Who's saving for retirement?

Karen Maser

Current projections estimate that almost 23% of the population will be 65 years or older by 2031, up significantly from 12% in the 1991 Census (Desjardins, 1993). Ensuring that this group will have an adequate income has become an important concern, particularly at a time when there is growing pressure on governments to reduce expenditures. This article looks at the programs that now exist to help Canadians save for retirement.

Canada's income support system for seniors has three major components. The first, the Old Age Security/Guaranteed Income Supplement (OAS/GIS) program, provides benefits to all persons – regardless of work history – who meet the age and residency requirements. The other two components, designed primarily for workers, replace income that ceases at retirement. These are the Canada and Quebec Pension Plan (C/QPP), and the combination of employer-sponsored registered pension plans (RPPs), deferred profit sharing plans (DPSPs), and registered retirement savings plans (RRSPs).[1] Virtually all workers in Canada are covered by the C/QPP; however, participation in RPPs[2] and RRSPs is far from universal. RPPs are available at the discretion of the employer and RRSP participation, which is voluntary, is possible only for taxfilers with eligible income. (The plans and terms found in this analysis are explained in the preceding article, "Tax assistance for pensions and RRSPs.")

This analysis, based on all taxfilers aged 25 to 64, differentiates as much as possible between

What government-administered plans provide

The **Old Age Security** (OAS) pension is a flat rate payable to all persons at age 65 who meet the residency requirements. Although there is no income test, since 1989 OAS payments have been taxed back on a sliding scale if a recipient's net income exceeds a specified level ($53,215 in 1993). At the beginning of 1993, the OAS provided a monthly pension of $378.95.

The **Guaranteed Income Supplement** (GIS) is paid to OAS recipients with income below a certain level. The maximum GIS payable to a single person as of January 1993 was $450.34 monthly. That amount is reduced by $1 for every $2 of specified income over and above OAS benefits.

The **Canada and Quebec Pension Plan** (C/QPP) covers almost all workers in Canada. Contributions are based on employment income, within specified limits. For 1993, employee contributions were set at 2.5% of earnings to a maximum contribution of $752.50 for the year. These contributions are matched by the employer (for self-employed persons the rate and maximum contribution are doubled). Basic C/QPP benefits begin at age 65 but can be paid as early as 60 or be delayed as late as 70, with an adjustment in the monthly amount received. The benefit is approximately 25% of the contributor's average adjusted earnings up to a maximum that approximates the average wage. In 1993, this maximum level was $33,400, providing a maximum monthly benefit of $667.36 for those who contributed the required number of years.

Shown below are approximate annual amounts (based on rates in January 1993) that a single person aged 65 could expect to receive from these public programs, given different levels of pre-retirement employment income. These amounts assume the individual has no other income, meets the necessary residency requirements for full OAS benefits and has contributed the required time to the C/QPP.

	Income from government-administered plans (GAP)				Percentage of employment income replaced by GAP
	OAS	GIS	C/QPP	Total	
			$		%
Employment income prior to retirement					
$0	4,547	5,404	-	9,951	...
$5,000	4,547	4,779	1,250	10,576	212
$10,000	4,547	4,154	2,500	11,201	112
$15,000	4,547	3,529	3,750	11,826	79
$20,000	4,547	2,904	5,000	12,451	62
$25,000	4,547	2,279	6,250	13,076	52
$30,000	4,547	1,654	7,500	13,701	46

Note: *Prior to age 65, persons with very low employment income could also be receiving social assistance benefits. This would lower the total income replacement rate.*

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those who are eligible to participate in RPPs and RRSPs and those who are not.[3] Although these plans form the focus of this article, the role of OAS/GIS and C/QPP in providing a source of income is also discussed (see *What government-administered plans provide*).

New data source helps

Prior to 1991, it was not possible to estimate from personal income tax data how many Canadians saved – and how much – through the combination of RPPs and RRSPs. Only RRSP savings could be measured. There were no data on persons not required to contribute to their RPP (over one-quarter of all members) and no estimate of the amount saved in RPPs through employer contributions. Furthermore, information was available for one year only. Longitudinal data recently available from Revenue Canada (see *Data source*) for the years 1991 to 1993 provide a much better picture of who is saving for retirement through these programs.

These data have resulted from changes to the Income Tax Act effective in 1991 that require the calculation of a pension adjustment (PA) for each employee belonging to an RPP. The PA is a measure of the cost of the pension accrued by the member for the year and can be used as a proxy for RPP savings, similar to RRSP contributions.[4] It identifies all RPP members (not just those who contribute to their plan) and can be combined with information on RRSP contributors to determine the extent to which Canadians are participating in at least one of these programs.

Using the new longitudinal file, this article identifies those who participated in RPPs or RRSPs, as well as those who did not, from 1991 to 1993. It also examines the growth in the amount saved over that three-year period, and the per-

Data source

This analysis used information from the Revenue Canada RRSP room file. (For a description of this file, see “Tax assistance for pensions and RRSPs” in this issue.)

A 2% sample file was used. Comparisons of selected tabulations with the entire file indicate similar results.

This study is restricted to taxfilers aged 25 to 64. Including those younger and older can distort the picture, as many under 25 have not yet entered the labour force or are fairly recent entrants, and many over 64 have already retired. Only those who filed a tax return in each of the three years (1991 to 1993) were included.

When all three years were considered as one unit, total income was averaged over the three years and the taxfiler’s age assigned was that at the end of 1992.

Only “normal” RRSP contributions (that is, those subject to the standard deduction limits) were considered; transfers of pension income to spousal RRSPs and rollovers of retiring allowances to RRSPs were excluded. Also, withdrawals from RRSPs were not considered.

In calculating RRSP contribution room for one year, Revenue Canada uses the pension adjustment (PA) from the previous year. For this analysis, however, RRSP contributions were matched with PAs from the same year to provide a more accurate picture of the “savings” taking place in any one year.

Past service pension adjustments (PSPAs) were not considered, because they relate to RPP membership in previous years. For 1993, the PSPAs in total were less than 1% of the PAs.

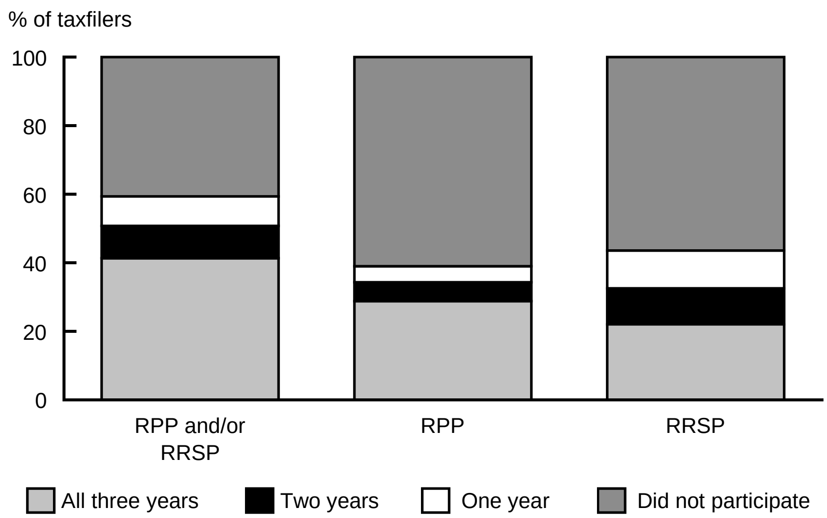
Table 1
Taxfilers aged 25-64 with RPP participation (PA) * and/or RRSP contributions

	1991	1992	1993 **	Change 1991-92	Change 1992-93
	millions			%	
Number of taxfilers	14.0	14.2	14.0	1.7	-1.4
With PA and/or RRSP	6.8	6.9	6.9	1.9	-0.4
With PA	4.7	4.7	4.5	0.1	-3.0
With RRSP	4.2	4.4	4.6	3.9	4.3
	$ billions			%	
Total income of taxfilers with PA and/or RRSP	284.0	294.9	297.0	3.8	0.7
PA plus RRSP	27.6	29.6	31.4	7.3	5.9
PA	16.0	16.8	16.6	5.2	-0.9
RRSP	11.7	12.9	14.7	10.2	14.8
	$			%	
Average PA and RRSP combined	4,049	4,306	4,580	6.3	6.4
	% of total income				
PA plus RRSP	9.7	10.0	10.6		
PA	5.6	5.7	5.6		
RRSP	4.1	4.4	5.0		

Source: RRSP room file
* *Persons working for an employer providing a pension plan during the year in question.*
** *1993 data are preliminary and exclude late filers.*

Chart A

From 1991 to 1993, over 40% of taxfilers participated in at least one plan each year.



Source: RRSP room file

RPP members differ from RRSP contributors

Because contributions to an RRSP are voluntary and need not be made each year, almost half the participants from 1991 to 1993 contributed only one or two of the three years. (An analysis of those contributing to RRSPs in one or more of these three years appears in the companion article in this issue, "RRSPs – unused opportunities.") In contrast, most workers belonging to an RPP participated each year (Chart A). RPP membership is generally compulsory; only if a plan terminates or a worker leaves an employer does RPP coverage with that employer cease.

Another important difference between the two programs is found among the low and high income groups, where the proportion of persons belonging to RPPs is considerably lower than the proportion with RRSP contributions (Chart B). There are several reasons for this.

centage of total income accumulated in these programs.

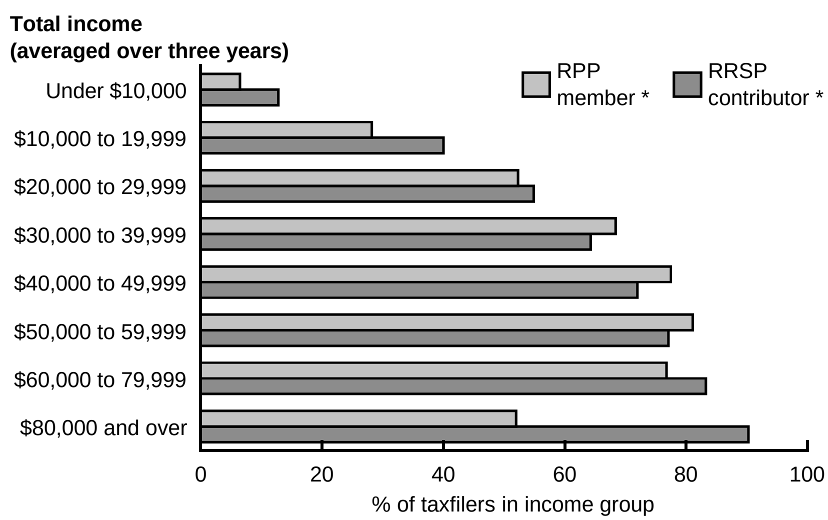
Who's saving, who's not?

In any single year from 1991 to 1993, one-third of taxfilers participated in RPPs and about as many contributed to RRSPs (Table 1). The number who saved through one or both of these programs changed little over these years (6.9 million on average) and accounted for almost half of all taxfilers.[5]

Does this picture change if savings are considered over the entire period, rather than for each year independently? The numbers increase, but not dramatically. Close to 60% of taxfilers saved through either an RPP or an RRSP, or both, in at least one year of the three. Over 40% saved all three years (Chart A).

Chart B

RPP participation is highest for those with incomes between $30,000 and $79,999.



Source: RRSP room file

** At least once from 1991 to 1993.*

Many of those in the lower income groups are not employed in situations that offer an RPP, while a number of high income earners are self-employed and so cannot belong to an RPP. Some high income earners may opt to contribute to an RRSP rather than an RPP, to exercise more direct control over the investment and use of their savings.

Who's saving?

The likelihood of having RPP or RRSP savings increases with income. The proportion of taxfilers saving at least once in the 1991-93 period climbed quickly to exceed 90% for those with annual incomes[6] averaging $30,000 to $39,999 over the period. It reached almost 100% for those in the highest income groups (Chart C). However, only 31% of taxfilers reported incomes averaging $30,000 or more. The proportion saving regularly also climbed with income: almost 88% of those with incomes of $40,000 or more saved each year from 1991 to 1993.

Age is a factor only to the extent that income increases with age. A 30 year-old with an income of $45,000 is almost as likely as a 50 year-old with the same income to be saving for retirement.[7]

Overall, 66% of men reported saving at least once and 47% did all three years. For women the comparable proportions were a good deal lower at 53% and 36%, probably because they were more likely to have lower incomes (43% had incomes below $10,000, compared with one-quarter of the men). Among taxfilers with incomes of $10,000 or more, women were more likely than men to participate in one or both of the major retirement income programs.

Who's not saving?

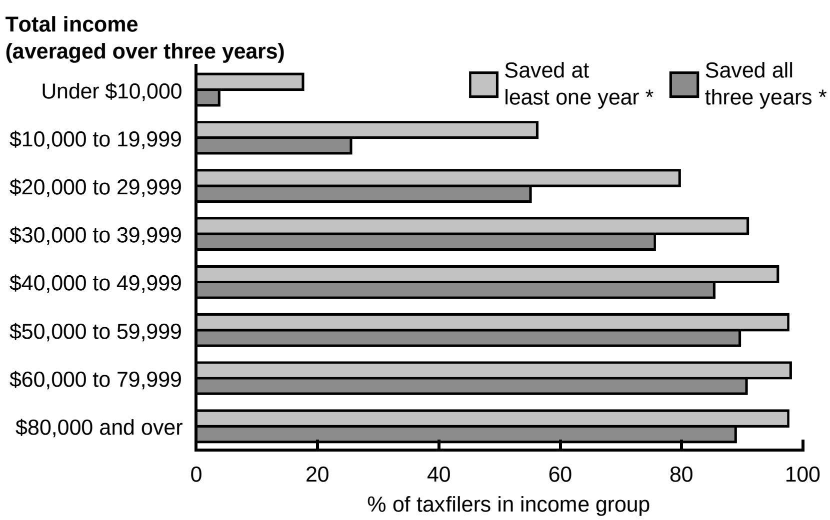
Over 40% of taxfilers did not participate in either of these programs during the three years. Most of these taxfilers (86%) had earned income at some time during this period so they were eligible to contribute to an RRSP. But their income may have been too low for this to be possible. Certain groups were less likely than others to have earned income; this was true, for example, for 38% of tax-filing women aged 55 to 64. They were either unemployed or not in the labour force and would not have been able to contribute to an RRSP or to participate in an RPP.

Women accounted for 57% of non-savers,[8] although they represented 49% of all taxfilers. Among all taxfilers, most of those without savings (87%) had average incomes below $20,000 (Table 2). For those with such low incomes before age 65, OAS/GIS and C/QPP benefits are crucial sources of income upon retirement, since together they provide at least 60% of pre-retirement employment earnings. These sources of income were an important consideration in the design of the 1991 RPP and RRSP tax-assistance provisions. It was assumed that pension benefits (from all sources) of 60% to 70% of pre-retirement earnings would be "sufficient to avoid serious disruption of living standards" (Department of Finance, 1989). For low earners, those likely to have little or no RPP/RRSP savings, the public pensions were expected to provide adequate income.

Yet if taxfilers in the $20,000 to $29,999 income group were to retire without income other than OAS/GIS and C/QPP benefits, most would receive pension income replacing less than 60% of pre-retirement earnings. A fifth of these people had no savings from 1991 to 1993 through RPPs or RRSPs; almost two-thirds of this group were men. Another 25% saved only sporadically. Income from OAS/GIS and C/QPP would provide them, at age 65, with only about 45% to 60% of pre-retirement earnings.

Chart C

Taxfilers with incomes below $40,000 are less likely to save regularly for retirement.



Source: RRSP room file

** RPP member and/or RRSP contributor between 1991 and 1993.*

Table 2
Savers * and non-savers, 1991-1993

	All taxfilers **	% of total	Savers	% of total	Non-savers	% of total
	'000		'000		'000	
Total	**13,251**	**100**	**7,857**	**100**	**5,394**	**100**
Income						
Under $10,000	4,425	33	778	10	3,647	68
$10,000-19,999	2,428	18	1,364	17	1,064	20
$20,000-29,999	2,225	17	1,772	23	453	8
$30,000-39,999	1,711	13	1,556	20	155	3
$40,000-49,999	1,099	8	1,053	13	45	1
$50,000-59,999	648	5	632	8	16	-
$60,000-79,999	465	4	456	6	9	-
$80,000 or more	251	2	245	3	6	-
Sex †						
Men	6,758	51	4,430	56	2,328	43
Women	6,488	49	3,426	44	3,062	57

Source: RRSP room file
* *Savers are those who belonged to an RPP or contributed to an RRSP in at least one year.*
** *Taxfilers aged 25 to 64 who filed all three years.*
† *Does not add to the total as the sex of some taxfilers was unknown.*

How much is being saved?

The annual amount saved in RPPs and RRSPs grew from $27.6 billion in 1991 to $31.4 billion in 1993. Most of this growth resulted from an increase in RRSP contributions. Although RPP savings (that is, PAs) rose from 1991 to 1992, they fell between 1992 and 1993, as did the number of people participating in RPPs.

For those participating in either an RRSP or an RPP, or both, average savings for both plans combined grew from $4,049 in 1991 to $4,580 in 1993, up about 6% each year,[9] much more than the growth in their total income.

Proportion of total income saved

Those participating in RPPs or contributing to RRSPs in 1993 saved 10.6% of their income through these programs combined.[10] This was up from 9.7% in 1991 and 10.0% in 1992. Once again, this increase was due almost entirely to growing RRSP contributions.

Taxfilers with incomes ranging from $20,000 to $29,999 saved the least (9.0%); those making $60,000 to $79,999 saved the most (13.0%). The savings rate for those bringing in less than $20,000 (10.6%) was relatively high because that group includes people whose income was higher the previous year. This gave them more RRSP contribution room, which they used extensively by making significant contributions. People in the highest income group ($80,000 plus) saved a somewhat lower proportion (7.7%) through these programs, partly because of the limit on tax-assisted savings.[11]

In 1993, the savings rate was a good deal higher (14.0%) for persons who belonged to an RPP and also contributed to an RRSP. Those who participated in only one of these programs saved less (8.4% through RPPs and 8.7% through RRSPs).

Summary

Almost 60% of taxfilers participated in RPPs or RRSPs between 1991 and 1993. Participation was very heavy among those with annual incomes averaging $30,000 or more during this three-year period: 94% belonged to an RPP and/or made RRSP contributions in at least one year; 83% did so all three years.

Because most (69%) of those with incomes averaging less than $20,000 had no savings through RRSPs or RPPs, benefits from OAS/GIS and C/QPP will likely be an important source of retirement income; in some cases, these benefits could provide incomes higher than pre-retirement earnings.

For those with average annual incomes of $20,000 to $29,999 between 1991 and 1993, the picture is somewhat different. A fifth of them had no savings through RRSPs or RPPs during this period; another quarter saved only one or two of the three years. Without such sources of income at retirement, many may end up with income amounting to less than 60% of their pre-retirement employment earnings.

In 1993, savings through RPPs and/or RRSPs amounted to a considerable proportion of the total income of participants (10.6% on average). The growth in savings from 1991 to 1993 was due almost entirely to increased RRSP contributions. □

■ *Notes*

1 People may also use personal savings, investments or assets such as a home to save for retirement. Because the extent to which this is being done is difficult to quantify, such savings, although important, are not considered in this analysis.

2 Subsequent references to RPPs in this article include DPSPs.

3 Only those with earned income may contribute to an RRSP. Earned income consists largely of employment income but also includes such items as alimony and maintenance income, net rental income and C/QPP disability benefits. Employment income is required for RPP participation. But persons who have only certain types of employment income (for example, self-employment income from an unincorporated business) or who work for an employer not providing an RPP would not have access to an RPP.

4 Unlike RRSP contributions, however, money in an RPP may not be withdrawn prior to retirement; it must be used to provide a retirement income. Somewhat different rules apply to amounts accumulated in DPSPs; these monies may be withdrawn as a lump sum at termination of employment, retirement or death.

5 Because some people participated in both RPPs and RRSPs, the proportion participating in at least one of these plans is smaller than the sum of the proportions participating in each separately.

6 This is the amount reported on line 150 of the income tax return.

7 Age does make a difference for those with incomes between $10,000 and $19,999. The proportion with savings grows from one-half for persons aged 25 to 34 to two-thirds for those 55 to 64. Approaching the age of retirement is obviously an incentive to save.

8 Some of these women would have RRSPs paid for by their spouse. See "RRSPs – unused opportunities."

9 The PA is a proxy for the contribution cost of benefits and could therefore understate or overstate the value of a pension earned in a year. For members of defined benefit plans, $1,000 is deducted when the PA is calculated; this understates the contribution cost, particularly for those with smaller PAs. In addition, a portion of income is not considered when the PA is determined; this would affect only the higher income earners.

10 Because the PA is not an exact measure of savings through an RPP, the savings rate should be viewed as an approximation only (see previous note). It is most useful when comparing one year with another. A recent study by the Canadian Institute of Actuaries (CIA) suggested an average savings rate target of 8.9% from age 30 to 64 in order to generate retirement income of 80% of employment earnings up to about $10,000 (in 1994) and 70% of earnings over that. The study also suggested savings rate targets by age and income. (CIA, 1995).

11 The limit on tax-assisted savings is 18% of the previous year's earned income up to a maximum dollar amount. For 1993, that maximum was $12,500. Someone with a total income of $100,000 in 1993 who contributed the maximum (assuming no unused room was carried forward) would save 12.5% with tax assistance, because of the $12,500 ceiling; if their income was $150,000, the proportion saved would be 8.3%.

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