standard deduction limits (the remainder being rollovers), taxfilers used only one-sixth of the total room available that year (Table). This compares with the nearly 30% consumed in 1991, when over \$12 billion was applied against the almost \$43 billion available then.²

Table
1993 RRSP contributions

	\$ billions
Total	19.2
Subject to deduction limits	15.6
Rollovers of retiring allowances	2.8
Rollovers of pension payments	0.9

Source: RRSP room file

This under-use is generating cumulative deduction limits of dramatic proportions. Preliminary data show that the total room available in 1994 was more than \$126 billion. Unless growth in annual contributions mushrooms, total room will continue to accumulate, and the percentage used will continue to decline.

The major reason for this accumulation is non-participation of a large proportion of eligible taxfilers. In 1991, for example, less than one-third of taxfilers with RRSP room took advantage of this tax-assisted retirement savings opportunity. And many of those who did contribute used only part of their room.

Previous analyses have identified several reasons why so many do not participate, and have described those taxfilers most likely not to exercise this option (Frenken, 1990 and Frenken and Maser, 1993). It was not possible, however, to distinguish among contributors who claimed all, nearly all or just a fraction of their room. It was possible only to calculate the total room available to taxfilers as a whole, and the extent to which this room was used.

New analytic tool

A recently created data base will permit a detailed analysis of how taxfilers used their RRSP opportunities from 1991 to 1993. It will be possible to categorize those who regularly exhausted all of their room; those who made contributions each year, but used up only part of it; those who contributed intermittently; and those who made no contribution at all, despite being eligible. It will also be possible to tabulate the number of taxfilers who rolled over retiring allowances and pension income, as well as the amounts involved.

The results of these analyses will be published in forthcoming issues of *Perspectives*. Data will soon be available on request. For detailed information at the Canada level, contact Karen Maser, Chief, Pensions Section, Labour Division at (613) 951-4033 and for more general information for small geographic areas, contact the Small Area and Administrative Data Division at (613) 951-9720. □

■ Notes

1 Since 1991, when new legislation on tax assistance for retirement savings came into effect, the maximum amount most taxfilers have been able to claim each year on their tax returns has depended on their previous year's income, the type of income and whether they participated in an employer-sponsored registered pension plan (RPP) or deferred profit sharing plan (DPSP). In 1993, this maximum amount was calculated as 18% of the taxfiler's 1992 earned income, up to a maximum of \$12,500, less any pension

adjustment, which was a calculated value of 1992 tax-assisted savings under an RPP or DPSP. Any unused 1991 and 1992 room was added to the new 1993 room to arrive at total 1993 room.

Taxfilers who received retiring allowances and/or pension benefits were able to transfer these (within certain limits) either to their own RRSPs or to those of their spouses. For further explanation of rollover opportunities and how RRSP room is calculated, see Frenken and Maser, 1993.

2 All of this was new room, since this was the implementation year of the new legislation.

■ References

Frenken, H. "RRSPs: Tax-assisted retirement savings." *Perspectives on Labour and Income* (Statistics Canada, Catalogue 75-001E)2, no.4 (Winter 1990):9-20.

Frenken, H. and K. Maser. "RRSPs – new rules, new growth." *Perspectives on Labour and Income* (Statistics Canada, Catalogue 75-001E)5, no.4 (Winter 1993):33-42.